

Trademark Right	Date	May 19, 2021	Court	Intellectual Property High Court, Third Division
	Case number	2020 (Ne) 10062		
- A case in which the court determined that the acts in question that constitute parallel import are not substantially illegal and do not constitute infringement of the trademark right.				

Case type: Injunction

Results: Appeal dismissed

References: Article 36 of the Trademark Act

Related rights, etc.: Trademark Registration No. 5696029

The judgment in prior instance: Tokyo District Court, 2018 (Wa) 35053 (rendered on October 22, 2020)

### Summary of the Judgment

#### 1. Outline of the case

(1) Appellant X1, a Canadian corporation, is a holder of the trademark right for the trademark in question (the "Trademark") for which goods such as men's underwear are designated. It manufactures and sells men's underwear, etc. (the "Goods") via Company L, its affiliated Canadian corporation.

Appellant X2 has obtained a non-registered exclusive license for the Trademark that is effective in Japan and imports the Goods from Company L and sells them as Appellant X1's distributor in Japan.

The Appellee imported from Company M the goods that Company L had sold to Company M, which was Company L's distributor in Singapore. The Appellee sold these goods on the internet at lower prices than the selling prices offered by Appellant X1, and upon such sale, the Appellee affixed notes such as "Imperfect," "Damaged package," and the like, to the goods. Marks that are identical to or similar to the Trademark were affixed to these goods.

Appellants X1 and X2 filed an action against the Appellee to seek an injunction and compensation for damage on the grounds of infringement of the trademark right.

(2) The court of prior instance dismissed the Appellants' claims, holding that the Appellee's acts of importing and selling the goods are not substantially illegal in terms of constituting infringement of the trademark right.

Dissatisfied with this, the Appellants filed an appeal against the judgment in prior instance.

2. In this judgment, the court held that the judgment in prior instance is appropriate and dismissed the Appellants' claims, determining as follows on the basis of the three requirements concerning the substantial illegality of parallel import which were presented in the judgment of the First Petty Bench of the Supreme Court rendered on February 27, 2003 (Minshu Vol. 57, No. 2, page 125; hereinafter the "2003 Supreme Court Judgment").

(1) The 2003 Supreme Court Judgment was rendered for the case where the defendant of the case imported the goods from a person that obtained a license for a trademark from the trademark right holder and manufactured and sold the goods with the trademark affixed thereto. On the other hand, in the present case, the trademark right holder (Appellant X1) itself manufactured the goods and sold them to its distributor, Company M, and the Appellee imported the goods from that distributor, Company M. Thus, there is a critical difference between these cases in terms of whether the goods were manufactured by the trademark right holder itself. This can raise a question as to whether the abovementioned requirements should be modified depending on the difference in terms of the facts of the cases as indicated below, but basically, it is construed that the issue of whether or not Appellee's act of importing the goods is not substantially illegal should be determined on the basis of these three requirements. Below, each requirement is examined.

(2) Regarding the first requirement

The first requirement only raises a question of whether the trademark in question has been lawfully affixed by the trademark right holder, etc. As long as the first requirement is applied without modification, it is clear that this requirement is satisfied in this case where the issue resides in the act of importing the Goods manufactured by the trademark right holder.

Against such allegation, the Appellants allege that in this case, the first requirement should be understood as not only meaning that the trademark is required to have been lawfully affixed but also meaning that the goods to which the trademark has been lawfully affixed are required to have been placed on the distribution route based on the trademark right holder's intention.

