

16 The Functions of Trade Marks and their Role in Parallel Importation Cases

-- What Can the EU and Japan Learn from Each Other's Experiences? --

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Japan and the European Union have been operating trade mark registration systems for more than a hundred years. Yet in neither jurisdiction is there consensus on what the legally and economically recognized functions of a trade mark should be.

This research investigates what we mean by trade mark function, arguing that it is an oversimplification to limit our analysis to a choice of origin, quality guarantee or advertising function. Instead it proposes that we recognize a more complicated framework of interconnected functions that reflects the nature of evolving markets, and the fact that the function(s) may differ, depending on the nature of the goods the mark is being used on.

It goes on to consider how the courts have dealt with the issue of parallel importation, in which both the Japanese courts and the European Court of Justice have repeatedly justified their decisions by reference to trade mark function.

Ultimately it will be argued that the EU would do well to follow the Japanese lead in explicitly recognizing the quality aspect of trade marks. However, Japan may want to consider its position in the light of the EU's recognition of the advertising function of marks.

I INTRODUCTION

This paper analyses and compares the degree to which the various functions of a trade mark have been recognised and protected under Japanese and European Union (EU) registered trade mark law. Its objective is to investigate what Japan and EU can learn from each other on this issue. The paper begins by identifying the widely (and not so widely) recognised trade mark functions, which serve as a framework for the discussion of the case law which follows. It then considers the extent to which the courts in Japan and the EU have recognised those functions in the context of parallel importation and trade mark use. Parallel importation was chosen because of the special challenges that it poses to trade mark law – a trade mark used on parallel imported products will often be sending a truthful

message to consumers about the origin, and even the quality, of the marked goods, but is being used in the importing country without the trade mark owner's consent, and in circumstances where the trade mark owner will not be able to reap the financial reward of his trade mark through the sale of the goods on the importing market. Trade mark use was chosen because such a requirement is frequently justified and defined by reference to trade mark function. The paper concludes with an attempt to identify what the two jurisdictions can learn from each other.

II TRADE MARK FUNCTION: A THEORETICAL REVIEW

Traditionally, three main trade mark functions have been recognised: the origin

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function, the quality guarantee function and the advertising function. However, it is possible to identify other trade mark functions, the recognition of which is still evolving.

1 THE ORIGIN FUNCTION

Originally trade marks were used to identify the physical source of the goods on which they were used.^(*) However, with the growth of mass production, the role of trade marks changed and, instead of informing consumers about the identity of a specific, known source, marks began to be viewed as an indication that all goods bearing the mark came from a single source. The identity of this source was not necessarily known.

The idea is that consumers will be motivated to purchase goods because they come from a single but anonymous source. This assumption is open to question. Why would consumers want to buy goods because they know they have a common source without knowing what that source is? Such a desire is only sensible if there was something about that common source which they had reason to believe was desirable. For example, if the source had a good reputation, or if consumers had experienced goods from that source before and wanted to make repeat purchases. Such reasoning brings us close to the quality guarantee function.^(**)

2 THE QUALITY GUARANTEE FUNCTION

The quality guarantee function assumes that consumers will use trade marks to identify goods which they know from experience to be satisfactory. Consumers who have had positive experiences with goods will note the trade mark that they bear and will look for that mark again when making future

purchases of those goods.^(***) Moreover, if they view the mark on different goods, they will assume from their past experiences of goods bearing the mark that the new goods will be of the same quality as the previously experienced goods, even though the goods are different in nature.

Underlying this behaviour is the expectation that all goods sold under the mark will be of the same quality. However, the quality guarantee function is controversial. While there is an expectation of consistency, there is no legal mechanism to guarantee that the proprietor of the mark will only use his mark on goods of uniform quality.^(****) If a mark-owner does use the mark on lower quality goods, he may well lose customers, but he faces no sanction under trade mark law. Additionally, even if the mark is used on goods of consistent quality, there is no requirement that the goods be of consistent *good* quality. The logic of the theory just demands that the goods be of a quality that is known to consumers. Since under this theory the mark imports no enforceable guarantee of quality, nor does it ensure that the goods will be of any particular quality, it might be more fitting to label it the 'nature assumption' theory.

