

Entities Entitled to Claim an Injunction and Damages for an Act of Imitating Configuration of Goods, under the Unfair Competition Prevention Law *

—Tokyo District Court, Case No. Hei 10 (1998) (“wa”) 13395, decided January 28, 1999—
Analysis of the case and a ruling dismissing an appeal from the district court’s decision.

Fair Trade Committee

(Abstract)

In 1993, the Unfair Competition Prevention Law in Japan was revised extensively. The 1993 revision newly added acts of imitating product configuration as unfair competition acts. This paper analyzes in details a ruling of the Tokyo District Court that, for the first time, clearly stated which entities are able to claim injunctions and damages for acts of imitating the configuration of goods. This paper also considers, on the basis of this ruling and from the standpoint of actual enterprise affairs, legal aspects on the scope of claimants for civil relief such as an injunction and damages and practical implications on business.

In this case, the plaintiff (X) is an exclusive importer and seller within Japan of a caddy bag (product X) developed by a U.S. golf goods manufacturer. Stating that the configuration of a caddy bag (product Y) sold by Y (the defendant) was an imitation of the configuration of product X, the plaintiff alleged that such imitation came under Article 2, Paragraph 1, No. 3 setting forth that such is an act of imitating goods configuration. The plaintiff claimed an injunction to stop sales by Y of product Y having the configuration in question and damages.

The Tokyo District Court dismissed the claim, based on the finding that claimants eligible for an injunction and damages under the law were limited to entities which had actually developed, merchandized, and placed on the market themselves the good which was the object of imitation. On appeal, the appeal court rejected the appeal for almost the same reasons as the district court. The court’s ruling follows the prevailing interpretation of the law with regard to the claimant of relief under the law.

When one is to import and sell a product of an overseas manufacturer in Japan, it is necessary to, at the very least, impose duty on the licensor (or exporter) in the agreement, an arrangement to exclude the imitations of product designs.

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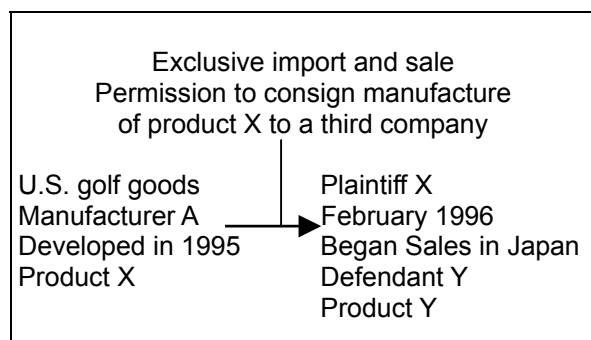
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1. Introduction of the Case

1.1 Overview of the Case

The plaintiff X concluded an agreement with U.S. Company A which granted to X an exclusive right, within Japan, to import, sell, and consign manufacture to a third party a so-called “super-wrap” type caddy bag (product X) which U.S. Company A had developed and merchandized around 1995. X began sales of such caddy bags within Japan from around February 1996. Meanwhile, defendant Y had purchased and was selling within Japan a caddy bag (product Y), the manufacture of which Company B had consigned to a Korean manufacturer. Company B is not involved in the present lawsuit. In this case, stating that the configuration of product Y sold by Y was an imitation of the configuration of product X, and that such sale of product Y by Y came under Article 2, Paragraph 1, No. 3 (as an act of imitating goods configuration) of the Unfair Competition Prevention Law, the plaintiff claimed an injunction to stop sales of product Y by the defendant, and damages.

[Diagram]



1.2 Main Issue

In the present case, the main issue was whether plaintiff as the exclusive importer and seller within Japan of product X whose configuration had been imitated, was a subject who had the right to claim an injunction and damages under Article 2, Paragraph 1, No. 3 of the Unfair Competition Prevention Law.

There were other issues, such as whether or not the agreement of the U.S. Company A or that of the plaintiff X had been given for the manufacture and sale of the defendant’s product,

and also in regards to a possible damages amount of plaintiff X. However, no ruling was made in regards to these points.