In the case for which the 2003 Supreme Court Judgment was rendered, the trademark was affixed not by the trademark right holder but by the person who had obtained a license from the trademark right holder, and because of this, there was room to question whether the trademark was lawfully affixed in the meaning of whether the trademark was affixed by the licensee based on the authority granted thereto. On the other hand, in cases where trademark right holder itself manufactures and sells the

goods, such as the present case, this requirement would rarely be discussed as an issue, and therefore, a question may be raised as to whether there is any point at all in considering, as an independent requirement, whether the trademark has been lawfully affixed. Before the 2003 Supreme Court Judgment was rendered, a dominant view had been that in cases such as the present case, the "trademark right holder has lawfully affixed the trademark to the goods and placed them on the distribution route" should be a requirement, and the requirement to the effect that "the goods have been lawfully placed on the distribution route" could mean to exclude cases of parallel import of goods that have been acquired through an illegitimate channel. In light of this point in addition to the point discussed above, it may be possible to consider that in the present case, which differs in terms of the facts from the case of the 2003 Supreme Court Judgment, it may be necessary to question not only whether the trademark has been lawfully affixed but also whether these goods have been lawfully placed on the distribution route (or whether they have been placed on the distribution route based on the trademark right holder's intention; hereinafter the same applies). In this respect, the Appellants' allegation may be understandable to some extent.

However, even based on such view, since Company M legitimately purchased the Goods from Appellant X1 via Company L, it is clear that at that point of time, the Goods were "lawfully placed on the distribution route." The circumstances alleged by the Appellants, such as the termination of the Distributor Agreement between Company L and Company M and the existence of the territory clause under that agreement, are not sufficient to affect this determination.

(3) Regarding the second requirement

In this case, since Appellant X1 is the trademark right holder in Japan and also the trademark right holder in a foreign country, it is obvious that the trademark affixed to the Goods and the registered trademark in Japan (the Plaintiffs' Trademark) indicate the same source of goods.

(4) Regarding the third requirement

In the case of the 2003 Supreme Court Judgment, the imported goods were manufactured not by the trademark right holder but by the licensee of the trademark. Therefore, for the purpose of assuring the quality of the goods bearing the trademark, whether the trademark right holder was in the position of being able to directly or indirectly exercise quality control with regard to the act of the trademark licensee (or any subcontractor thereof) could become an important issue. On the other hand, in cases where the trademark right holder itself manufactures the goods, such as the present case, the quality of the goods is assured by the fact that they are manufactured by the

trademark right holder, and the trademark can be regarded as perfectly fulfilling the quality assurance function as long as the quality of the goods is maintained. The Goods are men's underwear, and there is no risk that the Goods will degrade due to aging or other reasons during the distribution as long as they are on the distribution route within a reasonable period of time. There is also no risk of damage or other defect on the Goods themselves as long as the measures for quality control provided to the Goods by the trademark right holder (e.g., the package of the Goods) are maintained as they are.

If so, it is appropriate to consider that at least in cases where the goods are manufactured by the trademark right holder, such as the present case, and because of the nature of the goods, there is no risk that doubts would arise as to the trademark's quality assurance function if special care is not taken for quality control, such as concerning the risk of degradation due to aging, the goods are subject to the quality control exercised directly or indirectly by the trademark right holder as long as the measures for quality control provided by the trademark right holder (e.g., the package of the Goods) are maintained as they are.

In this case, the Goods that the Appellee sells are contained in the packages, etc. as they were when Appellee X1 manufactured and sold them, and even though the packages, etc. are partially damaged, there is no evidence suggesting that such damage affected the inside of the packages, etc. Therefore, the third requirement is satisfied.

Judgment rendered on May 19, 2021

2020(Ne)10062, Case of appeal for injunction against trademark infringement

(Court of prior instance: Tokyo District Court, 2018 (Wa) 35053)

Date of conclusion of oral argument: March 8, 2021

#### Judgment

Appellant: Harris Williams Design Inc.

(hereinafter referred to as "Appellant Harris")

Appellant eyeinthesky Inc.

(hereinafter referred to as "Appellant eyeinthesky")

Appellee: Bright Co., Ltd.

(hereinafter referred to as "Appellee Bright")

Appellee Y

(hereinafter referred to as "Appellee Y")

#### Main text

1. All of the appeals shall be dismissed.
2. The Appellants shall bear the cost of the appeals.
3. The additional period granted for Appellant Harris to file a final appeal or a petition for acceptance of final appeal against this judgment shall be specified as 30 days.