3 THE ADVERTISING FUNCTION

The advertising function is the least understood of the trade mark functions. There is no consensus on what the advertising function actually is, but the best explanation is that, where marks are used in advertising, an image can be built up around them, separate from the physical nature of the goods themselves, which will be evoked whenever consumers are subsequently exposed to the mark.^(*****)

The advertising function has been

(*1) See further the account of the development of trade marks in Frank I Schechter, *The Historical Foundations of Historical Foundation of the Law Relating to Trademarks* (The Lawbook Exchange, NJ, 2002 – reprint).

(*2) J Thomas McCarthy in *McCarthy on Trademarks and Unfair Competition* (WEST, St Paul, MINN, 1996 and updates), §3.10, characterises a trade mark under this theory as 'a unified source of quality control' – a description which is virtually indistinguishable from quality control.

(*3) Although he is frequently thought of as the father of the advertising function, Frank I Schechter's theory of trade mark function put forward in 'The Rational Basis of Trademark Protection' 40 Harv L Rev 813 (1926-1927) rests on consumers making repeat purchases of satisfactory products which they recognise by their trade marks. Likewise, Landes and Posner view consistency of quality as crucial to their economic explanation of how trade marks function – see William M Landes & Richard A Posner, *The Economic Structure of Intellectual Property Law* (The Belknap Press of Harvard University Press, Cambridge, MASS, 2003), p.167.

(*4) The fact that the quality guarantee communicated by a trade mark is economic, rather than legal, in nature is emphasised by Fredreich-Karl Beier in 'Territoriality of Trademark Law and International Trade' 1 IIC 48 (1970).

(*5) See Thomas D Dresner's description in 'The Transformation and Evolution of the Trademarks – From Signals to Symbols to Myth' 82 TMR 301, 329, of how advertising can 'obsess' a trade mark...placing the mark within the context of whatever mythical unit has been chosen for it'.

fiercely criticised. Some argue that, because the image is not based on tangible characteristics of the goods, it is illusory, and any investment in creating or maintaining that image is socially wasteful and should not be encouraged.⁽⁶⁾ It could be countered though that quality based on the physical characteristics of goods is also subjective, in the sense that characteristics of goods that appeal to some people will repel others. Moreover, facilitating proprietors' attempts to cultivate differing images for their goods may be beneficial to consumers by allowed them to express themselves through 'buying into' the image of goods which represent values or a lifestyle that they aspire to.

4 A WIDER VIEW OF TRADE MARK FUNCTION

Some have identified trade marks as having a cultural function, forming social icons which are used in wider discourse to identify ideas and strengthen arguments because of the degree of recognition that they have in the eyes of consumers. Those who champion this cultural function of trade marks often argue in favour of less protection for trade marks, so as to avoid a situation in which their use in wider discourse would be suppressed. However, Jason Bosland⁽⁷⁾ points out that a mark can only fulfil this function if it is capable of being viewed by consumers as pointing back to a single known phenomenon which is either the subject of the comment or the tool for making the comment.

A further possible trade mark function is the identifying or distinguishing function. This just requires that consumers use the mark to tell the goods apart from goods which bear different trade marks on *some* grounds, but does not prescribe what these grounds are.⁽⁸⁾ This theory is attractive because it leaves it for consumers to decide what it is that they value about goods to such an extent

that they select one trader's goods over another trader's.

5 CONCLUSIONS

A number of trade mark functions have been recognised, but none of them are without fault, nor are they universally accepted. Some are highly controversial, and some (particularly the origin and the guarantee function) merge into each other.

This paper goes on to consider which of the trade mark functions described have been recognised by the European and Japanese legal authorities with a particular focus on parallel importation and trade mark use cases. In doing so, it asks which of the functions *should* be recognised.

