Exhibit 10
CHAPTER 11

Issues Regarding Parallel Importation of Trademarked and Patented Products and Competition Policy in Japan

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1. Initial Remarks

Issues regarding parallel importation of goods under intellectual property laws have been regarded in Japan as those of the Patent Law, the Trademark Law and the Copyrights Law. In the area of the Trademark Law, the case law has been established that parallel importation of genuine goods covered by a trademark should be allowed. Under the Patent Law, although the Supreme Court in the BBS Case allowed parallel importation of patented goods under some conditions, the legal situation is less clear. (Issues regarding parallel importation of products covered by the Copyrights Law is omitted due to time constraint.)

Article 23 of the Antimonopoly Law of Japan (the AML)¹ provides that a conduct which amounts to an exercise of a right under the intangible property rights is exempted from the application of provisions of the AML. Traditionally rights under the Patent Law, the Utility Model Law, the Trademark Law, the Design Law (they are referred to as the industrial property rights) and the Copyright Law have been regarded as intangible property rights. In addition to those, however, the exercise of rights under such laws as the Integrated Circuit Law should be regarded as an exercise of intangible property rights.

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There are many arguments regarding what constitute the exercise of such rights among academics, government officials and lawyers. However, a prevailing view has emerged and case law doctrines have not been firmly established yet. An exclusion of a product which infringes a right under any of the intangible property laws by legal action is certainly deemed to be an exercise of a right. A collection of royalty under a license of any of such rights is another example of an exercise of right. Cases dealing with this issue are quite scanty.

The preamble to the Civil Code of Japan contains a statement that abuse of rights is not permitted. Under this provision, an abusive exercise of a patent, trademark or any other rights is presumably not permitted. Therefore, even if one owns a patent right, trademark rights or other rights under the heading of the intangible property rights, an 'abusive exercise' of such a right could be challenged under the AML. This is, however, an extraordinary situation, and, again, there are little case law developments.

2. Parallel Importation of Trademarked Goods under the Trademark Law

In the area of trademark law, parallel importation of genuine goods is generally regarded permissible. The landmark case in this area is the Parker Fountain Pen case decided in 1970 by the Osaka District Court. The issue involved in this case was a parallel importation of fountain pens produced by Parker Company in the United States. Parker designated Shuriro Trading Company as the sole agency of Parker fountain pens in Japan and Shuriro registered the exclusive right to use the trademark 'Parker' in Japan. Due to the monopolistic position of Shuriro regarding the product, the price of Parker fountain pens in Japan was quite high. A company (MNC Company), desirous of engaging in parallel importation of Parker fountain pens from a third country, requested to Shuriro to grant a license to do so. When Shuriro refused to grant a license, MNC initiated a lawsuit in the Osaka District Court and sought a judgment that Shuriro had no right under the Trademark Law to block parallel importation of genuine Parker fountain pens into Japan.

The court handed down a decision and upheld the position of the parallel importer, MNC on the following ground. There are two essential elements of a trademark and, as long as those two essential elements are not injured by parallel importation, there is no infringement of the trademark. The two essential elements are: first, the identification of origin and secondly the guarantee of quality of the trademarked goods. The court reasoned that a trademark right was not infringed if those two essential elements are secured.

Even if a Parker fountain pen was imported by a parallel importer, the requirement for identification of origin was maintained since the imported
product was a genuine Parker fountain pen and was indeed produced and originally sold by Parker. Likewise a parallel importation of a Parker fountain pen by a parallel importer would not impair the guarantee of quality because it was a genuine Parker fountain pen. On the basis of the above reasoning, the court held that Shurito had no right to block parallel importation of genuine Parker fountain pens.

Shortly after this decision, the Bureau of Customs and Tariffs of the Ministry of Finance modified the enforcement policy of Article 21 of the Customs and Tariffs Law which provides that a product which infringes intangible property rights in Japan shall be stopped at the border and allowed parallel importation of genuine trademarked goods into Japan. This decision opened the gate for parallel importation not only for Parker fountain pens but also for all sorts of consumer goods and high prices of many of branded products (Johnny Walker whisky, high valued Swiss watches, high valued ties, etc.) went down considerably. Nowadays department stores and supermarkets engage in large scale parallel importation of branded goods from abroad.

The holding of the Parker case seems to have been generally accepted among government agencies, lawyers and academics although there is dissatisfaction for this decision among enterprises which act as sole agencies for foreign exporters, the business community in general takes this decision for granted.

It is to be noted, however, that the Parker decision is not a Supreme Court decision and, if a lawsuit occurs and one of the parties challenges the legality of parallel importation of genuine trademark goods, the possibility that this decision is overturned cannot be ruled out. At this point, such a lawsuit is unlikely to happen since, as mentioned before, the doctrine of the Parker decision is so well known and widely accepted and this discourages a future potential litigant from bringing this issue to court. As liberalization of trade progresses, however, a foreign company which owns a trademark in Japan and in whose mother country parallel importation of a genuine trademarked goods is not allowed may decide to challenge it.

The court in the Parker case decided the issue on a 'theoretical ground', e.g., on a certain view of the essential features of a trademark. This approach is in sharp contrast to the text of the Trademark Law. Articles 30.2/37.7 of the Trademark Law define an exclusive right to use a trademark exclusively and an infringement of exclusive right is defined as including import of a commodity bearing the mark in question. Therefore, the wording of the Trademark Law may be interpreted to suggest that there should be no parallel importation of a genuine trademarked goods as long as there is no license given by the owner of the trademark in question or the exclusive licensee thereof. The court based its judgment on the objective of the Trademark Law.
There could be room for debate whether the literal interpretation faithful to the text of law or the objective of the law should be given priority.

3. Parallel Importation of Patented Goods under the Patent Law

In the area of patents, the legal situation is not quite the same as it is in the trademark area. Let us examine the case law developments first.

In 1969, the Osaka District Court held that a product that was covered by a patent in Japan could not be lawfully imported into Japan by a parallel importer. This is the Brunswick case which involved the parallel importation of bowling pins covered by a patent owned by Brunswick Corporation (a U.S. company). Brunswick owned a patent covering bowling pins in Australia and Japan as well as in other countries. Brunswick licensed its patent to a third party in Australia and this party manufactured bowling pins there and sold them. The bowling pins were imported into Hong Kong and a person in Japan intended to import them into Japan.

Brunswick brought a lawsuit against this person alleging that the bowling pins in question were covered by the patent it owned in Japan and importation of the bowling pins into Japan constituted an infringement of its patent. The court agreed with this allegation and granted a remedy to Brunswick on the ground that, whereas the patent right with regard to the bowling pins in question was exhausted in Australia, the patent right in Japan covering the same subject was not exhausted since the patent in Japan was based on the Patent Law in Japan and should be regarded as independent from any other corresponding patents covering the same subjects in other countries.

After more than 20 years, this issue was revisited by a lawsuit brought by the BBS Company (a German company producing wheels for automobiles). BBS owned a patent in Germany and Japan as well as in other countries. BBS produced and sold wheels for automobiles both in Germany and Japan. Apparently there was a large difference between the price of this product in Germany and Japan and there was a company in Japan which intended to purchase the product in Germany from third parties and import them into Japan. BBS claimed that such a parallel importation constituted an infringement of the patent it owned and lawsuit occurred.

BBS prevailed in the Tokyo District Court which held that the parallel importation constituted an infringement of the BBS patent. On appeal, the Tokyo High Court adopted the international exhaustion doctrine and held that once BBS sold the product in Germany, its patent right was exhausted not only in Germany but also in Japan. On petition to the Supreme Court, the case was examined by the Supreme Court.
On 1997, the Supreme Court handed down a decision. The gist of the decision is that, when a person owned a patent in a foreign country and Japan and a product covered by the patent was sold, it was presumed that the patentee implicitly granted the right to import the product into Japan by a third party unless the patentee expressly notified to the first purchaser of the product in the foreign country when the first sale took place that importation of the product was not allowed and affixed a sign on the product to that effect. The Supreme Court reasoned that this presumption of implied license was reasonable when considering the degrees of globalized business transactions in which the legal stability was vitally important.

The decision of the Supreme Court did not adopt the doctrine of international exhaustion in its pure form. Under this ruling, the patentee can block a parallel importation into Japan of a product covered by the patent which it owns in Japan and the country of exportation as long as it notifies the first purchaser its intention of not allowing a parallel importation into Japan and affix a sign indicating that intention. If the patent in question was exhausted in the country of exportation and in Japan also at the first sale of the product in the country of exportation, how can the patentee attach a condition that the product cannot be imported by a third party into Japan?

The decision of the Supreme Court was a compromise between the view held among academics and some lawyers advocating for the liberalization of parallel importation of patented products and the view entertained among some sectors of the business community which maintain the traditional doctrine that a patent registered in a country in independent from any other corresponding patents registered in other countries and a patented product cannot be imported into Japan even if the product was duly sold in a foreign country.

This decision tried to strike a balance between the demand for liberalizing parallel importation supported by important groups among academics and that for maintaining the status quo of the traditional interpretation based on the territorial principle held by some important business groups including the pharmaceutical industries. Whatever the intention of the Supreme Court may have been, this decision probably created more legal uncertainty than certainty. Under this ruling, whether or not a parallel importation into Japan of a patented product is allowed depends on the expression of intention made by the patentee in a foreign country. How can a parallel importer in Japan find out about it? Also it depends on whether that intention is represented on the product in question. What if that representation was lost by attrition during the process of transportation? If a parallel importer which is an innocent third party imported the product, is it held liable under the Patent Law? These are some practical questions that may arise in the context of this decision.
It is not certain what changes of enforcement policy of Article 21 of the Customs and Tariffs Law have been made by the Bureau of Customs and Tariffs of the Ministry of Finance regarding parallel importation of patented goods. Since the Supreme Court has spoken on this subject, the Director of Customs and Tariffs is obligated to change the enforcement policy of Article 21 of the Customs and Tariffs Law to make it conform to the decision of the Supreme Court. However, due to unclesness involved in the Supreme Court decision, the liberalization of parallel importation of patented goods under Article 21 of the Customs and Tariffs Law must be conditioned on factors which surround a parallel importation of a patented product.

However, now that the Supreme Court has taken a position on this issue, this is the legal doctrine with regard to this question in Japan until such time comes in future when this issue is taken up in courts again.

4. Competition Law Implications of Parallel Importation of Trademarked and Patented Goods

As long as parallel importation of products covered by patent, trademark or other rights in Japan constitutes an infringement of rights under a law such as patent law and trademark law in Japan, the conduct of a party which possess the right to exclude parallel importation of such products either through lawsuit in courts or an application to the Customs House to stop the importation of such products at the border does not generally constitute a violation of the AML since the exercise of rights under intangible property rights is generally exempted from the application of the AML. As mentioned earlier, Article 23 of the AML clearly states that the exercise of rights under the intangible property laws is exempted from its application.

However, as mentioned earlier, the preamble of the Civil Code declares that abuse of rights is not permitted. Although this statement is found in the preamble of the Civil Code, this can be interpreted to be a statement of general principle in jurisprudence. Therefore, even if a person’s conduct formally amounts to an exercise of right, that conduct is not justified when it amounts to an abuse of that right. Likewise, in the area of intellectual property rights, although a conduct of the owner of a patent to exclude the use of the technology on which the patent is granted or of the owner of a trademark to exclude the sale of a commodity bearing that mark appears to be an exercise of the right under the patent law or the trademark law, such an exercise is not allowed if it amounts to an abuse of right. In this situation, presumably, the AML would apply.

As mentioned earlier, the Parker decision has established that parallel importation of genuine goods did not constitute an infringement of a trademark right in Japan. It follows, therefore, that an exclusion on the part of
the owner or exclusive licensee of the trademark of parallel importation of genuine goods which bears the same trademark is subject to the application of the AML. Depending on the degree of seriousness of violation, such an exclusion can be either a private monopolization under Articles 2.5/3 or an unfair business practice under Articles 2.9/19 and the General Designation of Unfair Business Practices announced by the Fair Trade Commission (the JFTC).5

Since the Parker decision, the JFTC has acted on a number of occasions to prohibit attempts on the part of sole import agencies which registered exclusive right to use these brands to suppress parallel importation of genuine goods. There are some case law developments in this area. Theses case law developments are reflected in Part 3 of the Guidelines on Distribution and Trade Practices issued by the JFTC in 1991 (the Distribution Guidelines) as part of the measures taken as the result of the Structural Impediments Initiative (the SII), a trade negotiation between the United States and Japan. Therefore, we turn briefly to the content of the Distribution Guidelines.10

Section 3 of Part 3 of the Distribution Guidelines is devoted to setting out rules of the AML on undue blocking of parallel importation by sole import agencies of parallel importation of genuine trademarked goods.

- Generally parallel importation has the effect of maintaining price competition and, if it is unduly hindered, this is a violation of the AML. On the other hand, in cases in which products imported by parallel importation are not genuine products or, even if they are genuine products, their quality deteriorates and the health of users or the safety of products is adversely affected, sole agencies can legitimately block parallel importation of such products.

- Interference on the part of sole agencies into procurement by parallel importers of genuine goods from abroad constitutes an unfair business practice. This includes conduct such as: to cause a foreign supplier to stop selling products to a parallel importer in Japan when the parallel importer proposes to the foreign supplier to purchase products or to cause such supplier to stop selling by detecting sources of such supply through identifying product numbers attached to the product and denouncing them to the foreign supplier.

Imposition on the part of sole agencies the condition on distributors that the latter cannot sell products which they purchased from the former to retailers which handle products imported by parallel importation constitutes an unfair business practice if its effect is to maintain the retail price of the products in question.
Legal or non-legal action, without good cause, on the part of sole agencies to exclude genuine products imported by parallel importation by coercing distributors which handle such products to stop handling them by claiming that they infringe the trademark owned by the sole agencies constitutes an unfair business practice except for the fact that trademark owners can legitimately exclude false products which bear the trademark they own.

Buying up of genuine products imported by parallel importation by a sole agency amounts to an unfair trade practice if it is exercised for the purpose of removing the products from the market and maintaining the price of the products.