1.3 Court’s Decision on the Issue

With regard to the issue of this case, the Court first stated that a person having a right to claim an injunction under Article 3, Paragraph 1 of the Law, and a right to claim damages under Article 4 of the Law, is the person who, due to the unfair competitive act of a configuration imitation, has suffered a violation against his/her business profits, or person who has threats of being suffered with such violation. Finding that the claimants are persons having “business profits” which can be protected against unfair competitive act under Article 2, Paragraph 1, No. 3 of the Law, the court went on to state that the purport of protection under the Law is appropriately interpreted as protecting business profits to be gained by the first developer of goods configuration by regulating acts of so-called a “free ride” on the fruits of development, imitating the configuration of a good for which another party had invested funds and labor, and developed and merchandized, despite the fact that there are available alternative choices. Therefore, the Court judged that as considered from the above-stated gist, in regards to the unfair competitive acts stipulated under that provision, persons who are entitled to claim an injunction and/or damages are limited to those persons who have themselves developed, merchandized, and placed on the market the good which is considered to be the object of a configuration imitation.

In regards to that point, product X was developed, merchandized, and placed on the market within the United States by company A; X participated in its distribution merely as an importer, or, as a licensee, it did nothing more than receive permission to manufacture products of the same type. Since it thus cannot be said that X itself had developed and merchandized the configuration of product X, the court judged that X therefore was not an entity entitled to claim an injunction and damages based on Article 2, Paragraph 1, No. 3 of the Unfair Competition Prevention Law. As for the investment of funds and labor, and for the assumption of risks as alleged by X, these were not concerned with the development and mer-

chandizing of the configuration of product X; rather, these should be considered as being concerned with the pioneering and expansion of sales routes by X incurred for the selling, by X itself, of product X within Japan. And since Article 2, Paragraph 1, No. 3 of the Law is a stipulation whose gist is to protect those business profits involved with the development and merchandizing of the product configuration, the court ruled that X cannot be said to possess any such above-described profits; thus the Court dismissed the demands of the plaintiff.

2. Considerations regarding Claimants

2.1 Parties Eligible for Civil Relief under the Unfair Competition Prevention Law

The Unfair Competition Prevention Law sets forth that civil relief is available for acts and conducts categorized in the 14 types. They are as follows.

A right to claim an injunction (Article 3): Persons who have suffered a violation against their business profits, or persons who have a threat of such violation.

A right to claim damages (Article 4): Persons who have suffered a violation against their business profits. (Proof by the suffering party of willfulness or negligence on the part of the actor. Except for damages which arise from use of a trade secret after three years from the time that such holder becomes aware of such facts and of the person committing such act during which the person did not exercise its rights, or after ten years have elapsed from the time of commencement of such act in absence of action for remedy.)

A right to request measures for recovery of reputation (Article 7): Persons who have suffered from damage to their business reputation (Proof of willfulness or negligence on the part of the actor by suffering party is required).

A right to request an additional marking of a person's goods or services with a suitable indication so as to prevent confusion (Article 11, Paragraph 2): Persons who have suffered a violation against their business profits, or persons who have threats of such violation.

It should be noted that, persons entitled to claim relief under the Unfair Competition Prevention Law in Japan are business entities. Groups of entities in the same industry, customers, consumers have no rights to make such claims. As for the rights and abilities of foreigners, they are given equal rights to request civil relief (the 1993 revision deleted Article 3 from the former law).

2.2 Spirit of the New Provision for Preventing Acts of Imitating Goods Configuration

The regulations against the imitation of configurations were newly provided in the 1993 revision of the law. Since this revision became effective in May, 1994 and onward, the rate of usage has been increasing. This is partly because the case does not require the review of such issues as inventive step or novelty under the Patent Law, and because issues for review do not include such aspects as creative value or well-known extent, etc.

The background of the introduction of this provision is explained in a report issued by the Intellectual Property Policy-Making Group of the Industrial Structure Deliberative Council. It describes as follows on p. 15.