III RECOGNITION OF TRADE MARK FUNCTION IN PARALLEL IMPORTATION CASES

1 PARALLEL IMPORTATION BASICS

Parallel importation occurs when an intellectual property owner or his licensee sells protected goods in one market under such circumstances that those goods can be purchased there for export and imported into another market for sale against the wishes of the intellectual property owner and in competition with similar goods enjoyed equivalent protection on the second market.⁽⁹⁾

It is particularly appropriate for discussing the recognition of trade mark function because the goods in question are 'genuine' (in the sense that they have been produced by the trade mark owner, his subsidiary, or under his control) and so the trade mark often is not giving consumers a misleading message. However, the mark is being used in the importing jurisdiction without the consent of its owner. Thus, courts

⁽⁶⁾ This view is espoused by Ralph S Brown Jr in 'Advertising and the Public Interest: Legal Protection of Trade Symbols' 57 Yale LJ 1165 (1947-1948).

⁽⁷⁾ Jason Bosland, 'The Culture of Trade Marks: An Alternative Cultural Theory Perspective' (2005) 10(2) Media & Arts Law Review 99.

⁽⁸⁾ Such an idea is inherent in Barton Beebe's 'The Semiotic Analysis of Trademark Law' 51 UCLA Law Rev. 621 (2004), where he states that [I]n recent times, there has emerged a truly radical structuration of the mark, what might be termed the monadic structuration. In such a structuration, the trademark signifier has broken free of its moorings in a signified or referent. It signifies still, but signified nothing.

Likewise, in Europe, the key requirement of a trade mark is that it must be 'capable of distinguishing the goods of one undertaking from those of other undertakings' (Directive 89/104, Art. 1) but there is no requirement given for the basis of that distinction.

⁽⁹⁾ Thomas Hays, *Parallel Importation Under European Union Law* (Sweet & Maxwell, London, 2004), p.1.

are faced with a choice: do they give precedence to trade mark function, or do they instead favour the private interests of trade mark proprietors by enjoining uses which, although not harmful to consumers, displease the trade mark owners.

To complicate matters, other interests sometimes play a role. This is particularly true of the European Union (EU), which has the establishment of a 'common market' without internal borders as its overriding objective. In pursuance of this aim, the European Court of Justice (ECJ) places particular emphasis on free movement of goods – sometimes at the expense of trade mark function, as we shall see.

(1) Some background: free movement in the EU

To understand the way in which free movement and trade mark function interact in the EU, one must have a basic understanding of how the free movement rules deal with intellectual property rights (IPRs).

Under Art.28 of the European Communities Treaty, Member States cannot restrict imports from other Member States. This is problematic, because the territoriality principle means that each Member State's intellectual property system operates independently, and so separate IPRs exist over the same subject-matter in each Member State, in theory leaving the IPR-holder with the ability to raise an objection under his IPR every time goods cross a border. In this way, IPRs pose a threat to free movement. However, IPRs are acknowledged to have positive aspects and so, under Art.30 of the EC Treaty, restrictions that are needed to protect industrial or commercial property (including IPRs) are allowed, as long as they do not constitute an arbitrary restriction on trade, i.e. an excuse for a limitation on free movement that is in fact motivated by concerns other than the need to protect the IPR.

(2) Parallel importation – basic frameworks in Japan and the EU

Although ultimately both the EU and Japan recognise that certain acts of parallel importation do not infringe trade mark rights, the routes that the two jurisdictions use to reach this conclusion differ.

In the EU, even genuine parallel imports *prima facie* infringe because the reseller is using identical marks on identical goods, which constitutes infringement under Art.5(1)(a) of Directive 89/104, even though the double identity is a result of the fact that the reseller is using the trade mark owner's *own* marks on his *own* goods. However, Art.7(1) of Directive 89/104 provides a defence where the goods that are resold were originally put on the European Economic Area (EEA)^(*10) market by the trade mark owner, or with his consent, although even in those circumstances, the trade mark owner can oppose the further marketing of those goods where he has legitimate reason to do so under Art.7(2) of the same Directive.

In Japan too, parallel importation falls within the definition of infringement, since Art.25 of the Trademark Law provides the trade mark owner with the exclusive right to use the mark on the goods designated in his registration. Moreover, unlike the EU, there is no parallel importation defence in the Japanese legislation. However, as we shall see, the courts have found that genuine parallel imported goods do not infringe.