Refusal to repair genuine products imported by parallel importation on the part of sole agencies amounts to an unfair business practice if such refusal is done for the sole reason that the sole agencies did not sell the products in the situation where sellers other than the sole agencies cannot provide adequate repair services to customers.

Undue interference into sales promotion activities of products imported by parallel importation on the part of sole agencies.

Conducts enumerated in the Distribution Guidelines are an illustrative rather than exhaustive list of conducts that come under the prohibition of the AML. There can be other conducts which are prohibited as unfair business practices. However, the above are conducts to which the AML were applied.

In the area of patent, since parallel importation of patented goods has been allowed by the BBS case under some conditions, the AML applies when similar activities as above occur which would prevent patented products from coming into the Japanese market. However, whereas in the trademark area courts have explicitly stated that parallel importation of genuine products did not constitute an infringement of trademark, the ruling of the Supreme Court decision in the BBS case is less clear. As explained earlier, it did not rule that the right of patent is internationally exhausted when the first sale of the covered product was made somewhere in the world in which the patent is registered. The ruling of the Supreme Court is that the intention on the part of the patentee to allow parallel importation of the covered product into Japan is presumed unless the patentee expressly stated at the time of the first sale of the product that parallel importation is not allowed.

The JFTC cannot generally prohibit a blocking of parallel importation of a patented product into Japan on the premise that the first sale abroad has exhausted the patent right of the product. A case-by-case judgment is necessary to determine whether a particular parallel importation of a patented product amounts to infringement of the patent in Japan or not. This makes it
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extremely difficult for the JFTC to draft guidelines which would generally regulate conduct relating to parallel importation of patented products.

In abstract, there is room to argue that the AML would apply to conduct on the part of a patentee and sole import agencies which unduly interfere with parallel importation. However, compared with the trademark area, the issue of applicability of the AML to blocking of parallel importation of patented products is more uncertain.

NOTES

5. Decision of Tokyo District Court, July 22, 1994, Hanrei Jiho (Court Cases Reporter), No. 1501.
7. Decision of Supreme Court, July 1, 1997, Hanrei Taimuzu (Court Cases Times), No. 951, p. 105 et seq.
8. Abuse of a right has been rarely recognized in Japanese courts. However, there are a handful of cases in which courts held that an exercise of a right amounted to abuse and consequently refused to give it a legal effect. In intellectual property law area, one Supreme Court case is reported in which the exercise of trademark right was denied for the reason that it amounted to an abuse of right. In this case, a person applied for registration of a trademark which represented 'POPEYE' and, combined with it, a comic in which 'POPEYE' was placed. A trademark was granted. However, at the time of registration, the name 'POPEYE' was widely known among the public as the figure associated with the comic. A third party sold a commodity with a sign consisting of just 'POPEYE' after receiving a license from the copyright holder of the comic. The trademark owner brought a suit for injunction against a person who sold the commodity. The Supreme Court held that the assertion of the trademark in the situation amounted an abuse of right. See the Supreme Court Decision, July 20, 1990, Minshu (Civil Cases Reporter), Vol. 44, No. 5, p. 876 et seq.

OSAKA DISTRICT COURT, FEBRUARY 27, 1970.*

International Law—Lex Locus Trademark Protection—Origin of Famous Trademark Goods the Place of Manufacture—Infringement of Exclusive License for Sale

DESIGNATION OF CASE:

Judgment of February 27, 1970, Osaka District Court, Case No. 7003 (za, civil) of 1968.

PLAINTIFF:

N. MC. Co., Ltd.

REPRESENTATIVE OF PLAINTIFF:

Jinichi Aki

ATTORNEYS FOR PLAINTIFF:

Daijiro Yoshikawa, Ryuichiro Hirai, Akinobu Ono

DEFENDANT:

Schulyro Trading Co., Ltd.

ATTORNEYS FOR DEFENDANT:

Yoshio Koga, Koichiro Nakamoto, Akira Kawamura

JUDGMENT:

The following decision shall be rendered upon the above parties' case in which the plaintiff requested a declaratory judgment to nullify the defendant's injunction against the import and sale of certain goods by the plaintiff.

DECISION:

* Hanrei Taimuzu (The Law Times Reports) No. 234, p.57.
The defendant is not entitled to an injunction, based upon his exclusive license to use the registered trademark No. 171867, against the plaintiff's import and sale of fountain pens, ballpoint pens and their parts bearing the trademark "PARKER", which were manufactured by the Parker Pen Company, an American company. The plaintiff's other claims shall be dismissed. The costs shall be borne by the defendant.

FACTS:

[First.] The attorneys for the plaintiff asked for judgment similar to the first sentence of the above decision and that "the defendant shall not interfere with the import and sale of the goods specified in the last paragraph of the above decision." The attorneys for the defendant demurred to the said plea for nullification of the injunction, and requested that "the plaintiff's pleas be dismissed and that the litigation costs be borne by him," and additionally, that the pleas on the merits of the case also be dismissed.

[Second.] The attorneys for the plaintiff alleged causes of action as follows:

I. The plaintiff is a corporation engaged in the business of importing and exporting electric and sundry goods, and the defendant is a foreign corporation with a head office in Canada and branch offices in Tokyo and Osaka, engaged in international trade and the manufacturing and sale of various goods. The defendant has been granted a royalty-free, exclusive license to use Japanese registered trademark No. 171867, "PARKER", which is owned by the Parker Pen Company (hereinafter referred to as "Parker Co.") a non-party American corporation, with respect to specified goods of fountain pens, pencils—especially mechanical pencils—and ink, by agreement with the Parker Co., which agreement has been renewed and registered every two years since January 1, 1964.

II. The plaintiff executed a sales agreement with Lylian's Company, Hong Kong, to purchase and import into Japan 600 fountain pens manufactured by the Parker Co. and bearing the trademark "PARKER". Such goods have already been sent to the port of Osaka and are stored at the Customs Bureau. On May 24, 1968, plaintiff submitted an application to the Osaka Customs Bureau to import the goods in issue, and thereafter was informed orally, and later in writing on October 31, 1968, by the Osaka Customs Bureau that importation of the goods could not be permitted without the defendant's approval because it fell under the definition of prohibited import of goods under Article 21 (1) iv of the Customs Tariff Act (infringement of trademarks) and that the defendant had submitted "claims for injunctions against the import of
OSAKA DISTRICT COURT, FEBRUARY 27, 1970

certain goods which would infringe the defendant's intangible property rights" (upon
the basis of the Ministry of Finance Directive (Customs) No. 522 of May 31, 1966) in
order to prohibit the import of the above mentioned goods, alleging that the import by
a third party of the fountain pens at issue bearing the registered trademark "PARKER"
would infringe the defendant's exclusive license to use the trademark.

III. According to the explanation of the Osaka Customs Bureau, "With respect
to the case concerning Article 21 (1) iv of the Customs Tariff Act, unless the rightful
person concerned submits claims to enjoin an import, it is practically impossible for
the Customs Bureau spontaneously to check and inspect all goods designated to be
imported, and it has been the practice of the Customs Bureau not to do so without
such a presentation of claims. In the present case, since the defendant had submitted
a claim for injunction beforehand, the Customs Bureau presumed, and acted accord-
ingly, that the fountain pens which the plaintiff intended to import would fall under
Article 21 (1) iv of the Customs Tariff Act by virtue of Section 37 v of the Trademark
Act, but it is impossible for the Bureau to determine whether the goods designated
for import are 'fake' or 'imitation' or 'genuine' goods of the Parker Company. On
several occasions, the Customs Bureau asked the defendant for assurance that he
would insist on enjoining the import of even genuine goods, and he answered that,
since he was willing to give his letter of approval with respect to genuine goods, the
Customs Bureau should require the submission of his letter of approval for each
import of genuine goods."

In response to this explanation, the plaintiff claimed and insisted to the Osaka
Customs Bureau that the import of genuine Parker's goods cannot infringe the tra-
emark and the license to use such trademark, and therefore, the plaintiff should be
able to import such goods without the defendant's approval. Meantime, on August
20th of the same year, the defendant declared to the Customs Bureau that he would
not approve the import of Parker's genuine goods by the plaintiff. Eventually, the
plaintiff went to court and filed an action against the chief of the Osaka Customs
Bureau for cancellation of the administrative action to prohibit the import of the
goods in issue, and this case is still pending at the Osaka District Court, Case No. 674
(u) of 1968.

IV. However, the fountain pens bearing the trademark "PARKER" which the
plaintiff wishes to import, and which were manufactured by the Parker Company
which owned the trademark and affixed the trademark to the goods in its home
country, the United States of America, were willfully sold by the Parker Company.
The plaintiff meant solely to import the goods through the Parker general agent in
Hong Kong and Lylian's Trade Company. That is to say, the import at issue is one
of genuine goods, and it is entirely different in nature from the importation of fake or imitation goods, and besides, the owner of the trademark in the import country, i.e., Japan, and in the manufacturing country is the same person in the view of the law. Furthermore, the Parker fountain pens which the plaintiff intends to import and the ones which the defendant has actually imported and sold are identical in terms of treatment by the designated country, Japan and in terms of quality.

V. In recent years, the problems of the domestic owner or licensee of a trademark of such internationally famous goods as "PARKER" has been discussed in various countries of the world as an important subject of study related to lex locus doctrine of trademark protection. The plaintiff does not mean to deny the locus nature of a trademark, but this locus nature of a trademark can be recognized only to the extent that it is related to state sovereignty and to the maintenance of the proper domestic order of commerce, and, therefore, it should not be absolutely restrictive having inherent limitations. Limitations of a locus nature should be considered in the light of the function of the trademark. To be more specific, it should be determined by balancing the various interests which are meant to be protected by the trademark system, including the interests of the consumer. Subsequently, the answer to the question of whether the owner of license of the trademark can enjoin the import of genuine goods by a third party varies depending upon each business, but so far as this case is concerned, the defendant has no right to prohibit the import of Parker Company's genuine goods by the plaintiff on the ground that the defendants holds the license to use the trademark "PARKER" because of the following reasons:

1. As is clear from reading Article 1 of the Trademark Act, the purpose of the protection of trademarks is "to maintain the business good-will of the person who uses the trademark, by doing so to contribute to the development of industries, and to protect concurrently the interests of consumers." Now, then, are these purposes to be prevented by the import of genuine goods by a third party?

In the first place, the trademark functions as a clue for consumers to trace the good-will with which the manufacturer of the goods has satisfied consumers in the origin of the goods and as a sort of warranty of their quality, and it symbolizes the past. The good-will accumulated in this way may be injured if fake, imitation, or inferior goods are sold bearing the same or similar trademark, but the good-will of the trademark owner, which the Trademark Act meant to protect, cannot be injured by the import of the same genuine goods by a third party other than the party to which the owner of the trademark sells in the domestic country. The same can be said in the case where the licensee of the goods does not manufacture them in the domestic country and merely imports and sells the goods manufactured by the owner.
of the trademark in a foreign country. The reason is that the said trademark does not function as a clue to distinguish the origin of the goods as those of the exclusive licensee to use the trademark, but the consumer recognizes it as a thing which symbolizes the goods of the trademark owner, i.e., the manufacturer, and therefore, it cannot be said that the exclusive licensee of the trademark has a separate and independent interest to be protected.

In the second place, it is said that the protection of trademarks serves to further free competition and to develop industries. The trademark enables the customer to distinguish the goods of competitors, and to choose proper merchandise in terms of quality, price and other elements from among similar kinds of goods manufactured and sold in competition, so that it creates competition for sales of cheaper goods of better quality and also stimulates the development of industries. Even if the import and sale of genuine goods by a third party is permitted, it would not have a bad effect upon competition in terms of quality but rather benefits consumers by promoting price competition.

In the third place, the consumer would be protected from buying imitation goods of an inferior quality by maintaining the manufacturer's exclusive right to use the trademark. Even if the right to stop the import and sale of genuine goods with the same trademark cannot be granted to the person who holds the domestic right to a trademark belonging to a foreign manufacturer, the consumer's interests will be protected so long as the goods are the same as those produced by the manufacturer. That is to say, there is no difference in the degree of consumer satisfaction between genuine goods bearing the trademark purchased through a foreign manufacturer's domestic branch or agent and those purchased through an independent trader in competition with the branch or agent, except where there is a difference in price.

Thus, in the light of the nature of trademark protection, it is hard to find reasonable justification in terms of trade-mark law for prohibiting the import of genuine goods by a third party only on the grounds of protecting the licensee's expectation to use the trademark as a means of monopolizing the domestic market.

2. In addition, the plaintiff has continued the import and sale of genuine Parker's fountain pens through Hong Kong as in the present case since the establishment of his predecessor, Aki Trading Company, Ltd. (this corporation was dissolved on August 1, 1965, and the plaintiff company was established on the tenth day of the same month by the same representative for almost the same purpose, succeeding to its predecessor's business entirely). The plaintiff had a conspicuous record of importing Parker goods before the establishment of the defendant's exclusive license to use the trademark "PARKER". During the period before the establishment of the license, the Parker Company had not given any warning or order to stop this importation and sale but
rather had enjoyed profits from the plaintiff's import and sale. It is not only evident that the plaintiff has never intended to obtain profits unjustly by "stealing a ride" on the defendant's advertisement activities after he obtained the exclusive license to use the trademark, but on the contrary, the defendant is trying to monopolize the domestic market, which the plaintiff had already developed, through its exclusive license.

3. Especially, in this case, where the "PARKER" trademark is an internationally famous trademark which indicates that the goods concerned were produced by the Parker Company, where the defendant does not manufacture the said goods but solely imports and sells goods bearing the trademark "PARKER" from the Parker Company, the original manufacturer, as its general agent in Japan, where many of the defendant's advertisements of the said goods have originated from the Parker Company in the United States of America, leading to the presumption that, although the used words are somewhat different, the defendant's advertisements are identical to those used in Hong Kong, in other words, the defendant follows the Parker Company's advertisement policies, where the defendant maintains close legal and economic relationships with the Parker Company, and in fact, although he uses the title "exclusive licensee" of the trademark, he is merely the Parker Company's sales agent in Japan, in such a case, the assurance of the defendant's exclusive right to import and sell is a matter that should be settled between he and the Parker Company on the basis of their agency agreement, and it is beyond the scope of the protection by the trademark law. Or rather, it is illogical to prohibit the import and sale of genuine goods by a third party on the ground of the existence of an exclusive license to use the trademark.