“Especially, as a result of the advances in copying and reproduction technologies, the shortening of product life-cycles, and the development of distribution frameworks, etc., there are cases occurring where it is extremely easy to imitate the fruits of the investment of funds and labor of another person. Here, on the one hand, while the imitator enjoys a major reduction of the costs and risks of merchandizing, the merits of the prior party's prior marketing are considerably reduced on the other hand. An extremely unfair competitive situation occurs between the imitator and the prior party, and there is a check on one's desire to personally develop products and pioneer markets. If a situation of this nature is left as is, this will inevitably lead to the destruction of the fair competitive business order. Upon consideration of this type of situation, the act of making a complete imitation (regardless of the registration or lack thereof of intellectual property rights,

and regardless also of that fact that alternative choices do exist), without adding any alterations whatsoever thereto, of providing to the market the fruits of the investment of the funds and labor of another person as if such were one's own product, and of thus going into competition with that other party (i.e., the act of an exact copy), must of necessity be categorized as constituting an unfair act."

In other words, it is considered that, under the Unfair Competition Prevention Law, a person who has suffered a violation against his/her business profits through an act of unfair competition which is an act of imitating product configuration is considered as being entitled to claim an injunction and damages. As discussed earlier, a "person who has suffered a violation against his/her business profits" is a person who has assumed a risk and has "made the determination to invest labor and expenses and other capital for merchandizing." (Yoshiyuki Tamura, *An Overview of the Unfair Competition Prevention Law*"); it is this person who becomes the entity which gains the right to make claims for relief. This decision can be said to have confirmed this conception.

2.3 Teaching in Court Cases and Academia regarding Claimants for Each Type of Unfair Competition Acts

In the present case, the plaintiff X imported and sold the products in question as an exclusive seller and importer within Japan. The plaintiff was granted a license to manufacture products of the same type, and he invested large amounts of money for publicity and advertising as well as an immense amount of labor in pioneering and expanding sales routes for the product. These facts would probably lead to finding that the plaintiff has suffered a direct violation against business profits by imitation products.

For its argument on this issue, plaintiff X cited the *Longchamp* design case (Osaka District Court ruling of 30 January 1981) and the *Football Team* case (Supreme Court's ruling of 29 May 1984), wherein a person who was an exclusive importer and seller of goods to which a well-known indication was attached, and a per-

son who had been granted an exclusive right to use a well-known indication, were recognized as persons having a right to claim an injunction. Here, since it was clear that, as a result of the unfair competition which was the sale of the imitation by the defendant, plaintiff had suffered a violation against its business profits, the plaintiff claimed that it thereby had the right to claim an injunction and damages.

There are many cases in which the courts allowed the claimants in broader sense for acts of causing confusion about a well-known indication and/or for acts of misappropriation of famous indications. In addition to the owner of such indication, an exclusive importer and seller business entity in this category was allowed when they contributed to the making famous of that design (as a trademark) domestically within Japan (the *Longchamp* case). Also admitted are: affiliated companies within a group (*Keiretsu*) company in the case where an indication is well-known as a group indication (the *Sekisui Kaihatsu* case, the Osaka District Court, 28 June 1971); entities in a franchiser/franchisee relationship (the *8-Ban Ramen* case, the *Sapporo Ramen Dosanko* case, the *Computerland Hokkaido* case, the *Hokka Hokka Bento* case); and a headquarters division which manages the merchandizing work, as well as entities to whom a license to perform merchandizing work has been granted (the *Football Team* case). Also, in regards to entities having the right to claim an injunction for an improper act involving trade secret, the following opinion exists (quoted from Yoshiyuki Tamura, *An Overview of the Unfair Competition Prevention Law*):

"It is because a 'licensee' has, by its very nature, invested expenses such as the payment of a compensation to the licensor, that it (the licensee) has put in place a secrets management system in order to protect the superior position it enjoys by its having gone out to acquire a trade secret. Thus, against a third party's act such as an attempt to acquire, using an unfair means, the information which is being managed as a trade secret by the licensee, it is interpreted that a licensee as a manager thereof is able to make claim for a redress means, such as an injunction, on the basis of Article 2, Paragraph 1, Nos. 4 through 9 of the Unfair Competition Prevention Law."

With respect to eligibility as a claimant

for the licensees, the Patent Law and other industrial property laws provide that an exclusive (a “*sen’yo*” in Japanese) licensee has a right to claim an injunction and damages on condition that he is recorded as an exclusive licensee on an official register. In the case of a sole license (exclusive license allowing the licensor to use the licensed right), there remain arguments among scholars about whether such licensee has an entitlement to a claimant. The majority seems, however, to support the interpretation that claim for damages is available. In the case of the Copyright Law, a right for likewise relief is not now admitted to a licensee. However, in the case of an exclusive license in certain situation, arguments could be raised that there is room to have such interpreted as a partial assignment of a copyright,” and that such will be a basis for interpretation that a right to claim is constituted “based on the *saikensha daiiken* (obligee subrogation right).”