2 THE GENERAL EXHAUSTION RULE

Analysing in more detail the way in which the exhaustion exception has developed in both the EU and Japan reveals a respect for trade mark function. As has already been stated, parallel imports are allowed under Art.7 of Directive 89/104. This codifies the case law of the European Court of Justice (ECJ) that developed prior to the harmonisation of European trade mark law,^(*11) as typified by *Centrafarm v American Home Products*^(*12). The court emphasised the

(*10) The EEA is a group of countries, including all the EU Member States and a number of other countries in Europe which do not have, or do not want, full EU membership, which have acceded to an agreement including, *inter alia*, various free trade obligations.

(*11) Through Directive 89/104, which lays down a detailed framework for the substantive trade mark law of all the Member States.

(*12) [1978] ECR 1823.

need to balance free movement with the recognition of IPRs which are necessary to maintain a functioning market. As a result, the court defines trade marks restrictively, so that only their 'specific subject matter' is protected, i.e. the right to put products bearing the mark into circulation for the same time. However, the court instructed us to look at the 'essential function' of a trade mark, defined as guaranteeing the *origin* of the trade marked product to the consumer or ultimate user, in determining the specific subject matter.

Here the court has used the concept of trade mark function as a tool for determining the scope of trade mark protection, although it is only being used as an exception to a wider principle of free movement. However, the origin function is being recognised and protected.

There is though a twist in the tale. Exhaustion only occurs in Europe if the goods are put on the market in another EEA Member State, as was stated in the *Silhouette* case.^(*13) No mention was made of trade mark function. Instead the court focused on which approach would aid the establishment of the internal market.

The most authoritative Japanese ruling on trade mark exhaustion was given by the Supreme Court in *Fred Perry*.^(*14) There the court held that the parallel importation of genuine trade marked goods will not infringe if three conditions are satisfied:

1. the trade mark is applied abroad by its owner or licensee;
2. the owner abroad and in Japan are the same legally or economically; and
3. the Japanese trade mark owner has the option of exercising quality control, so that it can be assumed that there is no difference in quality between the imported goods and the Japanese goods.

These conditions are said by the Supreme Court to protect the origin and quality guarantee functions.

In comparing the two jurisdictions, we can see that Japan is driven by trade mark function, and that this drive determines the shape of its general exhaustion rule. However, the EU is ultimately driven by free movement. Although the EU has recognised the origin function, and used it to shape an exhaustion rule where the goods originate from within the EU, this is trumped where the goods come from outside the EU and, in such cases, trade mark function is ignored.

3 CHANGE IN THE CONDITION OF THE GOODS

Where the goods which are imported have different qualities to those which are sold on the home market, the quality guarantee function would suggest that there should be no exhaustion. There is little direct case law on this issue in either the EU or Japan, but such case law as there is suggests that a change in the condition of the goods may *not* prevent there from being exhaustion in either jurisdiction.

In Europe, it is clear following *HAG II*^(*15) that a difference in quality which is attributable to the fact that the goods, although bearing the same trade mark, are produced by unlinked undertakings *will* result in exhaustion. However, an analogy with the free movement of goods case law^(*16) suggests that, where a trade mark owner puts goods of different qualities on the market in different EU Member States, he will not be able to object to their further circulation in *any* EU Member State, even if consumers are confused as a result.

In Japan, the *Lacoste*^(*17) court found that there was exhaustion where goods of a different quality to those sold in Japan were produced under the licence of the trade mark owner outside Japan and then imported into Japan. This was partially because the trade

(*13) *Silhouette* C-355/96 [1998] ECR I-4799.

(*14) *Fred Perry Sportswear Limited v Hit Union Ltd* 2002 (Ju) No.1100, Supreme Court, the First Petty Branch, 27 February 2003.

(*15) *S.A. Cnl-Sucal NV v. Hag GF (HAG II)* C-10/89 [1990] ECR I-3711.

(*16) See in particular *Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein* 120/78 [1979] ECR 649, commonly known as 'Cassis de Dijon'.

(*17) *La Chemise Lacoste and another v Shinshin Boeki Kabushiki Kaisha and another*, Tokyo District Court, 7 December 1984.

mark owner had the option to exercise quality control over the foreign goods, even though it had not chosen to do so. Subsequent case law has suggested that an approach that would be more sympathetic to the quality guarantee function might now be taken. However, in the *Fred Perry* case, the Supreme Court talks only of the possibility of quality control, rather than its actual exercise, indicating a possible return to the *Lacoste* reasoning.