VI. Apart from those points raised above, the Parker fountain pens which the plaintiff wished to import from the Lylian Company in Hong Kong are those which the Parker Company manufactured in the United States with the "PARKER" affixed trademark, then exported to Hong Kong, where its dealer in Hong Kong sold them to the Lylian Company. Thus, the "PARKER" trademark has been duly used in the United States as the trademark which represents the manufacturer, and the rights based on the said trademark should be considered to be exhausted at the time of export from the United States to Hong Kong, or at the latest, at the time they are traded in Hong Kong. Therefore, in the light of this fact, the plaintiff's contemplated import and sale of the said goods cannot infringe the defendant's exclusive license to use the trademark.

VII. When upon presenting the "claims for enjoining the import" referred to in the statement of the Causes of Action II supra, the defendant was required by the Osaka Customs Bureau to explain the treatment of the import of genuine goods with
respect to the object of the alleged injunction, he answered that it was unnecessary to write down the exception because he would without fail submit a letter of approval for imports of genuine goods, especially for imports by the plaintiff. Shortly thereafter, he gave the same response when the plaintiff requested a general approval. In fact, thereafter the defendant submitted letters of approval for the plaintiff's imports on more than ten occasions. Taking these facts into consideration, it must implied that the defendant has agreed with the plaintiff to approve all imports of genuine Parker goods by the plaintiff. If this is true, it is a violation of the implied agreement for the defendant to change his attitude and declare that he no longer will approve imports of genuine Parker goods by the plaintiff. It must be understood that such recession of the inclusive approval cannot be lawfully done by a unilateral act of the defendant. Therefore, also from this fact, it must be said that the defendant does not have the right to enjoin the plaintiff's import of genuine Parker goods.

VIII. The use of a trademark must be conducted honestly and in good faith. The Parker Company lawfully affixed the trademark to the goods to be imported in this case and distributed them, and thus impliedly has approved the resale of the said goods. Therefore, such resale cannot be enjoined in light of the rule of estoppel. Although the defendant calls himself the exclusive licensee of the trademark, he is in reality a mere importer and dealer in the Parker Company's goods, so it is not a truthful and bona fide use of his right to use the exclusive trademark license to make it a ground for an injunction against the import and sale of the goods in question by the plaintiff. Even if this cannot be admitted, under the circumstances of this case such use of his right cannot be allowed because it is an abuse of that right to unduly restrict trade and prevent free commerce in the name of the locus nature of the trademark.

IX. Whereas, as mentioned above, the defendant submitted "claims for injunction against the import" to the Osaka Customs Bureau, and has recently declared that he would require the Osaka Customs Bureau to stop the import of even genuine goods, the import of genuine Parker goods by the plaintiff has been hindered, and the said import has not been allowed as a result of this hindrance. The circumstances of these facts are the same as those which have been already mentioned in the Causes of Action III supra.

Therefore, the plaintiff asked for recognition of the non-existence of the defendant's right to enjoin the plaintiff's import and sale of the said goods on the basis of the defendant's exclusive license to use the trademark.
JUDICIAL DECISIONS

[Third.] The attorneys for defendant expressed their statement of defenses concerning the preliminary claims and causes of action as follows.

I. Demurrer to Preliminary Claims

The part of the plaintiff's claim, requesting nullification of the defendant's right to enjoin the import and sale of goods should be dismissed. That is to say:

1. Although the defendant submitted, as the plaintiff alleges, "claims for injunction against the import of goods which would infringe the defendant's intangible property right" to the Osaka Customs Bureau in April, 1968, there is no direct relationship between the fact that the plaintiff cannot obtain the permit to import 600 Parker's fountain pens in question and the defendant's request for injunction against the said import. Because Article 21 (1) (iv) of the Custom Tariff Act provides that "property and things which infringe the trademark" . . . "shall not be imported," the chief executive of the Customs Bureau cannot permit the importation in case the cargo for which the import application is submitted is considered to fall under the classification of goods infringing the trademark. It is prohibited by law to render the decision of whether the designated import should be permitted, by depending upon whether the claim to enjoin the import has been submitted by the owner of the trademark. In this case, however, the Customs Bureau, in the name of its chief executive, admitted that the cargo which the plaintiff intended to import are goods which infringe the trademark in question, and decided not to permit the designated import. Therefore, the plaintiff is able to clarify his legal position most effectively by bringing an action against the chief executive to cancel the administrative act regarding the above mentioned refusal to grant an import permit, and in fact, the plaintiff instituted such administrative action to cancel the import refusal, which is now pending. Besides this action, there is no interest or necessity for the plaintiff to sue the defendant to nullify the defendant's injunction against the import.

2. The goods in question which the plaintiff intends to import are now kept at the customs storehouse, and, since the plaintiff cannot sell them, it is in actuality not the defendant who prevents the sales of the said goods. Therefore, with respect to the sale of the said goods, there exists, at least for the present, no legal dispute between the plaintiff and the defendant, except the possibility that a problem might arise in the future between them. To plead for a settlement such future relationship in terms of law is inappropriate, because it is of the same nature as pleading for a court's opinion on the interpretation of a statute or administrative order.

II. Defense to the Causes of Action
1. The alleged facts in the Causes of Action I, and the following among the alleged facts in the Causes of Action II, VII and IX can be admitted: That the defendant submitted to the Osaka Customs Bureau the "claims for injunction of certain goods which would infringe the defendant's intangible property" dated April, 1958, the content of which is identical with the plaintiff's allegations; that, although the defendant thereafter submitted more than ten times to the Osaka Customs Bureau letters approving the import of genuine Parker goods by the plaintiff, the defendant declared on August 20 of the same year to the Customs Bureau that it would no longer furnish letters of approval for importation of genuine Parker goods by the plaintiff; that the plaintiff brought an administrative action against the chief executive of the Osaka Customs Bureau to cancel the disputed administrative decision, and that this action is now pending; and that the defendant still has asked the Osaka Customs Bureau for the injunction against the import of genuine Parker goods.

2. Among the alleged facts in the Cause of Action VII, it must be denied that, when the defendant submitted the above mentioned claims to enjoin the import to the Osaka Customs Bureau, the defendant answered that he would without fail submit a letter of approval for the import of genuine goods by the plaintiff. The defendant answered that he would give such letter of approval only for genuine Parker goods which had already been delivered according to previous orders from the plaintiff or which were going to be ordered, and although the defendant has submitted a letter of approval even for later imports by the plaintiff, this does not imply that the defendant agreed to give the plaintiff a letter of general approval for the importation of genuine Parker goods by the plaintiff.

3. The rest of the plaintiff's actual and legal pleadings must be disputed.

III. Rejoinder to the Plaintiff's Allegations

1. An import of so-called genuine goods would infringe the rights of an exclusive licensee of a domestic trademark.

Concerning trademarks, the doctrine of iez locus, that the establishment and effect must be decided by the law of the country in which the right is granted, is a general rule which has been internationally accepted. The Paris Treaty of March 20, 1883, concerning the protection of intangible property, was amended at the London Conference of June 2, 1894, to include a new provision, Section 6 T, establishing the rule that a trademark registered in one country is independent of one registered in another country, and another provision, Section 6-4, setting forth the rule that a trademark can respectively be assigned or licensed for exclusive use in each country; these rules are also adopted in the Lisbon Amendment of October 31, 1958. In addition, the said rules are more clearly adopted in the Pan-American Treaties concerning the protection of
trademarks and trade names, and thus they are internationally accepted.

Indeed, it seems that an exception to those rules prevails in a very few countries with respect to the import of genuine goods, but our country belongs to the above mentioned Paris Treaty, and in the light of the purpose of the constitutional provision of Article 98 (2), it must be understood that an exception contrary to the above mentioned lex loci principle should not be admitted.

To view the matter from a comparative law standpoint, because of the political, economic and social background of those countries, for instance, Nordic countries, where the principle of lex loci is admitted with respect to patent law, the necessity for enactment of a uniform patent law is very strong, and so for trademark law, we can presume that those countries would accept a similar type of thinking. Member countries of the EEC Treaty are bound by the provision of Article of the Treaty which provides "That where one or more than two enterprises unduly takes advantage of his or their superior position in the common market or in a major part of the common market, so long as such advantage will influence the trade among member countries, it shall be deemed to be inconsistent with the idea of the common market, and shall be prohibited as such", and, since there is another provision which provides that, where intangible property is concerned the above cited provision shall be applicable, in accordance with this provision, to the patent law or the like of each member country, the courts are most likely to render judgments on a basis similar to the thought expressed in the above provision not only in cases concerning only member countries, but also in those related to non-member countries. Furthermore, in the United States of America, the text of the Custom Regulations is debated in many articles, but the United States has rigidly regulated monopolistic activities and the policy of promoting free competition has traditionally been very strong. In the light of the above, we see no basis for the argument that, as is expressed in some academic opinions in Japan, the Japanese courts should follow a certain practice or tendency which can be abstracted from a mere comparison of textual words in statutes and court decisions of various countries where there are different political, social and economic backgrounds from those of Japan. In the end, we feel that the academic opinion on which the plaintiff largely relies has no persuasive value.

2. The use of the defendant's exclusive license of the trademark in this case is obviously not an abuse of rights if we balance and consider the purpose of the Trademark Act and the concrete conditions of this case.

(1) That is to say, the Trademark Act is meant, on the one hand, to create and maintain a state of fair competition in commerce and trade, and to protect the interests of traders and consumers, and on the other hand, purports to protect the social and economic interests of property embodied in the trademark, but it has been generally
understood that the ultimate purpose of the law is not necessarily clear from the standpoint of existing law. And, in addition, there is a basic understanding embodied in the registration principle (toroku shugi) that the primary purpose is to protect public interests and maintain an order of fair competition, but, regardless of the primary purpose, the Trademark Act has been construed to protect trademarks as a property right, and this property, nature of the trademark should not be disregarded.

The defendant has been the exclusive licenses of the "PARKER" trademark which is owned by the Parker Company, and the license agreement has been renewed every two years. At present, the defendant has held a registered exclusive license of identical content for an expanded period of six years since January 1, 1968. Where an exclusive license is established as in this case, even the owner of the trademark cannot import to Japan the specified goods bearing the registered trademark. This is true regardless of whether the imported goods are genuine or not.

It is only because such right has been granted that the defendant has made efforts to develop the sales market for Parker goods through an enormous amount of advertising costing in excess of 30 million yen a year up to the present time. Besides, since Parker fountain pens have their own particular structure and do not function satisfactorily as designed without the use of ink made by the Parker Company, the defendant, on the one hand, has assisted the promotion of the sales of Parker fountain pens by importing and supplying the Parker ink. On the other hand, the plaintiff has shown a certain sales record simply by stealing a "free ride" on the defendant's efforts to develop the market, without contributing to any promotion activities. Additionally, the plaintiff, knowing that the defendant is the holder of the exclusive license as explained above, takes advantage of the goodwill established by the defendant by purposely importing Parker goods to Japan through Hong Kong.

(2) From the beginning, the defendant has had no financial relationship with the Parker Company, and although he has engaged in the business of importing Parker goods from the Parker Company since around 1959 to date through its branch in Japan, its total sales of Parker goods is only about 15% of the amount of its annual sales. In addition, concerning the Parker goods, the defendant not only imports and sells the above mentioned ink, but also takes care of servicing them at after-sales service business offices which are established as independent operations in Sapporo, Tokyo, Nagoya, Osaka and Fukuoka. Such business offices are managed at the defendant's own expense, but the Parker goods which have been repaired at such offices are not limited to those imported by the defendant. In the light of these facts, the defendant is a corporation independent of the Parker Company, and it is obvious that it is not engaged in business as the so-called "hands and feet" of the Parker Company.

(3) The loss which the plaintiff will suffer from the defendant's exercise of his exclusive license to use the trademark is equivalent to the amount of profit the plaintiff
would expect to have obtained if he could sell the Parker goods against which the injunction was issued in this case. Besides, in spite of the fact that the plaintiff could easily have obtained permission to import if only he tried to obtain the defendant's approval, he did not request such approval, and thus the necessity for legal protection from damage in this case is very small.

(4) The plaintiff alleges that the plaintiff's import of genuine goods may benefit consumers and the state, and that it cannot injure such interests at all, but the consumers' interests cannot always be protected even if the plaintiff is allowed to sell Parker goods at a cheaper price than the defendant's price for identical Parker goods. The reason is that, if it is decided that the defendant cannot stop the import of genuine goods by a third party, the defendant may consequently lose its spirit and decide to stop its "after-sales" services. If this happens, it is doubtful whether the consumer in fact will benefit. The allegation that a cheaper price is a better policy is, as is clear from the above example, "short-sighted" and extremely naive, and is not acceptable. Concerning the plaintiff's argument that the state will be benefited by the recognition of the import of genuine goods by third party, the how and why of this argument is incomprehensible.

(5) It has been often argued that where the right of the owner or licensee of a registered domestic trademark to enjoin the import of genuine goods is recognized, the security of trade and free competition will be hindered, but under present day international competition, the manufacturer and seller of goods should be naturally allowed to engage in lawful competition in foreign markets by advertising, and using the trademark right as a weapon to expand the market and accumulate goodwill through manipulation of markets by supplying goods of suitable quality at suitable prices in each foreign country. Therefore, the particular use of the exclusive trademark license right seen in this case is within the scope of the lawful aims of the contents of the trademark law, and we insist that this use should not be prohibited.