#### Facts and reasons

No. 1 Object of the appeals

1. The judgment in prior instance shall be rescinded.
2. Appellee Bright shall not assign, deliver or import the goods indicated in the list of the goods attached to the judgment in prior instance, to which the marks indicated in the list of the marks attached to the judgment in prior instance are affixed.
3. Appellee Bright shall not display or distribute advertisement of the goods indicated in the list of the goods attached to the judgment in prior instance, with the marks indicated in the list of the marks attached to the judgment in prior instance affixed thereto.

4. Appellee Bright shall destroy the goods specified in Paragraph 1.

5. The Appellees shall jointly and severally pay to Appellant Harris 2,825,758 yen and an amount accrued thereon at the rate of 5% per annum for the period from January 1, 2018, until the completion of the payment.

6. The Appellees shall jointly and severally pay to Appellant eyeinthesky 11,303,030 yen and an amount accrued thereon at the rate of 5% per annum for the period from January 1, 2018, until the completion of the payment.

No. 2 Outline of the case (Unless particularly noted, the same abbreviations used in the judgment in prior instance shall be used herein.)

1. In this case, Plaintiff Harris, and Plaintiff eyeinthesky which holds a non-registered exclusive license established by Plaintiff Harris for the trademark for which Plaintiff Harris holds a trademark right (the "Plaintiffs' Trademark"), allege that Defendant Bright's acts of importing, selling, and possessing men's underwear with the marks indicated in 1 to 9 in the list of the marks attached to the judgment in prior instance (collectively referred to as the "Defendant's Marks" in this judgment) affixed thereto, and placing advertisement with the Defendant's Marks affixed thereto infringe the Plaintiffs' trademark right and non-registered exclusive license. Based on this allegation, under Article 36, paragraphs (1) and (2) of the Trademark Act, the Plaintiffs demand that Defendant Company B stop assigning, delivering, and importing the goods with the Defendant's Marks affixed thereto, stop placing advertisement with the Defendant's Marks affixed thereto, and destroy those goods; and under Article 709 and Article 719, paragraph (1) of the Civil Code and Article 38, paragraph (2) of the Trademark Act, the Appellants also claim against Defendant Bright and Defendant Y the payment of compensation for damages with delay damages accrued thereon.

The court of prior instance dismissed all of the Appellants' claims. Dissatisfied with this, the Appellants filed this appeal.

## 2. Basic facts

The basic facts of the case are as specified in No. 2, 2. in the "Facts and reasons" section of the judgment in prior instance (from page 3, line 6 to page 5, line 17 of the judgment in prior instance) and therefore they are cited herein.

## 3. Issues

The issues of the case are as specified in No. 2, 3. in the "Facts and reasons" section of the judgment in prior instance (page 5, from line 18 to line 23 of the judgment in prior instance) and therefore they are cited herein.

(omitted)

#### No. 4 Determination of this court

This court also determines that all of the Appellants' claims are groundless and should be dismissed, for the following reasons.

##### 1. Issue 1 (Similarity between the Plaintiffs' Trademark and the Defendant's Marks)

This court also determines that all of the Defendant's Marks are similar to the Plaintiffs' Trademark, for the reasons specified in No. 3, 1. in the "Facts and reasons" section of the judgment in prior instance (from page 20, line 20 to page 23, line 5 of the judgment in prior instance) and therefore they are cited herein.

##### 2. Issue 2 (Whether the Appellees' acts in question fall under the case where these acts constitute what is generally called parallel import of genuine goods and they are not illegal in terms of constituting infringement of the trademark right)

###### (1) Basic facts

The facts which serve as the basis for making a determination on this issue are as specified in No. 3, 2. (2) and (3) of the judgment in prior instance (from page 23, line 12 to page 29, line 17 of the judgment in prior instance) and therefore cited herein, except that the text from the phrase "Under the Distributor Agreement" on page 24, line 22 of the judgment in prior instance, to the end of line 8 on page 25 of the same is corrected as follows.