4 GOODS PRODUCED BY A LICENSEE IN BREACH OF A LICENSING AGREEMENT

The effect of the fact that goods have been produced in breach of a licensing agreement on the function(s) of a trade mark will depend on the nature of the breach. Breaches pertaining to the specifications to which, or conditions under which, the goods must be made will clearly put the quality guarantee function at risk. However, other breaches, such as a condition concerning where a licensee must obtain a loan from, will have no impact on the trade mark function(s).

Neither Japan nor the EU has expressly differentiated between different types of breaches. Although previous Japanese cases held that breaches are a matter for contract law, and so do not stop trade mark rights from being exhausted, the Supreme Court in *Fred Perry* found that a breach of a licensing agreement which stated that production of the goods could not be sub-contracted out, and had to take place within a specified geographical area prevented there from being exhaustion. The court justified its reasoning by reference to the quality function.

There is no direct ECJ-level case law on the effect of a breach of a licensing agreement. However, related case law^(*18) suggest that where there is a contract regulating the relationship between the manufacturer of the imported goods and the trade mark owner, the trade mark owner should have recourse

to contract law, rather than trade mark law. On the other hand, UK case law^(*19) suggests that *every* breach of a licensing agreement will result in trade mark infringement.

5 REPACKAGING

Repackaging involves removing goods from their original repackaging and placing them in new packaging, to which the trade mark owner's mark has been applied by the repackager, without the trade mark owner's authorisation. There are a number of reasons why a reseller might do this, including enabling the repackaging to conform to the regulatory requirements of the importing jurisdiction, or ensuring that the packaging bears information in the language of the importing jurisdiction. Such concerns are particularly pertinent in the EU, where there is a need to facilitate free movement of goods across 25 Member States with different languages and different healthcare and food safety regimes.

Particular trade mark law problems have arisen in relation to repackaging because, although the repackaging takes place without the trade mark owner's consent, the mark gives a truthful message about the origin of the product, in compliance with the origin function. However, the act of removing the goods from their original packaging involves a risk that the condition of the goods will be harmed, thus compromising the quality guarantee function. This is particularly so where the goods are only wrapped in one layer of packaging, as there is a risk that the goods will be harmed by their exposure to the air, or may be adulterated with other substances without consumers being able to detect that this has occurred.^(*20)

The EU tries to balance these potentially conflicting interests with a general rule that repackaging is allowed, as long as the condition of the goods is unchanged. The leading case is *Bristol-Myers Squibb v Paranova*^(*21) (henceforth, *BMS*).

Although the ECJ started from the

(*18) *IHT v Ideal Standard* [1994] C-9/93 1 ECR 2789.

(*19) *Primark Stores Limited and Primark Holdings v. Lollypop Clothing Limited* [2001] ETMR 30.

(*20) Where the goods are in two layers of packaging, even if the first layer of packaging is removed, the continued existence of the unbroken inner layer of packaging assures consumers that the goods inside the packaging have not come into contact with the air or other substances.

(*21). *Bristol-Myers Squibb v Paranova* Joined Cases C-427/93, C-429/93 and C-436/93 [1996] ECR I-3457

position that, in the interests of free movement, trade marks cannot be used to stop repackaged goods from moving within the EU, it went continued by recognising the importance of trade marks, and that the interests in free movement must be balanced with trade mark protection. The court adopted a compromise position: proprietors can oppose repackaging, but only when their specific interests are affected. Those specific interests were said to include the ability to attract and retain customers through the quality of the goods. In saying this, the ECJ recognised the quality function. Moreover, the court instructed us to look at the essential function of a trade mark to decide if repackaging should be allowed, a process said to involve ensuring that the goods have not been interfered with was a way that affects their original condition, so that the proprietor can oppose use liable to affect the trade mark's 'guarantee of origin'. Although this was said by the court to protect the origin function of the trade mark, it appears to be equally addressed to maintaining the guarantee function.