3. In sum, the plaintiff's arguments for the causes of action have no legal grounds, and therefore, should be dismissed.

[Fourth.] Evidence (omitted)

REASONS:

1. First of all, we will examine the defendant's preliminary pleading of demurrer. The following facts are not disputed by either party:

That the plaintiff is a corporation which is engaged in the business of export, import, and the like of electric goods and sundry goods; that the defendant maintains its head office in Canada and business offices in Tokyo and in Osaka; that plaintiff is a foreign corporation which is engaged in international trade, the manufacture and sale of various goods, and that he has been granted the exclusive license to use the registered
trademark No. 171867, "PARKER", which is owned in Japan by the Parker Company, a non-party American corporation, with respect to specified goods of fountain pens, pencils—especially mechanical pencils—and ink, by virtue of an agreement with the said Parker Company covering the territory of the whole land of Japan, applicable to all specified goods, and which has extended for periods of two years since January 1, 1964, which has been renewed every two years to date and registered as such for each renewal (In this regard, we understand from the defendant's Evidence No. 1, the admission of which is not in dispute between the parties, that in the meantime the period of duration of the exclusive license was expanded to six years after January 1, 1968, by the renewal agreement dated June 10, 1968, and registered on July 15, 1968). Looking collectively at plaintiff's evidence item No. 1, the admission which was not disputed, items No. 7-i through No. 7-xiii, the existence and admission of which were not disputed, the testimony by the plaintiff's representative and plaintiff's items of evidence No. 3-i through No. 3-iii, the existence of which can be admitted by the above testimony, items No. 44 through No. 4-ix, items No. 54 and No. 5-vi through No. 5-xii (the part made by the Customs Bureau was not disputed and the rest can be obviously admitted by the above mentioned testimony), and items No. 6-i through No. 6-viii: The representative of the plaintiff corporation, Junichi Aki, was the president of the Aki Company, Ltd. which was engaged in the import and sale of sundry goods which the company had continuously imported since 1962 through a trading firm in Hong Kong so-called Parker goods, including Parker fountain pens, ballpoint pens, and other attachments and consumptive parts which the Parker Company manufactured in the United States of America and distributed bearing the "PARKER" trademark, and engaged in the sales of these goods in Japan. The said Aki Company was dissolved around August 1965, and the plaintiff corporation was established around that time by the same representative and for the same business purpose as that of the Aki Company. Thereafter, the plaintiff succeeded in fact to the business of the Aki Company and has continued to import and sell genuine Parker goods obtained from Hong Kong. Around April of 1968, the defendant submitted to the authorities of the Customs Bureau "claims to enjoin the import of goods which would infringe the defendant's intangible property rights" which is purported to justify an injunction against the import of the specified goods bearing the trademark "PARKER" by a third party (in this regard, there is no dispute between the parties). Thereafter the Customs Bureau took the position that it would not grant the import permit unless a letter of approval for such import from the defendant, the exclusive licensee of the trademark, was submitted for the import of the specified goods with the said trademark, regardless of whether they may be genuine goods which fall under the provision of [Article 21] (1) iv of the Customs Tariff Act which provides for "prohibited goods which infringe the trademark". As the result, concerning the plaintiff's import application to the Osaka Customs Bureau on
May 24, 1968, to import genuine Parker fountain pens purchased from Lylian's Trading Company in Hong Kong, the chief of the Osaka Customs Bureau answered the plaintiff in writing on October 31 of the same year, notifying him that he would not grant the import permit on the ground that the defendant's letter of approval was missing. Since there had been no opportunity for him to obtain the defendant's approval of the import after August 20th of the same year (the defendant had submitted more than ten times letters approving import of genuine Parker goods pursuant to requests from the plaintiff in order to obtain import permits from the Osaka Customs Bureau between April, 1968, until around August of the same year. On August 20th of the same year, the defendant declared to the Osaka Customs Bureau that it would not be willing to approve any additional importations by the plaintiff thereafter, and these facts were not disputed between them), the plaintiff's import and sales business of genuine Parker goods for the present is deadlocked because of the custom procedures. Thus the plaintiff brought an administrative action, which is still pending, against the chief of the Osaka Customs Bureau to the Osaka District Court asking for cancellation of the chief executor's refusal to grant the permit concerning the said 600 genuine Parker fountain pens for which the plaintiff had submitted the import application on May 24, 1969 (there is no dispute about the fact that the plaintiff brought the suit which is now pending). So it can be recognized that, if only the barrier of custom procedures could be clarified, the plaintiff is in a position to continue the import and sale of genuine Parker goods.

The defendant alleged as follows: The fact that the plaintiff cannot obtain the import permit from the Customs Bureau with respect to the 600 Parker fountain pens for which the plaintiff submitted the import application is due to the recognition of the chief of the Osaka Customs Bureau that said fountain pens infringe the trademark; and this inability to secure on permit is not directly related to the defendant's request to the Customs Bureau for an injunction against the importation; that the most effective and appropriate way to eliminate the unstable conditions of the plaintiff's legal status is to bring an administrative action against the chief of the said Customs Bureau to cancel his refusal to grant the import permit and there is no need or standing to sue the defendant for recognition of the non-existence of the defendant's right to enjoin the import; and that, as the plaintiff cannot sell the said fountain pens unless he is permitted to import them, no present legal dispute has yet arisen between the parties with respect to the sales of the said fountain pens, and it is unlawful to sue for a declaration of the non-existence of the defendant's right to enjoin the plaintiff's sales on the ground that such suit involves a recognition of a future legal relation.

However, even if the said refusal to grant the import permit by the chief of the Osaka Customs Bureau was done on the basis of the defendant's claim to enjoin of the
said import, as will be made clear in a later part (of this judgment), the refusal was
made through his independent judgment and it is thus clear that the defendant’s allega-
tion that the plaintiff’s import of the Parker goods at issue infringes the defendant’s
exclusive license to use the trademark does not absolutely reflect upon the chief of the
Osaka Customs Bureau’s refusal to grant the permit. Subsequently, even if the plaintiff
wins the case against the chief of the Osaka Customs Bureau requiring the cancellation
of the said administrative disposal, it is not necessarily true that the defendant, a
non-party to that case, would spontaneously withdraw his allegation, and admit the
plaintiff’s legal claims in this case without any dispute between them, nor is it true
that the decision of the said administrative action is binding upon the defendant.
Therefore, the fact that the plaintiff brought the action to cancel the refusal to grant the
import permit against the chief of the Customs Bureau, or the fact that such action
is now pending before the court cannot be considered as grounds for denying the plain-
tiff’s standing to ask for recognition of the non-existence of a legal relationship with
the defendant; As mentioned above, so long as the defendant maintains his legal allega-
tion which is different from the plaintiff’s there is a dispute between the plaintiff and
the defendant with respect to the said legal relations; and since the plaintiff is relying
upon an unstable legal position that may require him at anytime to stop the import and
sale, etc., we must admit that there is standing to ask for the recognition of the non-
existence of the right to enjoin the said important sale as against the defendant.

Thus, there is no ground for the defendant’s demurrer to the preliminary claims.

II. Next, we will examine the merits of the pleadings to declare the non-existence
of the right to enjoin the import and sale.

The plaintiff alleges that his import and sale of the specified goods, fountain pens,
etc., manufactured and distributed bearing the “PARKER” trademark by the Parker
Company, cannot injure the defendant’s exclusive license to use the trademark, while
the defendant disputes this point. Following is our decision in this regard:

1. The Parker Company, the owner of the registered trademark concerned in this
case, is a famous manufacturer and trader of fountain pens with its headquarters in
the United States of America. It affixes the “PARKER” trademark to its goods,
exports them to many countries of the world. It is well-known that the Parker Com-
pany’s goods always bear its internationally famous trademark. On the other hand, the
defendant is a foreign corporation, having its headquarters in Canada and business
offices in Tokyo and Osaka, which has engaged in international trade, manufacture
and sales of various goods, and has been granted the exclusive license to use the
trademark, “PARKER”, in Japan since 1984. There is no dispute between the parties
on these points. To look collectively at the plaintiff’s evidence Item No. 8, the estab-
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ishment of which was not disputed, the plaintiff's authenticated evidence No. 1-iii and No. 2-iii, the advertisement pamphlets made by the Parker Company and distributed in Japan, the testimony of the witness, Shoichiro Miyamoto, the statement of the plaintiff's representative, the plaintiff's authenticated evidence Nos. 1-i and ii and Nos. 2-i and ii (the advertisement pamphlets made by the Parker Company and distributed in the United States of America and in Hong Kong), the establishment of which was proved by the said statement, the defendant does not manufacture the goods bearing the "PARKER" trademark, but only imports and sells Parker goods as "General Agent of the Parker Company in Japan" on the basis of an exclusive license to sell in Japan Parker goods, such as Parker fountain pens, etc., bearing the said trademark and that there is no variation in design, according to the tastes of customers in particular countries, between the paper goods distributed in the American market and those exported for Japan or for Hong Kong. Besides, because of the nature of the goods, it is unthinkable from the standpoint of common sense that their quality may be changed by handling, and therefore, we must admit that the Parker goods which the plaintiff imports from Hong Kong are exactly the same in quality as those which the defendant imports from the United States of America. Thus, we cannot admit any difference between them.

2. "The Paris Treaty of March 20, 1883, concerning the Protection of Intangible Property" (hereinafter referred to as "Paris Treaty"), Treaty No. 9 of the 49th Year of Showa, recognized that the principle of lex locus and of the independence of trademarks shall govern the matters concerning trademarks in the same way as other intangible property, and the London Amendment of 1934 makes it clear that the trademark is independent in each country where it is registered, and thus can be assigned or licensed independently.

It is understood that the principle of the independence of trademarks or lex locus means that foreign trademarks cannot be injured by a domestic act and domestic trademarks cannot be injured by a foreign act and that a domestic trademark exists independently of the foreign trademark registered by the same owner. However, when the Paris Treaty established the principle of lex locus of trademarks by including the provision of the London Amendment of 1934, Sections 6 T (at present, Section 6 (3) by the Lisbon Amendment), in the light of the conditions of international trade existing at that time, it is understandable that a case like the one at issue could not be foreseen by the framers of the Amendment. Besides, while the Amendment provides with respect to patent rights that the national independence of patent rights shall be narrowly construed under Section 42 (2) of the Treaty, it did not clarify the application of the same principle to trademarks. The question of to what extent the principle of lex locus of the trademark should be applied is not necessarily clear from
the textual interpretation of the Treaty and the Trademark Act of Japan. In order to solve this problem, we think it is necessary to examine the nature of trademark protection by tracing the origin of the law.

The Trademark Act, under Article 1, provides that "This Act is aimed at the maintenance of business good-will of the person who uses the trademark, contribution to the development of industry thereby, and at the same time, protection of consumers' interests, by way of protection of the trademark." The trademark symbolizes the goods which are traded by a specific business body, and it functions as a means to identify the origin of the goods, and concurrently, as a warranty of the uniformity of quality and nature of the goods to which the trademark is affixed. It is understood that the reason why the Trademark Act grants a monopolistic right to use the registered trademark to the owner of such trademark is to prevent injury of the "origin representation" function and the "quality warranty" function by an abusive use of the same or similar trademark with respect to the same or similar goods by a third party. The Trademark Act is designed to protect the trademark owner's goodwill which has been accumulated by the continual use of the trademark as protecting the "origin representation" function and "quality warranty" function, and at the same time, protecting the consumer's interests by maintaining order in the flow of commerce, by distinguishing the identity of the origin of the goods for the consumer, and by enabling the consumer to find suitable goods of appropriate quality so that he will not mistake his choice at the time of purchase. As mentioned above, the direct object of protecting trademarks is to ensure the functions of trade-marks and thereby, it is also aimed at the ultimate protection of public interest as well as the trademark owner's interest. In this regard, the trademark protects rights which have a very strong social and public nature in comparison with other intangible property. In a system which applies the registration principle, even ignoring the fact that the trademark fundamentally has the nature of private property, it is evident that the scope of its protection is naturally subject to social restrictions and the proper scope of the lex loci principle of the trademark must be reasonably decided after the consideration of whether or not the functions of the trademark are infringed in the light of the spirit of the protection of trademarks.

Where the same person registers the same trademark in both a domestic and a foreign countries, a number of court decisions in Europe declare that the extinction of a foreign trademark in the foreign country by distribution of goods should be considered to give the same extinguishing effect upon the same domestic trademark and that this is entirely unrelated to the principle of the independence of the trademark which is provided for in the Paris Treaty. The plaintiff, adopting that reasoning, argues that the Parker goods in issue to which the "PARKER" trademark was affixed were manufactured by the Parker Company in the United States of
America, were exported to Hong Kong where the dealer in Hong Kong sold them to the Lylian's Company. With respect to the goods, the plaintiff contends that the right concerning the affixed trademark was consummated at the time of the export from the United States of America to Hong Kong, or at the latest, at the time of the dealing in Hong Kong; we cannot readily agree with this reasoning.

However, we think that for a party to be entitled to enjoin a third party's act on the basis that it infringes his trademark he must prove not only that such act was done by a person having no right to do so but also that in substance, it was an unlawful act. In case the same person has registered an internationally well-known trademark both domestically and abroad, in determining whether a third party's importation of goods bearing such registered trademark will constitute not only superficially but also substantially an unlawful act, we think that it is not inconsistent with the principle of the independence of trademarks to take into consideration such foreign facts as that trademark is well-known all over the world, that the said goods were produced in a foreign country by a rightful person, were sold after affixing the relevant trademark, and so forth.

3. Next, we will examine to what extent the plaintiff's import of genuine Parker goods will influence the function of the registered trademark at issue and the various interests concerned.

Although the existing Trademark Act does not separate theoretically the trademark and the business and recognizes the establishment of the exclusive or ordinary license with respect to such trademark, where the same legal person has made both domestic and foreign registrations for the same trademark, and especially internationally well-known trademarks as in the "Parker" trademark at issue, the trademark owner's purpose for establishing the exclusive license to use the trademark domestically is to give the exclusive licensee an exclusive distributorship to sell domestically the goods manufactured in a foreign country, and the case at issue is not an exception to this generalization. We consider that, in such case, the origin of the goods distinguished by such a famous trademark is, so long as special circumstances exist, the origin of manufacture of said goods and not the origin of the sale.

As has been shown above, the defendant merely imports from the United States of America the goods bearing the "PARKER" trademark affixed by the owner of the trademark, the Parker Company, and merely sells them in the domestic country, and no specified goods bearing the "PARKER" trademark are manufactured in Japan. It has long been a well-known fact among consumers in Japan that the "PARKER" trademark affixed to fountain pens is a symbol of foreign goods manufactured and sold solely by the Parker Company. According to the testimony of the witness, Shoichiro Miyamoto, the defendant started in 1964 an extensive import
business of Parker Company goods such as Parker fountain pens, Parker ink, and that presently, advertising of the said Company's goods amounts to an annual expenditure of between 70 million and 80 million yen. From these facts above, however, it is hard to admit that domestic consumers generally know that the "PARKER" trademark symbolizes goods distributed by a specific import and sales dealer in Japan.