"It is also found that under a general type of distributor agreement concluded by Appellant Harris and Lampion Enterprises Ltd. (hereinafter "Lampion") with their distributors (Exhibits Ko 33-1 and 2), it is provided as follows: [i] the distributor must not, directly or indirectly, sell, distribute or otherwise handle the product in areas other than the predetermined territory (hereinafter referred to as the "territory clause"); and [ii] after the distributor agreement is terminated, the distributor must stop the sale of the product, and the seller of the goods (e.g., the trademark right holder) has the right to purchase back the goods (hereinafter referred to as the "clause on prohibition of sale, etc."). There is no sufficient evidence for finding a fact that Lampion concluded with MST Golf Pte, Ltd. (hereinafter "M Golf") an agreement based on the abovementioned distributor agreement, and there is also no sufficient evidence for finding that clauses such as those mentioned in [i] and [ii] above were contained in the written declaration of intention that Lampion alleges to have delivered to M Golf. However, given that M Golf is a distributor dealing with 2UNDR brand goods and that there is no reason to treat that company differently from other distributors, it may be undeniable that there is the possibility that the territory clause and the clause on prohibition of sale, etc. that are considered to have been generally applied to distributors were applied between

Lampion and M Golf as well, based on explicit or implicit agreement between them (there is no evidence that casts doubt about this). If so, it may be necessary to examine the case on the premise that there is the possibility that these clauses are applicable to M Golf as well. However, since there is no sufficient evidence for finding that Lampion has exercised the abovementioned right to purchase back the goods, it is not necessary to examine the case on the premise that the company has exercised the right to purchase back the goods."

## (2) Regarding the 2003 Supreme Court Judgment

This Supreme Court judgment rendered in 2003 determined that an act that is what is generally called parallel import of genuine goods is not substantially illegal in terms of constituting infringement of the trademark right under the following conditions: [i] the trademark in question has been lawfully affixed by a trademark right holder in a foreign country or a person who has obtained a license from such trademark right holder (hereinafter referred to as the "first requirement"); [ii] the trademark right holder in a foreign country and the trademark right holder in Japan are the same person or have a relationship wherein they can be regarded as being legally or economically the same person, and because of this, the trademark in question indicates the same source as that indicated by the registered trademark in Japan (hereinafter referred to as the "second requirement"); and [iii] since the trademark right holder in Japan is in the position of being able to exercise quality control over the imported goods directly or indirectly, the imported goods and the goods to which the trademark right holder in Japan has affixed the registered trademark are evaluated as being not substantially different in terms of the quality assured by the registered trademark (hereinafter referred to as the "third requirement").

This Supreme Court judgment was rendered for the case where the defendant of the case imported goods from a person that obtained a license for a trademark from the trademark right holder and manufactured and sold goods with the trademark affixed thereto. On the other hand, in the present case, the trademark right holder itself manufactured the goods and sold them to its distributor, and Defendant Bright imported the goods from that distributor. Thus, there is a critical difference between these cases in terms of whether the goods were manufactured by the trademark right holder itself. This can raise a question as to whether the abovementioned requirements should be modified depending on the difference in terms of the facts of the cases, but basically, it is construed that the issue of whether or not Defendant Bright's act of importing the goods is not substantially illegal should be determined on the basis of these three requirements. Below, each requirement is examined.



### (3) Regarding the first requirement

A. As mentioned above, the first requirement only raises a question of whether the trademark in question has been lawfully affixed by the trademark right holder, etc. As long as the first requirement is applied without modification, it is clear that this requirement is satisfied in this case where the issue resides in the act of importing the Goods manufactured by the trademark right holder (the Appellants allege that it is not proved that all of the Goods are goods that Lampion sold to M Golf; however, as already found above, it is found that M Golf was once a distributor of Lampion and had purchased genuine 2UNDR goods from Lampion and retained them; in addition, while the number of goods that Defendant Bright imported from M Golf (2,387 items) is within a possible number of goods that M Golf could have purchased from Lampion and retained at the time immediately before the import (2,448 items), there is no evidence that casts doubt that the goods that Defendant Bright imported had been acquired from a channel other than the one mentioned above; for these reasons, it cannot be denied that the Goods are genuine goods). The circumstances alleged by the Appellants, such as the termination of the Distributor Agreement and the existence of the territory clause, have no effect on this determination. This is in line with the Appellees' allegation.