In contrast, it is a general recognition that the Unfair Competition Prevention Law is not a rights-granting type of property laws, such as industrial property rights laws and copyright laws. It can be categorized as an extension of torts laws under the Civil Code. This will lead to a conclusion that under the law of non-right-granting nature, a right to claim relief cannot be transferred to a licensee as a result of the license.

2.4 Issues of Claimant Eligibility regarding Acts of Imitating Goods Configuration

There are no arguments about the idea that a person whose business profits are violated as a result of an act of imitating product configurations is the person who invested funds and labor, developed, and placed on the market the product that has been imitated. Nevertheless, if there is to be such a strict interpretation that the developer is deemed as being the only entity having the right to make the claims discussed herein, arguments will be successfully made as follows. Isn't this too harsh in some cases for the business entity (such as a sole importer, etc.) that handles or trades the good exclusively in the market? For example, let's assume that a business entity has been granted an exclusive license to sell and make new goods in Japan. The entity is assumed to have marketed first time in Japan and have invested certain amount

of money for the development of the Japanese market. The entity may be assumed in another situation that it has paid a royalty to the Developer of the licensed technology for the product design. Under these instances, arguments could be raised that such a business entity is a person who, as a result of the act of imitation, becomes a party unable to collect its investment, and also the party assuming the final risks. The regulation of acts of configuration imitation was provided to regulate acts of imitation by a third party, and to enable the party who invested to recover invested capital for the period of three (3) years following the first day of sale (after which period, protection for the good may be possible under a design right, etc.). Therefore, it may be worth considering that an exclusive seller business entity which has made capital investments in Japan and pioneered Japanese markets for the sale of new goods, should be given an entitlement as a claimant for an injunction and damages.

With regard to the right to damages claim under the Unfair Competition Prevention Law, there is an opinion for interpretation as follows. (See, Shoen Ono, *An Overview of the Unfair Competition Prevention Law*).

“For the persons who have been granted a license to use the shape of new goods or a trade secret, it should be interpreted that, vis-à-vis an unauthorized user who is an unrelated third party, so long as there exists an unfair competition between the two parties and there is a violation against its business profits a right to claim damages should be admitted to the licensee.”

3. Implications to Business Practice

This case was appealed to an appeal court. On appeal, the appeal court supported the original ruling, and dismissed the appeal based on substantially the same reasoning as given by the lower court. (Tokyo High Court, 1999 (“ne”) No. 1153, 24 June 1999) Apparently, this decision forces practitioners to consider which entity will have an eligibility as a claimant according to the purpose of protection for each type of unfair competition acts.

In view of business practice, it will be necessary for a licensee who has a right to manufacture and sell new products, at the very

least, to impose (within the trade agreement) on the licensor or exporter an explicit obligation to eliminate violation/infringement in case of appearance of imitation on the market and to include in the agreement a clause to compensate a licensee for damages for breach of failure to eliminate imitation. When he or she has an exclusive right to sell new goods, it would be advisable to include in the agreement a clause to set forth that the licensor would be liable for breach of failure if the licensor should grant a license to another party as well and a competitor to sell the same goods appear. This is because a right to contest another licensee is not granted to the exclusive licensee in the Unfair Competition Prevention Law. If a licensor holds a registered design right, it would be desirable to keep in the agreement a clause requiring registration of an exclusive (*sen'yo*)

license in the register of the Patent Office.

It would be worthy of mentioning that in the present case, it was claimed that the configuration of the good which was assumed to be the object of the configuration imitation was devised by the U.S. golf goods maker, company A, in around 1995 (it is unclear whether this was the same period as the [initial] sales), while the Japanese company began its imports and sales around February 1996. The regulatory period for a configuration imitation is three (3) years as computed from the day sales first began. Since the concluding day of oral proceedings in this case was 29 October 1998, this is a case which also involves a question as to whether or not the term "first sales" is limited to domestic sale in Japan, or whether this also includes sales in a foreign country.