If the above mentioned facts are true, since the Parker goods which the plaintiff wishes to import and sell are identical to the Parker goods which the defendant has imported and sold, there is no difference in quality between them. The danger of deceiving or confusing the consumer about the origin or quality of the goods does not exist. So it must be admitted that the functions of the trademark cannot be injured at all. Thus, if there is no fear of deceiving the consumer's reliance on the goods bearing the said trademark, there appears to be goods bearing the said trademark, there appears to be no harm, at least from the standpoint of protecting the consumer. It is also evident that the reputation and other business interests of the Parker Company, the owner of the trademark, cannot be injured. Besides, as to internationally well-known trademarks as the one in this case, the consumer would ordinarily purchase the goods attaching great importance to the reputation of the manufacturer symbolized by the trademark, without regard to whether such trademark is a domestic or a foreign one. Furthermore, the defendant's business good-will as the exclusive licensee of the domestic trademark is very close, or even inseparable, from the reputation of Parker goods in the world market, established by the Parker Company through the said trademark, and it is impossible to think that the defendant's good-will has a separate and independent existence. The inseparability of the defendant's business good-will from that of the Parker Company is illustrated by its authenticated evidence i through iii of Nos. 1 and 2 and the testimony of the witness, Shoichiro Miyamoto, that is to say, by the fact that the Parker Company, after granting the defendant the exclusive license to use the trademark, has borne 60% of the defendant's promotion and advertisement expenses of the Parker goods in Japan, has made efforts to service Parker goods in Japan, and has furnished the defendant for his use in Japan advertising pamphlets for the Japanese market printed in the United States of America, using sentences with the same meaning as those used for the American and the Hong Kong markets (though the words and their form are naturally different), employing the same pictures, layouts, and appearance of those for the American and the Hong Kong market. Therefore, since the plaintiff's import and sale of genuine goods may endanger the defendant's monopolistic control of the domestic market but does not injure the Parker Company's business good-will, the defendant's business good-will cannot be injured; but rather, if the import of genuine goods by a third party is permitted, fair, free competition will arise with respect to price, service, etc., in the domestic market, and consumers
will profit thereby. In addition, it will have merit in promoting international trade and stimulating the development of industries, and in sum, such results will conform with the purpose of the Trademark Act.

Incidentally, we will examine whether or not the plaintiff’s import and sale will disorganize the order of fair competition. Although the defendant started extensive imports and sales of Parker goods in 1951, the name of Parker goods has been well-known in the domestic market long before that time, and the plaintiff’s representative, Juichi Aki, had imported Parker goods from Hong Kong and sold them domestically since 1952 in the name of his Company, the Aki Trade Company. As explained above, that company was dissolved in 1965 and subsequently the plaintiff corporation succeeded to the Aki Company’s business and continued the import and sale of Parker goods. In the light of the above history, it is hard to find that the plaintiff stole a “free ride” on, or took advantage of the defendant’s advertisements of Parker goods and it is also hard to find that extremely unfair measures were used in the plaintiff’s import produces.

4. To summarize what we have examined above, the plaintiff’s import and sale of genuine Parker goods cannot be understood to be inconsistent with the purpose of the trademark system. It is difficult to use as the only substantial reason for prohibiting the plaintiff’s import and sale the theory that the defendant’s trademark monopoly over the domestic market may be jeopardized. Indeed, in superficial terms, the plaintiff has no right to use the registered trademark in this case, but the plaintiff’s act of import and sale of genuine Parker goods is not unlawful in substance in light of the spirit of the Trademark Act, and it cannot constitute a violation of property rights.

Therefore, we admit that, among the plaintiff’s arguments concerning the causes of action, the part in which he asks for recognition that the defendant has no right to enjoin the plaintiff’s act of import and sale is true.

III. In the third place, we will examine the plaintiff’s pleadings asking for a prohibition against the defendant disturbing the plaintiff’s import and sale of genuine Parker goods.

Since we have already decided that the import and sale of the goods by the plaintiff does not constitute an infringement of the defendant’s exclusive license to use the registered trademark, “PARKER”, the business of import and sale by the plaintiff can be done freely and the plaintiff’s business activities should be permitted. However, the concept of “the right to business or to free enterprise” is not protected as such under the legal system of Japan. The legal interest injured by interfering with business is a sort of liberty-for-free-business-activities, which in nature does not
have an exclusive effect, and therefore, if such liberty is unlawfully injured, the plaintiff can for damages on the grounds of the opposite party's tortious acts. But, except in a case where such reasons exist as may fall under any clause of Article 1 of the Prevention of Unfair Competition Act, the plaintiff is not necessarily entitled to enjoin the opposite party from creating such disturbance. It would be more reasonable to find that the plaintiff can sue to eliminate such injury to his liberty only when there exists special reasons such as that the means of business interference by the opposite party is direct and done with unlawful force.

To apply this to the present case, the defendant submitted to the authorities of the Customs Bureau around April, 1968, the "claims for enjoining the import of the goods which would infringe the defendant's intangible property rights" which was aimed at obtaining an injunction of the import by a third party of the specified goods bearing the registered "PARKER" trademark. Thereafter, the Customs Bureau determined once and for all that so long as the specified goods bearing the said trademark are concerned, it would not give an import permit unless the applicant submitted the defendant's letter of approval of such import, even with respect to the so-called genuine goods, on the ground that such goods are prohibited property which infringes the trademark. As a result, the plaintiff could not obtain the import permit pursuant to his application to the Osaka Customs Bureau of May 24, 1968, for the planned import of 600 Parker fountain pens, genuine Parker goods, purchased from the Lylian's Company in Hong Kong, and thereby the plaintiff's import and sale business was disturbed. Yet the defendant has now asked the Osaka Customs Bureau to enjoin the import of even genuine goods. The above mentioned facts were not disputed between the parties.

According to Article 21 (1) iv of the Custom Tariff Act, those goods which infringe patents, process patents, design patents, trademarks or copyright, are prohibited goods for import, but, since the quantity of intangible property in Japan is enormous, it is practically impossible for the Customs Bureau to examine all goods covered in import applications to determine whether they are such prohibited goods which infringe intangible property rights. And certainly it cannot be denied that there may have been irregular cases where the import of prohibited goods was permitted by mistake. The Finance Ministry Order No. 52 of May 31, 1966, "The Procedures and Other Matters for the Claim of Injunction against the Import of Goods which Infringe upon Intangible Property", which is exhibited in the plaintiff's Evidence item No. 2, the establishment of which was not disputed, provides procedures for seeking injunctions against import on behalf of a person who holds an intangible property right, as a countermeasure to meet such irregular cases. According to this procedure he is required to submit to the chief of the Customs Bureau an application to enjoin the import, describing the substance of the right which he wishes to protect, the period
of desired protection, etc. The nature of such claim to enjoin an import is merely a stimulus to the proper administration of the officials of their custom examination through preparatory applications for protection through custom proceedings which control the import of infringing goods whose import can be foreseen. Therefore, even where such claim to enjoin the import is not submitted by the person entitled to apply, the chief of the Customs Bureau must not permit the importation of goods that obviously fall under the category of prohibited goods which infringe intangible property rights, and conversely, even where protection is desired by submitting such a claim to enjoin the import, the legal system requires that the chief decide in his own discretion and upon his own responsibility whether or not the goods covered by the import application fall under the category of goods infringing intangible property rights whose protection has been claimed. The opinion of the applicant is a mere reference for the decision, and it cannot in any way affect the chiefs' exercise of discretion.

This leads to the conclusion that, even if the plaintiff cannot obtain a permit to import the 600 Parker fountain pens, and his import and sale business of Parker goods is, or will be, hindered because there is no prospect for him to obtain the permit for the import of similar goods in the near future, this result arises from a prohibition of import made at the Customs Bureau chief's own discretion, and it cannot be said that it was caused by the defendant's direct intervention. In addition, since the defendant's claim to enjoin the import by a third party of specified goods bearing the registered trademark including genuine Parker goods, merely encourages the chief of the Customs Bureau to exercise his power with respect to making an official determination on the basis of an abstract interpretation of law which is not confused by any false factual elements, there is no doubt that the act cannot constitute "an act which injures a competitor's business good-will by stating false facts or spreading such facts" under the provision of Article 1 vi of the Prevention of the Unfair Competition Act.

In addition, because it is impossible to recognize that, in the light of all evidence presented in this case, the defendant, directly and with unlawful force, interfered with the plaintiff's act of the import and sale of the genuine Parker goods, we must decide that the part of the plaintiff's pleadings which asked for prohibition of the defendant's hindrance of the said plaintiff's act has no basis and that it shall be dismissed.

IV. Now, finally, with respect to the cost of this law suit, we render a judgment as shown in the DECISION, applying Articles 89, 92 and 95 of the Code of Civil Procedure.
OSAKA DISTRICT COURT, FEBRUARY 27, 1970

Osaka District Court, The 21st Civil Division

Chief Judge: Kenjiro Ohe
Judge: Hirotaka Kondo
Judge: Chiizo Maruyama
Exhibit 12
II. Private International Law

Trademark Rights — Claim of Infringement — Parallel Importing — Lack of Illegality

Supreme Court, Judgment, February 27, 2003:
57 Minshu (2) 125 [2003], H.T. (1117) 216 [2003]

Hit Union Ltd. v. THREE-M Ltd.

Fred Perry Sportswear Ltd. (hereinafter referred to as “FPS”), an English corporation, owns the trademark rights with respect to a series of Fred Perry trademarks. Osea International Pte Ltd. (hereinafter referred to as “Osea”) entered a licensing contract with FPS for the use of the trademarks in countries other than Japan. Under the contract, Osea produced polo shirts bearing Fred Perry trademarks (hereinafter referred to as “the Goods”). THREE-M Ltd. (a Japanese corporation, the plaintiff and appellant) imported the Goods via Villa Pte Ltd., and sold them in Japan. The contract between Osea and FPS contains a provision that Osea promises not to enter any agreement without prior consent in writing from FPS with respect to a subcontract, or to produce, package, and furnish any of the articles covered in the contract. However, the Goods were manufactured by a subcontracted factory outside the licensed territory (in China) without the consent of FPS. Fred Perry Holdings, a 100 percent-owned subsidiary of Hit Union Ltd. (a Japanese corporation, the defendant and appellee), was granted the trademark rights by FPS, so thereafter Hit Union succeeded the firm of FPS.

Hit Union requested damages under the Minpo (Civil Code 1896, Act No. 89) Article 709, urging that THREE-M’s act of importation and sale of the Goods to which Fred Perry trademark was applied in Japan infringed its trademark rights. THREE-M insisted that the importation of the Goods was not illegal, because it could be considered as an importation of genuine goods.

The Osaka District Court and the Osaka High Court rejected the defense of THREE-M on the grounds that the Goods cannot be regarded as genuine goods, and accepted the petition of Hit Union in part.

Edited by Yoshiaki Normura and translated by Kent Anderson, Naoe Fujisawa, John Ribeiro and Paul Shepherd.
THREE-M appealed

Held: 'The appeal shall be dismissed."

'The appellant shall be ordered to pay the costs of the appeal.'

Upon the grounds stated below;

'The importation of goods 'can be regarded as the so-called "parallel importation of genuine goods" and is not considered substantially illegal as an infringement of a trademark right, where (1) this trademark was applied lawfully by a person who was authorized to use the trademark or by an owner of the trademark in a foreign country, (2) the trademark can be identified as of the same origin as the registered trademark in Japan, because an owner of the trademark in the foreign country is or can be regarded as the same person as an owner of the trademark in Japan for legal or economic reasons, (3) it can be considered that there is no substantial difference between the goods and goods on which the registered trademark is applied by the owner of the trademark right in Japan, because the trademark owner in Japan is in a position to conduct quality management of the goods directly or indirectly, with respect to the quality that is ensured by the registered trademark. The Shobyu Ho (Trade Mark Law 1959 Act No.127) Article 1 provides that the purpose of the law is to protect the goodwill of the trademark use by protecting the trademark, and thereby to contribute to a development of industry and to protect the interest of consumers. Due to the so-called parallel importation of genuine goods, meeting these requirements does not harm the functions of identifying origin and ownership, and assuring quality of goods, nor damage the goodwill of a user of a trademark and the interest of consumers, therefore it does not have substantial illegality.'

'Applying this to the facts of the case, we conclude that the Goods should harm the functions of identifying origin and ownership of trademark for the following reasons. Oseca, having been trademark licensed in Singapore and three other countries for the trademarks in question, had the Goods produced by a subcontracted factory in China, which is outside the licensed territory, without the consent of EPS. It is clear that the Goods were manufactured and applied with the trademarks outside the scope of the license provided in the pertinent clauses of the contract in question.

The restrictions in the license clauses to limit the production within specified countries and the subcontracts are extremely important for the trademark owner to complete the function of assuring quality by controlling the quality of goods. The Goods produced in violation of these restrictions are not under the control of the trademark owner. This would cause a potential material difference in quality between the disputed Goods and goods distributed by the appellee Hit Union, with the likely result that the quality assurance function of the trademark may be harmed.
In consequence, if such exportation is allowed, it could likely damage the credibility of the "Fred Perry" name. Consumers have confidence that they can buy parallel importation goods of the same quality and of the same origin as goods which bear the registered trademark and are put in circulation by the trademark owner. Permitting exportation against any of the restrictions above may be inimical to confidence of the consumers.

For these reasons, the importation of the Goods is not regarded as substantially illegal for the reason that it cannot be regarded as a "parallel importation of genuine goods."

Judge Kazuko Yoko (presiding)
Judge Takehisa Fukasawa
Judge Tatsuo Kainaka
Judge Tokoji Izumi
Judge Niro Shimada

Reasonable Causation — Letter of Credit — Claim for Damages — Advising Bank — Modification of Conditions — Amendment — Shipping Date

Supreme Court, Judgment, March 27, 2003; Kinyu Honbu (1677) 54 [2003]

The Shanghai Commercial & Savings Bank, Ltd. v. Shinyo Shouji Company

The point in dispute introduced in this case is the reasonable and probable cause between the appellant’s failure to promptly send the notice of amendments to a letter of credit, and damages incurred by the appellee.