B. Against such allegation, the Appellants allege that in this case, the first requirement should be understood as not only meaning that the trademark is required to have been lawfully affixed but also meaning that the goods to which the trademark has been lawfully affixed are required to have been placed on the distribution route based on the trademark right holder's intention.

In the case for which the 2003 Supreme Court Judgment was rendered, the trademark was affixed not by the trademark right holder but by the person who had obtained a license from the trademark right holder, and because of this, there was room to question whether the trademark was lawfully affixed in the meaning of whether the trademark was affixed by the licensee based on the authority granted thereto. On the other hand, in cases where trademark right holder itself manufactures and sells the goods, such as the present case, this requirement would rarely be discussed as an issue, and therefore, a question may be raised as to whether there is any point at all in considering, as an independent requirement, whether the trademark has been lawfully affixed. Before the 2003 Supreme Court Judgment was rendered, a dominant view had been that in cases such as the present case, the "trademark right holder has lawfully affixed the trademark to the goods and placed them on the distribution route" should be a requirement, and the requirement to the effect that "the goods have been lawfully

placed on the distribution route" could mean to exclude cases of parallel import of goods that have been acquired through an illegitimate channel. In light of this point in addition to the point discussed above, it may be possible to consider that in the present case, which differs in terms of the facts from the case of the 2003 Supreme Court Judgment, it may be necessary to question not only whether the trademark has been lawfully affixed but also whether these goods have been lawfully placed on the distribution route (or whether they have been placed on the distribution route based on the trademark right holder's intention; hereinafter the same applies). In this respect, the Appellants' allegation may be understandable to some extent.

However, even based on such view, since M Golf legitimately purchased the Goods from Lampion, it is clear that at that point of time, the Goods were "lawfully placed on the distribution route." The circumstances alleged by the Appellants, such as the termination of the Distributor Agreement and the existence of the territory clause, may not be sufficient to affect this determination, for the following reasons.

C. First, with regard to the relevance to the termination of the Distributor Agreement, there is room to consider that, as found above, M Golf became obliged not to sell the Goods as a result of the termination of the agreement. However, the existence of a clause providing as such does not necessarily leads to depriving M Golf of the authority to dispose of the Goods (the Appellants admit that the termination of the Distributor Agreement does not immediately cause M Golf to forfeit the ownership of the Goods, and as already pointed out, there is no such fact that Lampion exercised the right to purchase back the Goods). If that is the case, it should be said that even if M Golf sold the Goods after the termination of the Distributor Agreement, this could only raise the issue of default in its relationship with Lampion but it would not go so far as to overturn the evaluation that the Goods were "lawfully placed on the distribution route." When viewed from a substantial perspective, it cannot be said that the trademark's function as a source identifier would be damaged just because M Golf sold the goods which it had purchased from the legitimate seller to others after the termination of the Distributor Agreement. In this respect as well, there is no reason to deny the satisfaction of the first requirement.

This reasoning also applies to the relevance with the territory clause. Since the territory clause is effective only between the parties to the agreement and does not deprive M Golf of the authority to dispose of the Goods, the evaluation that the Goods were "lawfully placed on the distribution route" would not be overturned just because M Golf disposed of the Goods in breach of that clause. When viewed from a substantial perspective, it cannot be said that the trademark's function as a source identifier would

be damaged just because M Golf sold the goods, which it had purchased from the legitimate seller, in an area outside the territory under the territory clause. In this respect as well, there is no reason to deny the satisfaction of the first requirement. (Since the 2003 Supreme Court Judgment determined that the first requirement was not satisfied for the reasons including the breach of the territory clause, the relevance to this determination is explained here, just to make certain. In the case of that Supreme Court judgment, the trademark licensing agreement contained a territory clause, and the licensee was, in the first place, not authorized to affix the trademark to the goods outside the territory. Therefore, when the licensee affixed the trademark to the goods outside the territory, the licensee cannot avoid being evaluated as not having affixed the trademark "lawfully." On the other hand, in the present case, M Golf's authority to dispose of the goods was not subject to any restriction at all as explained above, and in this respect, the present case differs from the case of the 2003 Supreme Court Judgment in terms of the facts.)