The appellee (Shinyou Shouji), a Japanese corporation specializing in the importation and distribution of men’s, women’s, and children’s clothing, entered a sales contract (hereinafter “the Sales Contract”) with Finick Trading Company (hereinafter “Finick”) of Taiwan, for the sale and distribution of textile goods (hereinafter “the Goods”). Upon request from Finick, the letter of credit (L/C), which was the agreed method of payment, was issued on January 5, 1998 by the appellant (the advising bank, The Shanghai Commercial & Savings Bank, Ltd.) to the appellant’s Tokyo Branch via telegram appointing the appellant’s Osaka Branch as the addressee, and requesting notification to the appellee thereafter. Accordingly, on January 6 the appellant’s Tokyo Branch forwarded the original L/C to the Osaka Branch, upon which the appellee received notification of its issuance.
Exhibit 13
II. Private International Law

Parallel Import of BBS Car Wheels — Affirmation of Implied License Theory — No Infringement of Japanese Patent

Supreme Court, Judgment, 7 July 1997; 51 Minsbu (6) 2299 [1997], Saibansho Jiho (1198) 8 [1997], NBL (621) 57 [1997], Kogyoshoyukenco Kenkyu (119) 23 [1998], H. T. (951) 105 [1997]

BBS, Inc. v. Racimex Japan et al.

Plaintiff and Appellant: BBS Kraftfahrzeugtechnik Aktiengesellschaft
Representative of BBS Kraftfahrzeugtechnik Aktiengesellschaft:
Heinrich Baumgartner

Defendant and Appellee: Racimex Japan, Inc.
Representative of Racimex Japan, Inc.: Sinichi Inoue
Defendant and Appellee: Jap Auto Products, Inc.
Representative of Jap Auto Products, Inc.: Sinichi Inoue

The plaintiff-appellant (BBS Kraftfahrzeugtechnik Aktiengesellschaft) holds patents for the present invention both in the territories of Japan and the German Federal Republic (hereinafter the Japanese patent is called "the present patent" and the German one is called "the corresponding German patent"). The appellant produced and sold aluminum car wheels (hereinafter called "the present products") as articles under a patent in Germany after the corresponding German patent came into effect.

Defendant-appellee 1 (Racimex Japan, Inc.) had imported the present products into Japan and sold them to the defendant-appellee 2 (Jap Auto Products, Inc.) at least until August 1992, and the latter had sold them to the public at least until the same month. There was still the possibility that they would import and sell the present products in the future. So the appellant sued appellee 1 and appellee 2 to seek an injunction restraining the import and sale of the present products, as well as damages.

The Tokyo District Court granted the appellant's claim. Then appellee 1 and appellee 2 appealed. The Tokyo High Court ruled as follows. The appellant produced and sold the present products under the corresponding German patent in Germany. It is clear that the appellant
had an opportunity to be compensated for the disclosure of his invention. No facts are found to indicate that such opportunity was legally restricted at the time of distribution, so the present patent in the present products was exhausted by the fact of their lawful distribution in Germany. Then the appellant appealed.

Held: ‘The appeal is dismissed. The cost of litigation shall be borne by the appellant.

On the grounds stated below:

‘1. Article 4.2 in the Paris Convention’ for the Protection of Industrial Property provides as follows: (1) Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not. (2) The foregoing provision is to be understood in an unrestricted sense, in particular, in the sense that patents applied for during the period of priority are independent both as regards the grounds for nullity and forfeiture, and as regards their normal duration. These provisions deny the interdependence of patents and provide that each country's patent is independent as regards its eligibility of protection, transfer, nullity and forfeiture. Namely they provide that the existence of a patent itself is not affected by the nullity, extinction, duration, etc. of any foreign patent. It should be said that the question whether the exercise of a patent by a patent holder is allowed in a certain situation is outside the scope of these provisions.

In addition, the Principle of Territoriality as regards patents means that the existence, transfer, effect, etc. of each country’s patent are governed only by that country’s law, and the patent is effective only in the territory of that country.

When a patent holder exercises his patent-right in Japan with respect to a Japanese patent, how to appreciate the circumstances where the products which are objects of that right were assigned abroad by patent holders, etc. is a matter of interpretation of the Japanese Patent Act. Such a question has nothing to do with the Paris Convention or the Principle of Territoriality, so it is clear that whatever interpretation you may adopt on this point, it does not breach Article 4.2 of the Paris Convention or the Principle of Territoriality.

‘2. A patent holder has an exclusive right to exploit a patented invention (cf. Article 68 of the Patent Act), and as to product inventions, the acts of use, assignment, and lending of patented articles mean exploitation of patented inventions (cf. Article 2 (3) 1 of the Patent Act). Therefore, when a person who acquired the patented articles from the patent holder or the licensee uses them himself or resells
them to a third party through his occupation, and when the third party who acquired the patented articles from the person stated above, in his occupation, uses, resells, or lends them to another person, those acts apparently come under exploitation of the patented invention and seem to infringe the patent. However, when a patent holder or a licensee assigns patented articles in Japan, it should be said that the patent is exhausted as to those articles for the reason that its purpose is achieved, and that the effect of the patent no longer extends to the acts of use, assignment, and lending of those patented articles.

'(2) ...if the license by a patent holder is necessary whenever the patented articles are assigned, smooth circulation of those articles will be prevented and the interests of the patent holder himself will be harmed....'

'(3) A patent holder can receive a royalty for assignment, including the cost for disclosure of his patented invention, when he assigns the patented articles, so it can be said that the opportunity to be compensated for disclosure of the patented invention is guaranteed and there is no need to grant a patent holder the right to obtain double benefits in the course of distribution of the patented articles assigned by a patent holder or a licensee.'

'3. However, when a Japanese patent holder has assigned patented articles abroad, we cannot argue in the same way as above. Because it cannot always be said that the patent holder has a patent in the same invention in the country where he assigned the patented articles, and even if he had a corresponding patent, it is not appropriate to say that he obtained double benefits in the light of the fact that the Japanese patent is different from the corresponding patent in the country of assignment.'

'4. Let us consider the adjustment between the circulation of articles in international commerce and the right of a patent holder. Considering the current situation under which international economic commerce is developing in tremendously vast areas and at high levels, the free circulation of goods including imports of articles should be maximally respected even when a Japanese dealer imports articles which were sold abroad and puts them into circulation in the Japanese market. Dealings in foreign commerce are made in the general expectation that the assignor transfers all rights to the assignee with respect to the subject of the transaction and the assignee acquires all the rights that the assignor had. Considering the state of international commerce in modern society as described above, even in the case of an assignment by a patent holder of patented articles abroad, it is naturally expected that an assignee or a third party who purchases those articles from the assignee imports them by occupation and uses or resells them by occupation in Japan.

From the foregoing analysis, it is proper to conclude that when a Japanese patent holder or a person who can be regarded as such assigns the patented articles abroad, the patent holder may not exercise his right in Japan as to those articles.
against the following persons: the assignee, except when the patent holder agrees with the assignee to exclude Japan from the territories for sale or use as to those articles; a third party who acquires the patented articles from the assignee and further assignees, except when the patent holder makes the above-mentioned agreement with the first assignee and clearly indicates such on the patented articles.

First, ...when the patent holder sells the patented articles abroad without any reservation, it should be interpreted that the patent holder by implication vests the dominant right to those articles in the assignee and further assignees without any limitation derived from the patent-right in Japan. Second, ...the patent holder may reserve the right to exercise its patent right in Japan when it assigns the patented articles abroad. When the patent holder ...clearly indicates the above-mentioned agreement with the assignee on the products, further assignees ...are able to recognize that the products are subject to such restrictions and to decide by free will whether or not they should purchase the products subject to the restrictions. Third, even when the patented articles are assigned abroad by a subsidiary, affiliated or like entity, who may be identified with the patent holder, it should be interpreted in the same way as the case of an assignment by the patent holder himself. Fourth, ...the assignee's reliance on the free circulation should be protected regardless of whether a patent holder has a corresponding patent or not in the country where the patented articles are initially sold.

'S. In the case before us, ...the appellant himself, as the holder of the present patent, sold the whole products in question in the Federal Republic of Germany. Since the appellant has not alleged or proved in this case that it made an agreement with the assignee to exclude Japan from the territories for sale or use and that it indicated as such on the products in question, the appellant may not claim an injunction or damages regarding the products in question on the basis of the present patent.'

Justice Masao Ohno (presiding)
Justice Itsuo Ōno
Justice Hideo Chikusa
Justice Yukinobu Ozaki
Justice Shigeru Yamaguchi
Exhibit 13.1
The CONVERSE Trademark Infringement Case

Tokyo District Court Decision  23 June 2009
Intellectual Property High Court Decision  27 April 2010

(Facts and issues involved)

A brief summary of the case is as follows.

Converse, Ltd was a U.S. company engaged in manufacturing and sale of sport goods such as shirts and shoes and owned a trademark "CONVERSE". This trademark was well-known not only in U.S. but also all over the world including Japan. In 2001, Converse Ltd. was declared bankrupt and its assents were taken over by a new company called New Convers, Ltd. (hereafter referred to as “New Converse”).

A Japanese trading company, C. Itoh was assigned the trademark CONVERSE in Japan. C. Itoh licensed it to two of its subsidiaries. Under the Japanese trademark law, a trademark can be transferred without transfer of business with it. In Japan, at the time of this law suit, it was only less than 10 years since the trademark CONVERSE was transferred to C. Itoh and this trademark was not associated with C. Itoh and its subsidiaries among the Japanese consumers. The majority of the Japanese population associated the trademark “CONVERSE” with either defunct Converse, Ltd. or New Converse, Ltd. but not with C. Itoh and its group.

A Japanese company, Loyal, Ltd., imported into Japan shoes manufactured by New Converse in U.S. with the trademark CONVERSE and sold them in the Japanese market. C. Itoh and its subsidiaries brought suits against Loyal, Ltd. in the Tokyo District Court and claimed that Loyal, Ltd. infringed the trademark of C. Itoh and its subsidiaries because the trademark CONVERSE has been registered in Japan by C. Itoh. C. Itoh and its subsidiaries sought an injunction to stop Loyal, Ltd. from selling products bearing the trademark CONVERSE in the Japanese market and also a damage award caused by imports of CONVERSE goods into the Japanese market by Loyal, Ltd.

Loyal, Ltd. argued that a parallel importation of genuine trademarked goods is regarded as not infringing a domestic trademark under the Parker and Fred Perry doctrines and Loyal, Ltd. is entitled to import goods bearing the trademark CONVERSE.
Loyal, Ltd. further claimed that the conduct of C. Itoh and its subsidiaries is an illegal interference of business of Loyal, Ltd. and constituted an infringement of the Antimonopoly Law.

(Decisions)

The Tokyo District Court and Intellectual Property High Court held that the parallel importation of CONVERSE goods by Loyal, Ltd. constitutes an infringement of the Japanese trademark law and C. Itoh and its subsidiaries are entitled to an injunctive relief and damage award. The decisions are summarized below.

Parallel importation of genuine trademarked goods is held not to infringe a domestic trademark if the following conditions are satisfied: (a) the trademark in question was duly affixed in a foreign country by the trademark owner or its licensee; (b) The trademark owner in the foreign country and the trademark owner in Japan are either the same person or are economically or legally a single entity; and (c) there is no substantial difference in quality of goods in question because the domestic trademark owner has control over the quality. The functions of a trademark are to identify the origin of goods and to guarantee the quality of goods and, as long as the above conditions are satisfied, a parallel importation of genuine trademarked goods does not cause harm to those functions, the interest of consumers is protected and business reputation of users of such a trademark is preserved.

There is no mutual stock-ownership and interlocking directorate between C. Itoh (and its subsidiaries) and New Converse, Ltd. Nor is there any indication that those two companies are in substance combined together. Therefore, C. Itoh and New Converse are not the same person nor do they constitute a single economic entity. There is no evidence to show that C. Itoh can exercise quality control over shoes manufactured by New Converse.

Loyal, Ltd. argues that the trademark CONVERSE is a world famous trademark and is widely associated with products of Converse, Ltd. or New Converse. Since C. Itoh and its subsidiaries have not established a reputation with respect to this trademark in Japan, a parallel importation of products bearing the trademark CONVERSE does not constitute an infringement of this trademark in Japan. The courts reply that the identification of the origin of goods simply means that products bearing the same trademark come from the same origin and, in this case, the origin indicated by the trademark should be regarded as C. Itoh which owns the trademark in Japan. As mentioned before, there is no relationship between C. Itoh and Converse,
Ltd. or New Converse, Ltd. in terms of stock-ownership, interlocking directorate or in any other way and, therefore, C. Itoh and New Converse cannot be a single economic entity. For this reason, to import products bearing the trademark CONVERSE without authorization of C. Itoh constitutes an infringement of the trademark owned by C. Itoh in Japan.

Even if, as argued by Loyal, Ltd., the trademark CONVERSE is a world famous trademark and the majority of consumers associate this trademark with New Converse, C. Itoh is entitled to protection under the Trademark Law in Japan as the owner of the trademark in Japan, because the use of trademark is not a requisite for registering the trademark (the registration principle) and the owner of a trademark which has registered it can claim infringement of it against a party which uses it without authorization.

(Legal issues to be discussed)

(a) Is this holding consistent with the rulings of the Parker and Fred Perry Cases?
(b) Under this ruling, are consumers protected?
(c) Should this decision be reversed? If reversed, what is the significance of trademark registration?
(d) If this decision is reversed and the parallel importation of products bearing the trademark CONVERSE is held not to infringe the trademark owned and registered by C. Itoh in Japan, does the conduct of C. Itoh and its subsidiaries to block the parallel importation constitute a violation of the Antimonopoly Law?
Supplemental Teaching Materials (2)

[Exhibit 13-2]
CASES AND ISSUES IN JAPANESE PRIVATE INTERNATIONAL LAW

THE APPLICABLE LAW IN PATENT INFRINGEMENT

Mari Nagata

Introduction

I. Key Case

II. Background

1. Territoriality Principle
2. The Law Applicable to Injunction of Patent Infringement Acts
3. The Law Applicable to a Damage Claim Arising Out of Patent Infringement

III. Analysis

1. Territoriality Principle
2. Applicable Law to Injunction Claim and Damage Claim Based Upon a Patent Right

Conclusion

Introduction

The issue of the law applicable to intellectual property rights has been extensively debated in Japan and worldwide. One particular case, Card Reader, is the first and only Supreme Court case to date that deals with the law applicable to patent infringement. Although this case has been widely criticized by legal scholars and practitioners, many lower courts now follow the Supreme Court's guidelines. At the time of the Supreme Court's decision on Card Reader, the applicable Japanese law on conflict of laws was the Act on the Application of Laws (hereinafter, "Horei"). Horei did not provide for the applicable law to intellectual property right. Although Horei was amended on 2008, the revised act, entitled the Act on General Rules for Application of Laws (hereinafter, "Tsusokuho"), also did not provide for the applicable law to intellectual property rights. Therefore, Card Reader retains its significance as a leading case.

1

Key Case

The facts of this case are as follows: X (Plaintiff, Intermediate Appellant, Final Appellant) held a United States patent for an invention entitled "FM signal demodulation equipment." X asserted that the products that Y (Defendant, Intermediate Appellee, Final Appellee) manufactured in Japan, exported to Y's United States subsidiary Z, and sold by Z in the United States, infringed X's United States patent, and that Y's acts of exporting the products actively induced Z's acts of direct infringement of X's patent. X filed this suit against Y in Japan. X demanded the following, pursuant to Article 271(b) of the United States Patent Law: (a) an injunction against Y's manufacture of the products in Japan for the purpose of export to the United States and such export; (b) the destruction of products in Y's possession in Japan, and (c) tortious and other damages. The court of first instance (Tokyo District Court, Judgment, April 22, 1999, H.J. (1691) 131 (2000)) and the lower court (Tokyo High Court, Judgment, January 27, 2000, H.J. (1711) 131 (2000)) dismissed X's claims. X then filed a final appeal.

The Supreme Court held as follows:

1. Regarding (a) and (b) above:

1) The said action for injunction and the said action for destruction of the infringing goods are actions based on a private individual's property rights, both parties in this case are Japanese and a Japanese corporation with a residential address or domicile in Japan, and the actions are concerned with acts occurring in Japan. However, the actions involve a conflict of laws in that these actions are actions by way of holding a right bestowed under the U.S. Patent Act, so that it is necessary to decide on the governing law.

The principle of territoriality in relation to patent rights means that a patent right registered with each country is to be governed by the laws of the relevant country with regard to issuance, transfer, validity and the like thereof and such patent right can come into force only within the territory...

* Associate Professor of Law, Osaka University, Japan.

1 In his article, Professor Kidana provides an overview of matters pertaining to private international law and intellectual property. It also includes an analysis of the key case. See, Shoichi Kidana, "Private International Law on Intellectual Property," Japanese Yearbook of International Law, Vol. 52 (2009), pp. 454-481.


3 It should be noted that the United States patent in this case was based on a product invented by X while he worked as a technical manager at non-party Company A. Y's manufacture of the products was due to Y's succession to Company A's business after Company A's bankruptcy. Y and X demanding transfer of X's patent in the United States to Y and final and conclusive judgment had been entered against Y (Tokyo High Court, Judgment, July 20, 1994, 26 Chiteki Saishu (2), 717 (1995)).
There is no treaty between Japan and the United States prescribing domestic recognition of the effect of the other country’s patents in each country, it would be contrary to the basic principles of patent law policy to order an injunction against acts in Japan and the destruction of articles in Japan as a result of the application of the United States Patent Law to active inducement of a United States patent infringement that took place in Japan, as in this case.

Therefore, “the proper interpretation” is to allow that demands (a) and (b) above under the United States Patent Law would be “contrary to Japan’s public policy prescribed in Article 35 of Horei.” In conclusion, we are able to uphold the decision of the lower court that dismissed the demands (a) and (b) above.

(2) Regarding (c) above:

The claim for damages on the grounds of infringement of patent rights is not an issue peculiar to patents, but part of civil relief from the infringement of property rights. Its legal nature is that of tort, and the governing law should be decided in accordance with Article 11(1) of Horei.

5.

With regard to the claim for damages in this case, “the place where the events causing the claims occurred” under Article 11(1) of Horei should be interpreted as the United States, where the acts directly infringing the United States patent occurred, and the resultant infringement of rights arose, and the governing law should be United States law. Indeed this is because, (i) we can say that if Y’s actions in Japan had been acts in the United States actively inducing the United States patent infringement in this case, the resultant infringement of rights would have arisen in the United States; and (ii) if we interpret the governing law to be that of the United States, so long as Y plans to have its subsidiary import and sell into the United States, this is also something that was not unforeseeable for Y.

6.

There is room to find Y liable for damages in accordance with the United States Patent Law. However, under Article 11(2) of Horei, liability must also be affirmed under Japanese law.

Adopting the territoriality principle, Japanese law has no provision allowing the effect of the patent law to extend to acts of active inducement outside its own territory, as Article 271(b) of the United States Patent Law does, and so long as there is no legislation or a treaty recognizing the same, we cannot conclude that the acts of active inducement of patent in-
fringement outside the territory of the country of registration, where the effect of the patent does not reach, were unlawful, and possessed of the elements necessary to establish a tort.

Therefore, in conclusion, we approve the decision of the lower court, which dismissed the demand in (c) above.4

II. Background

1. Territoriality Principle

(1) Court cases

As mentioned above, there is no specific provision regarding the law applicable to intellectual properties, including patent right, in Japan. However, with regard to patent right, the so-called "Territoriality Principle" has been admitted in academic writings and court cases. In BBS,3 which dealt with the issue of the admissibility of parallel import of patented products, the Supreme Court admitted the Territoriality Principle, based on Article 4-2 of the Paris Convention for the Protection of Industrial Property of March 20, 1883, as revised at Brussels on December 14, 1906, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967 (hereinafter, the Paris Convention). The Supreme Court, in its ruling on BBS stated that "[t]he territorial principle means that as far as a patent is concerned, emergence, transfer, effect etc. of the patents of each country are governed by their respective national laws, and the effect of patents is acknowledged only within the country," in obiter dictum. This finding by the Supreme Court has been followed by the Supreme Court in the key case.

(2) Doctrine

Although the Territoriality Principle is admitted in general in doctrine, the meaning, extent of application, and whether this principle is the principle of conflict of laws is debatable. No clear answer is apparent. Since exploration of the significance of the Territoriality Principle in general is beyond the scope of this case note, this paper will only refer to those arguments related to the law applicable to patent right.

In reference to the ground for admitting the Territoriality Principle in the field of patent right, there are several positions: (i) the opinion which sees the ground in Art. 4bis of the Paris Convention, which provides the principle of independence of patents; (ii) the opinion which is based in Art. 2 of the Paris Convention, which provides most favored nation treatment; (iii) the opinion which finds the ground in a tacit premise of Paris Convention; (iv) the opinion which is based on Art. 10 of Hovell (or Art. 13 of Tsuchioka), which provides lex rei sitae; and (v) the opinion which is reasoned from the principle of balancing interests.12

In any case, it is commonly understood that the Territoriality Principle is polysemous. We could not derive just one principle regulating substantive law from this term. We could also derive another kind of principle regulating conflict of laws. Moreover, consideration of this principle as a principle of conflict of laws causes discordance in the academy. Some legal scholars explain the Territoriality Principle as it was referred to in the key case by the Supreme Court; others explain it as a patent right which is to be governed by the laws of the country for which protection is sought (lex protectionis) with regard to issuance, transfer, validity, etc.13

The Doctrine diverges to the extent that a principle regulating substantive law plays a role, and to the extent that a principle regulating choice of law extends.14 One extreme position only admits the Territoriality Principle in the context of rules of substantive laws. The other extreme position admits this principle only in the context of rules of choice of law. Some scholars take the middle position between

4 Judge Machida and Judge Iijima have expressed concurring opinions on this judgment. Judge Fujii has expressed a dissenting opinion.
9 Kozumi, supra note 5, p. 8.
12 Professor Yokomizo examined the historical ground for the Territoriality Principle and concluded that there is no theoretical reasoning for it. See, Dai Yokomizo, "Chiteki Zaisanki ni okeru Zokuti Syugi no Genkou teisyo yoku no Jo no Ichizoku wo Tsuun ni n"[Territoriality Principle in the Field of Intellectual Property], Chiteki Zaisanki Hoisetsu hogo Kenkyu [Intellectual Property Law and Policy Journal], No. 2 (2004), p. 23.
14 For details, see, Yokomizo, supra note 12, pp. 17-42.
these two extremes. The prevailing opinion takes the middle way when it addresses the issue of the effect of patent right, and then adapts the substantive Territoriality Principle to it. In the meantime, when it addresses the issue of the applicable law to patent right, the Territoriality Principle as choice of law rule emerges. For this prevailing opinion, *lex protectionis* is an incarnation of the Territoriality Principle as a choice of law rule.  

2. The Law Applicable to Injunction of Patent Infringement Acts  

(1) Court cases  

The key case is the only case rendered by the Supreme Court of Japan concerning the applicable law to injunction of patent infringement. Even in lower court cases, no cases that deal with this issue appear prior to the key case.  

(2) Doctrine  

Some legal scholars deny the necessity to decide an applicable law to patent right. Two kinds of reasoning support this view. On one hand, some assert that an injunction claim based upon Patent Infringement is qualified as a matter of public law; patent right is created through registration in one country and has close relations with an industrial policy of that country. On the other hand, some scholars take the same ground as the Tokyo High Court in its judgment in the key case. The High Court ruled that the Patent Act of one country could not have a binding effect on another country's territory. Therefore, a foreign Patent Act cannot be invoked before a Japanese court.  

A contrasting opinion admits the necessity of deciding a law applicable to this kind of injunction claim since an injunction claim is based upon the property of a private person, even if this property is a patent right. However, it can be asserted that qualification of an injunction claim and a damage claim of a patent infringement act should be unified. Injunction and damage claims are of the same character as relief from patent infringement. Therefore, these claims should be qualified in the same manner.  

Although the latter position has a good deal of academic support, scholars are divided on the issue of qualification of these claims. Some scholars would qualify an injunction and/or damage claim based upon the patent as the effect of patent. However, the prevailing opinion asserts that these claims are of tort, because they are the relief from an unlawful act, as provided in Art. 17 of *Tsuikokubo*. Among those who hold this opinion, disagreement continues on how to decide the place of tort. Some insist that the place of tort should be interpreted as being the place the patent right in question was registered because the effect of patent right is limited in the country of registration and no one could infringe this patent right outside this country. Others insist that the place of tort is the place of the act of infringement since the Patent Act regulates production and use of patent to re-

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9 Chuen, supra note 13, p. 40.  
10 Even after this case, only one other court case has been rendered concerning the applicable law to injunction claim based upon patent infringement. See, Coral Sand Case, Tokyo District Court, Judgment, October 16, 2003, H.J. (1874) 3, H.T. (1135) 109.  
12 Dogauchi, supra note 11, p. 279. In addition, it points out that penal provision, which aim at Patent Infringement, are included in the Patent Act as well.  
14 Yokomizo, supra note 12, p. 173.  
15 See, e.g., Tomoko Takabe, Case Note, Hiroshi [Lawyer's Times], Vol. 56, No. 9 (2004), that qualification of an injunction claim and a damage claim of a patent infringement act should be unified. Injunction and damage claims are of the same character as relief from patent infringement. Therefore, these claims should be qualified in the same manner.  
16 Although the latter position has a good deal of academic support, scholars are divided on the issue of qualification of these claims. Some scholars would qualify an injunction and/or damage claim based upon the patent as the effect of patent. However, the prevailing opinion asserts that these claims are of tort, because they are the relief from an unlawful act, as provided in Art. 17 of *Tsuikokubo*. Among those who hold this opinion, disagreement continues on how to decide the place of tort. Some insist that the place of tort should be interpreted as being the place the patent right in question was registered because the effect of patent right is limited in the country of registration and no one could infringe this patent right outside this country. Others insist that the place of tort is the place of the act of infringement since the Patent Act regulates production and use of patent to re-
alize the industrial policy of the state. Therefore, that act is the key factor, not the registration.\(^9\)

3. The Law Applicable to a Damage Claim Arising Out of Patent Infringement

(1) Court case

This case is the second of two cases that dealt with a damage claim arising out of foreign patent infringement in Japan. The first case to address this issue was *Manchurian Patent.*\(^{10}\) In *Manchurian Patent,* the claimant, a Japanese company, held a patent right registered in Manchuria. The company claimed that the defendant, a Japanese company, infringed its patent right through importation and distribution of products in Manchuria. They also claimed that these products were manufactured by the defendant in Japan on the basis of the claimant's Manchurian patent right. The Japanese company claimed that the defendant should pay for damage caused by its infringement of patent right. Tokyo District Court dismissed the claim on the ground that there is no room for admitting a damage claim that is based upon a foreign patent right. The Tokyo District Court stated that, based on application of the Territoriality Principle: (1) only a Japanese patent right is valid in Japan; and (2) the infringement of foreign patent right in a foreign country does not constitute a tort under Japanese law, because no claim under the foreign law may be made for damages or any other remedies (Art. 11(2) of Horei).\(^{11}\)

(2) Doctrine

Another opinion on this issue excludes the issue of conflict of laws.\(^{12}\) However, the prevailing opinion states that a decision on deciding applicable law is required. This prevailing opinion states that, although there are several views on qualification of damage claims, the most supported one is the view that qualifies the damage claim as tort, and considers the place of registration as a place of tort as already described in 2. (2).\(^{13}\)

\(^{9}\) *Ibid.*

\(^{10}\) Tokyo District Court, Judgment, June 12, 1953, 4 Kakyru Minahu (5) 847.

\(^{11}\) Some academics point out that Tokyo District Court's understanding of Art. 11(2) of Horei in *Manchurian Patent* is succeeded by the Supreme Court's judgment in the key case. See, Watanabe, *supra* note 22, p. 136.