D. For the reasons stated above, even where the substance of the first requirement is taken as determined in the 2003 Supreme Court Judgment or understood by adding a requirement of the goods having been "lawfully placed on the distribution route," concerning whichever case, it should be said that the first requirement is satisfied in this case.

#### (4) Regarding the second requirement

In this case, since Appellant Harris is the trademark right holder in Japan and also the trademark right holder in a foreign country, it is obvious that the trademark affixed to the Goods and the registered trademark in Japan (the Plaintiffs' Trademark) indicate the same source of goods.

Appellee Bright carried out advertising activities using the Defendant's Marks in Japan. As Appellee Bright performed such an act after importing the Goods, it is questionable whether such circumstances have any effect at all on the determination regarding the satisfaction of the second requirement. Even if it is necessary to take these circumstances into consideration, since the Plaintiffs' Trademark and the Defendants' Marks are similar to each other as explained in 1. above by citing the judgment in prior instance, these circumstances do not affect the sameness of the source of goods, and in any case, it should be affirmed that the second requirement is satisfied.

#### (5) Regarding the third requirement

A. The third requirement presented in the 2003 Supreme Court Judgment is as follows: "since the trademark right holder in Japan is in the position of being able to exercise quality control over the imported goods directly or indirectly, the imported goods and

the goods to which the trademark right holder in Japan has affixed the registered trademark are evaluated as being not substantially different in terms of the quality assured by the registered trademark."

In the case of the 2003 Supreme Court Judgment, the imported goods were manufactured not by the trademark right holder but by the licensee of the trademark. Therefore, for the purpose of assuring the quality of the goods bearing the trademark, whether the trademark right holder was in the position of being able to directly or indirectly exercise quality control with regard to the act of the trademark licensee (or any subcontractor thereof) could become an important issue. On the other hand, in cases where the trademark right holder itself manufactures the goods, such as the present case, the quality of the goods is assured by the fact that they are manufactured by the trademark right holder, and the trademark can be regarded as perfectly fulfilling the quality assurance function as long as the quality of the goods is maintained. The Goods are men's underwear, and there is no risk that the Goods will degrade due to aging or other reasons during the distribution as long as they are on the distribution route within a reasonable period of time. There is also no risk of damage or other defect on the Goods themselves as long as the measures for quality control provided to the Goods by the trademark right holder (e.g., the package of the Goods) are maintained as they are.

If so, it is appropriate to consider that at least in cases where the goods are manufactured by the trademark right holder, such as the present case, and, because of the nature of the goods, there is no risk that doubts would arise as to the trademark's quality assurance function if special care is not taken for quality control, such as concerning the risk of degradation due to aging, the goods are subject to the quality control exercised directly or indirectly by the trademark right holder as long as the measures for quality control provided by the trademark right holder (e.g., the package of the Goods) are maintained as they are.

B. Whether the third requirement is satisfied is examined from the perspective discussed above. As stated in No. 3, 2. (4) E. in the "Facts and reasons" section of the judgment in prior instance (from page 31, line 24 to page 32, line 17 of the judgment in prior instance), the Goods and the goods sold by the distributors in Japan dealing 2UNDR brand goods can be regarded as being not substantially different in terms of the quality assured by the registered trademark. Since the package and other measures provided for the Goods can be presumed to have been maintained as they are, it is safe to say that the requirement to the effect that "the trademark right holder in Japan is in the position of being able to exercise quality control over the imported goods directly or indirectly" is satisfied.