\(^{13}\) See, *supra* note 26.

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III. Analysis

1. Territoriality Principle

As noted above, the Territoriality Principle is an ambiguous term. The ambiguity of this term is particularly visible when we view the results in the key case. Although the Tokyo High Court admitted the Territoriality Principle with respect to a patent right, it took a different position from the Supreme Court in BBS because it regarded this principle to be the same as in the field of public law. According to the Tokyo High Court:

[...] as to a patent right, the internationally admitted Territoriality Principle should be applied. Even if the issue is concerning about the act infringing foreign patent in Japan, it is not possible to claim injunction nor damage based upon foreign patent in front of Japanese court unless there is a special provision in the law or convention. Therefore, there is no need to consider the matter regarding applicable law to the injunction or damage claim based upon foreign patent.

However, the Supreme Court did not accept this understanding of the Territoriality Principle. Instead, it followed the precedent decision rendered in BBS. On that basis, the Supreme Court decided that the Territoriality Principle did not exclude the necessity to decide on the applicable law. The definition of the Territoriality Principle made by the Supreme Court in the key case could be understood as follows: (1) the part where it decides that a "patent right can come into force only within the territory of the relevant country" is considered to be a principle concerning substantive law; and (2) the part where it decides that "a patent right registered with each country is to be governed by the laws of the relevant country with regard to issuance, transfer, validity and the like thereof" is considered to be a principle concerning the conflict of laws.\(^{14}\) The Supreme Court itself uses this term in various ways.

When this term is understood to mean that the validity of patent rights is limited within the country of registration, no objections are raised. However, from my point of view, at least in relation to an injunction claim and a damage claim arisen out of patent right, there is no need to go any deeper into the matter. As noted below, these claims are qualified as a sort of remedy for an unlawful act, and the Territoriality Principle is not a conflict of laws norm in this regard.\(^{15}\)

\(^{14}\) Takabe, *supra* note 21, p. 226.

\(^{15}\) However, it is important to note that it is possible to admit that the Territoriality Principle plays a role as a conflict of laws norm regarding the effect or validity of patent right.
Moreover, the ambiguity of this term could hinder the true understanding of the choice of law issue, because the Supreme Court erred in its judgment and refused to apply the US Patent Act on the basis of *ordre public*. As noted below, this part of the key case judgment has been widely criticized by legal scholars. It could be shown that the Supreme Court’s train of thought took the following path: The effect of patent right should be regulated by the country of its registration because of the Territoriality Principle. In the meantime, at least in Japan, the Territory Principle restricted the effect of the Patent Act (not patent right) within the country. Therefore, it is against Japanese *ordre public* to apply the US Patent Act and uphold an injunction claim in Japan. It is clear that the first view of the Territoriality Principle is a choice of law rule and the second one is substantive. The Supreme Court mixed two kinds of principles. Consequently, it derived an incorrect result from a hybrid principle.

Limiting the effect of a right within one country is not equivalent to limiting the effect of law concerning the right within that country. Even if we must admit the fact that the Territoriality Principle contains a rule restricting the effect of the Patent Act within one country, this fact does not imply that the application of this law in a foreign country is prohibited. Furthermore, with reference to the key case, the application of this law in a foreign country does not constitute admission of any extraterritorial application. Thus, in the key case, the Supreme Court should not have used *ordre public* based upon the Territoriality Principle in order to deny the application of the US Patent Act.

2. Applicable Law to Injunction Claim and Damage Claim Based Upon a Patent Right

In its judgment in the previous instance of the key case, the Tokyo High Court divided these two issues (as did the Supreme Court). It denied the right to decide the governing law on an injunction of patent infringement. It did so because an injunction claim based upon foreign patent rights is not admissible in a Japanese court without convention or law providing otherwise. The Tokyo High Court based these decisions on the Territoriality Principle.

However, although the Supreme Court took the same position as Tokyo High Court regarding the qualification of these two claims, it decided that: (1) it is necessary to decide which law should be applied; (2) the nature of the claim of injunction is qualified as the effect of the patent right; (3) there is no conflict of laws rule providing the effect of a patent right in Japanese legislation nor in convention; and (4) the place which has the closest connection with a patent right is the place of registration of the patent right. According to the Supreme Court, there are three reasons for this conclusion: (1) a patent right could be admitted as a right only after its registration; (2) the Territoriality Principle is admitted by many countries; and, with this principle, the effect of a patent right is limited within the territory of the country of registration; and (3) based on the above two reasons, the country where a protection of patent right is sought is the country of registration.

With regard to the claim on injunction, it is notable that, although Supreme Court admitted the possibility of an injunction claim based upon the US Patent Act, it finally denied this claim because it is contrary to Japanese *ordre public* to admit this injunction based upon Art. 33 of *Hoei* (Art. 42 of *Tsuchikubo*). According to the Supreme Court, admission of this kind of claim is equivalent to acceptance of the extraterritorial application of the US Patent Act, and it is against the Territoriality Principle, which is a fundamental policy of the Japanese Patent Act.

The court, throughout three instances in this key case, kept its stance to qualify a damage claim arising out of patent infringement as a tort. However, the Supreme Court took a different position from the lower courts by localizing the place of tort to the USA. Although the Supreme Court paid significant attention to the fact that infringement of patent right occurred in the USA, the lower courts paid a significant attention to the fact that the manufacture and distribution of products took place in Japan.

Scholars with varying viewpoints have sharply criticized the section of the Doctrine that addresses the applicable law to injunction claim of the key case judgment.

One critic finds fault with the Supreme Court decision on the ground that it examined the applicable law to Patent Infringement because the critic feels that there is no need for the choice of law issues in injunction claims that arise out of patent rights. From these opinions, the Supreme Court’s decision should be interpreted as Supreme Court characterized regulations concerning an injunction claim as mandatory rules and considered the possibility of the application of foreign mandatory rules.

Another criticism offered is an objection to the Supreme Court’s qualification of

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58 Watanabe, supra note 22, p. 157.

59 Art. 42 of *Tsuchikubo* provides as follows: "In cases where a foreign law shall govern, if the application of these provisions of the foreign law is against public policy, those provisions shall not apply." (Art. 33 of *Hoei* was not revised.)

60 Art. 11(1) of *Hoei* provided as follows: "The formation and effect of claims arising from a tort, a *negotium gestit* or unjust enrichment shall be governed by the law of the place where the harmful event occurred." Judge Machida took the same position as the lower courts in his concurring opinion.

61 Doguchi, supra note 17, p. 280.

62 Dai Yokomizo, *Case Note, Hogaku Kyokai Zasshi* [Journal of the Jurisprudence Association], Vol. 120 (2003), p. 2310, posts that only this interpretation could explain why the Supreme Court denied to apply US patent law on the ground of *ordre public*. 
an injunction claim based upon a patent right. This criticism is offered by scholars who admit the necessity of deciding a law applicable to this kind of injunction claim. However, as noted above, they assert that qualification of injunction and damage claims of a patent infringement act should be unified. In the opinion, the key case is criticized because it qualifies injunction and damage claims differently.

Furthermore, almost all scholars criticized the Supreme Court's interpretation of _ordre public_ and its denial of injunction on that basis because, according to the understanding of conflict of laws rule today, the conflict of laws norm concerning territorial scope is not included in the application of a foreign law. This interpretation rules out the possibility of consideration of the spatial territorial scope of a foreign law as the object of public policy.

As to the applicable law to a damage claim based upon a patent right, the key case is supported by prevailing opinion. However the most contentious point is that the Supreme Court denied this damage claim based upon Art. 112 of _Horei_ (Art. 221 of _Tsukukuboo_), which provides “double actionability.” Many scholars criticized this decision, because this article demands to consider whether the act at hand should be regarded as tort when the same kind of right is violated. This provision aims at the unlawfulness of the act itself. Therefore, the territorial scope of the law is outside its scope. Because of this, most scholars concluded that this

damage claim was permissible, at least with regard to Art. 22 of _Tsukukuboo._

I do not agree with the opinion that qualifies an injunction claim and/or damage claim as a matter of public law and excludes the choice of law issue. First, if granting a patent right by a country is characterized as a public law matter, it does not hold that remedies of this right should be public law matters as well. Second, evaluation of the act of possible infringement of a foreign patent right as tort by the Japanese Court cannot be inconsistent with the fact that the effect of foreign patent right is confined to the country of registration. Theoretically, that patent right could not be infringed upon in other countries. In this regard, the Supreme Court's decision was affirmed.

However, the qualification made by the Supreme Court is untenable. Injunction claims and damage claims should be qualified in concert as tort. When a person seeks remedy from an unlawful act, there is no difference whether his or her claim is based upon a patent or other right, such as a personal right, or whether he or she pursues an injunction or compensation. It should not matter which legal instrument provides which remedy.

When an injunction claim and damage claim are qualified as tort, the problem of which law should be applied comes to the foreground. According to Art. 17 of _Tsukukuboo_, “the law of the place where the result of the wrongful act occurred” should be the first law applied. If the letter of the law is to be obeyed in the key case, the place of the result of the wrongful act could not be a country other than USA because the result of patent infringement only happens in the country where the patent right belongs. In other words, the place of the result of wrongful act is the country where the patent is registered. This holds because the Territoriality Principle confines the patent right's effect within the country of registration. Therefore, in the key case, the applicable law to injunction and damage claims should be the law of the USA, as the country of registration. However, it is important to consider the fact that the defendant holds a Japanese patent right to the same invention. There is still room to deny the injunction claim on the basis of _ordre public_, because the defendant's manufacture and distribution of the products could be presented as legitimate “working” of an invention.

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* Kidani, supra note 22, p. 112; Watanabe, supra note 22, p. 157.

* It could be said that the reason that the Supreme Court qualified an injunction claim and damage claim separately may be based upon the fact that an injunction claim arises from Art. 102(1) of the Patent Act and a damage claim is founded upon Art. 719 of the Civil Code in Japan. Scholars who favor unified qualification have criticized this way of thinking as being greatly influenced by qualification in domestic substantive law. This is not compatible with prevailing opinion concerning qualification in private international law, which requires that qualification in conflict of laws should be done independently and should not be influenced by national substantive law. See, e.g., Yoko Nishitani, Case Note, supra note 26, pp. 74-75; Kazunari Ishiguro, Case Note, Tokyo Horei Hensan [Collection of Selected Cases on Patent Right] (2004), p. 215.

* Yokomizo, Case Note, supra note 39, pp. 2308-2309.

* See, e.g., Chan, supra note 13, pp. 49-50; Dogouchi, supra note 17, p. 280.

* Art. 221 of _Tsukukuboo_ provides as follows:

> “In the case where a tort shall be governed by a foreign law, if facts to which the foreign law should be applied do not constitute a tort under Japanese law, no claim under the foreign law may be made for damages or any other remedies.”

> This provision is the same in Art. 112(2) of _Horei_.

* Kidani, supra note 22, p. 122. Judge Fujita took the same position as this opinion in his dissenting opinion.

* Yokomizo, supra note 39, p. 2315.

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* Watanabe, supra note 22, p. 157.

* Ibid.

* Nishitani, supra note 26 (Case Note), p. 75.

* Watanabe, supra note 22, p. 157; Nishitani, supra note 26 (Case Note), p. 75.

* Nishitani, ibid.

* Professor Yokomizo criticizes this view by indicating that this rule is not totally independent from the plaintiff's claim, and that if there are plural countries whose registered patent is at issue, how to choose one country to determine the applicable law. See, Dai Yokomizo, “Intellectual Property and Conflict of Laws: Between State Policies and Private
Finally, when injunction and damage claims are qualified based upon a patent infringement, a question arises: "Should Article 21 of Tsukuba be applied to these claims?" In my point of view, it is permissible for the parties to choose an applicable law to the damage and/or injunction claim based upon the patent infringement. However, there is a possibility that both parties could choose the law of the country other than the registered country (in the key case, Japan) or other than a country where the infringing acts occur (in the key case, Japan). If both parties choose the law of the other country, then there would be no possibility of remedy. I think that both parties enjoy party autonomy at their own risk. If they exercise their right to choose an applicable law in a way that prevents a remedy, then they should accept the outcome of their choice.

Conclusion

The Supreme Court's decision in Card Reader is exceedingly controversial, and it has been widely criticized. Activation of the Territoriality Principal has the potential to trigger disputes. After the Supreme Court handed down its decision in this case, many scholars tried to clarify the ambiguity of the Territoriality Principle. Although the polysemy of the Territoriality Principle has been noted in cases prior to Card Reader, the key case thrusts the materiality of the Territoriality Principle directly in our view. More time is needed to extract the true meaning of the Territoriality Principle and its real function with regard to the conflict of laws.

Introduction

This paper addresses whether an improper application of foreign laws constitutes a ground for a final appeal to the Supreme Court. Here, "improper application of foreign laws" means that judges have misinterpreted foreign laws and wrongly applied them. In Japan, the Supreme Court may accept a case in which the

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3 Professor Nishitani expressly excludes this question by not characterizing these claims as tort. See, Nishitani, supra note 26 (Commentary), p. 455.

4 In Japan, a high court can also be the court of third and final instance when a summary court (as the court of first instance) and a district court (as the court of second instance) have made judgments. The requirements for the final appeal to a high court are different from the requirements for the final appeal to the Supreme Court (See, Article 214(3) of Minji Sosho Ho [Code of Civil Procedure] (Act No. 109 of June 26, 1996) hereinafter referred to as the CCP 1996). In this paper, I will analyze mainly the possibility of a final appeal to the Supreme Court, which was dealt with in the Key Case. Regarding the possibility of a final appeal to a high court, see III-104.

5 In Japan, the doctrine prevails that judges are bound to ascertain the contents of foreign laws under their authority-at least theoretically-regardless of the proof offered by parties (cf. Ryooich Yamada, Kokusai-shibou [Private International Law] (5 ed., 2003), p. 120). Hence, it is said that parties cannot be responsible for the improper application of foreign laws.

6 The concept of "improper application of foreign laws" may include an improper application of the private international law of the forum country as a result of which judges wrongly apply the laws of a country that should not be applied according to private international law. For example, see J. E. de Becker, International Private Law in Japan.