C. The Appellants allege that since the territory clause is an important clause for the trademark right holder to control the quality of goods until the goods are sold to end consumers, the breach of this clause leads to damaging the trademark's quality assurance function. However, an arrangement concerning the restriction on the sales territory is usually made only for the reason of sales policy on the part of the trademark right holder, and it cannot be considered to have some type of relationship to the purpose of controlling and maintaining the quality of goods. Therefore, this allegation of the Appellants is unreasonable. (The territory clause in the case of the 2003 Supreme Court Judgment had meaning as a clause to restrict the territory where the goods should be manufactured, and therefore it was possible to consider that where to manufacture the goods could have an effect on the maintenance of the quality of the goods; on the other hand, in the present case, since the goods are manufactured by the trademark right holder, where to sell these goods was the only point that mattered; thus, the circumstances of these cases were completely different.) In addition, the fact that the Distributor Agreement was terminated can also hardly be regarded as having an effect on the satisfaction of the third requirement.

D. The Appellants allege as follows: there were remains of the stickers taken off on the packaging boxes of the Goods and the advertisement of the Goods contains the text that reads "Imperfect: Damaged package"; these facts damage the trademark's quality assurance function.

However, the flaws such as the damage of the packaging boxes (packages) are not directly related to the quality of the goods (men's underwear) (there is no sufficient evidence for finding that the damage of the package affected not only the surface but also the inside of the package). There is also no evidence suggesting that the quality of the Goods was actually inferior to the quality of 2UNDR brand goods dealt by the Appellants. The text that reads "Imperfect: Damaged package" can be understood as only expressing the damage of the package as being "imperfect," and hence, there is no risk that this text would raise doubts about the quality of 2UNDR brand goods.

Consequently, the Appellants' allegation on this point is unreasonable.

E. The Appellants also allege as follows: Appellant Harris guarantees that it will accept a request for replacement, etc. with regard to goods imported into Japan via its authorized distributors, thus it has established its own means for gaining credibility for the quality of its goods; however, the Goods are outside the coverage of such guarantee and those who purchased the Goods cannot receive replacements, etc. even if there are defects in the goods, and therefore, the fact that Appellant Harris' guarantee for such replacements, etc. is unavailable to these purchasers damages the trademark's quality

assurance function.

However, it is too much to say that Appellant Harris has established a unique quality assurance system just because it will replace goods at the request of customers, and other than that, there is no sufficient evidence for finding that the Appellants have established their own system for gaining credibility that is sufficient to eliminate parallel import.

Consequently, the Appellants' allegation on this point is also unreasonable.

#### (6) Summary

For the reasons stated above, in this case, it should be said that both the first and third requirements are satisfied and therefore that Appellee Bright's act of importing the Goods is not substantially illegal.

#### 3. Relationship between justification of parallel import and the manner of carrying out the act of selling

The Appellants alleged that even if Appellee Bright's act of importing the Goods is justified, its acts of advertising and selling the Goods by the method unauthorized by the trademark right holder cannot be justified.

However, all of the circumstances alleged by the Appellants as the grounds for their allegation above have already been examined in the process of determining justification of parallel import. Rather, as mentioned in 2. above, these circumstances can be the evidence for proving the fact that the trademark's quality assurance function is not damaged. In addition, Appellee Bright carries out advertisement of the Goods using the Defendant's Marks. Some of the Defendant's Marks cannot be deemed to be completely identical with the Trademark but they are similar to the Trademark as explained in 1. above by citing the judgment in prior instance. It cannot be said that the use of these marks damages the Trademark's function, and therefore in this respect as well, the alleged circumstances can hardly be regarded as a sufficient reason for denying justification of Appellee Bright's acts of advertising and selling.

Consequently, the Appellants' allegation mentioned above cannot be accepted.

#### 4. Conclusion

For the reasons stated above, the Appellant's allegations are groundless, and the judgment in prior instance that dismissed all of their claims is appropriate.

Intellectual Property High Court, Third Division

Presiding judge: TSURUOKA Toshihiko

Judge: UEDA Takuya

Judge: TSUNO Michinori