As well as setting out the general rule on repackaging, the *BMS* court laid down a five-part^(*22) test for judging if specific instances of repackaging accord with the principles already outlined. It began with a general rule that recognises the quality function - an assumption *against* the legality of repackaging because of the risk to the quality of the repackaged goods inherent in repackaging. This assumption can only be rebutted if all five of the following requirements are met:

1. *there is artificial partitioning of the EU market*.^(*23) This factor is-motivated by free movement concerns;
2. *the original condition of the goods*

inside the packaging is unchanged.

This was said to protect the origin function, but seems just as focused on the quality function;

3. *the repackager must state on the repackaging who repacked the goods, so that consumers do not believe that the trade mark owner is responsible for the repackaging* - protecting the quality function;
4. *the repackager must send notice to the proprietor about the repackaging, allowing the proprietor to ensure that the repackaging does not damage his reputation.* The ECJ does not state which interest this protects, but the reputation-based justification suggests a link to the advertising function; and
5. *the proprietor can oppose repackaging if the presentation of the product is likely to damage the reputation of the trade mark or its owner, for example, if the repackaging is messy.* Again, the court does not state what the interest protected is, but the reputation aspect suggests that the advertising function may be relevant.

The Japanese case law on repackaging is less developed. In particular, there appear to be no infringement cases where the quality of the goods was not put at risk, although there have been cases where the condition of the goods was endangered.

In *LT Peabel*,^(*24) a defendant who repackaged large bottles of imported perfume into smaller bottles marked with the trade mark was found to have infringed the trade mark because the repackaging affected the quality of the perfume. This amounts to recognition of the quality guarantee function

(*22) In fact, the court sets it out as a four-part test, but subsequent cases have treated damage to the reputation of the trade mark owner as a separate factor.

(*23) In the sense that there is some reason why the goods will not be able to flow between the Member States which is unconnected with what is required to secure effective trade mark protection.

(*24) *LT Peabel, Societe en nom collectif v Tamizo Kanazawa* Tokyo Court of Appeals, 9 August 1922, reproduced by Teruo Doi in *Digest of Japanese Court Decisions in Trademarks and Unfair Competition Cases* (The American Chamber of Commerce in Japan, Tokyo, 1971), p.61.

of trade marks. Similarly, in *STP*,⁽²⁵⁾ the court found that the repackaging of the contents of large cans of STP oil treatment into smaller cans bearing the STP trade mark infringed. However, the reasoning was different. Surprisingly, considering that it found that the quality of the oil treatment was altered, the court focused on the origin function. It stated that the trade mark can only play its function of *indicating origin* where its owner can stop others from using it, even where the later use is on genuine goods. This was said to stop the 'foundation of reliability' from being lost.

The Japanese court further clarified in *MAGamp*⁽²⁶⁾ that damage to the guarantee function is not the main concern. On the facts of that cases, it seems probable that the quality of the goods was put at risk (the defendant repackaged fertiliser from a large packet into smaller packets bearing the proprietor's trade mark), but the court stated that infringement will occur even if the quality or the nature of the goods is unlikely to be altered by division into smaller packages. This is because the owner's interest is harmed and consumers may be misled by the defendant trading on the proprietor's reputation for the quality of the goods. Although one might suppose that the mention of reputation is linked to advertising function, the way that it is used by the court makes it clear that this is not the case. Instead, the concern is with any unearned advantage that the defendant may derive, which is not a matter of trade mark function, and suggests that the proprietor has some sort of property-type interest in his mark that he can stop others benefiting from.

Comparing repackaging in the two jurisdictions, although the acceptance of repackaging in the EU is the result of free movement concerns, the ECJ is prepared to give trade marks strong protection by virtue

of the assumption against repackaging. Moreover, the repackaging test involves recognition of all three trade mark functions, albeit sometimes implicitly. In Japan, there is clearly infringement where the repackaging leads to a change in the condition of the goods, i.e. where there is a breach of the quality guarantee function. However, repackaging also seems to infringe where the repackaging does not change the quality of the goods, leading to protection that is wider than the origin or the quality guarantee functions, and even the advertising function, and which favours the private interests of the trade mark owner.⁽²⁷⁾

To sum up, both jurisdictions provide robust protection against repackaging, although the Japanese protection appears to go further than what is needed to protect the trade mark functions.

(1) A surprise from Europe

Europe has gone further in recognising trade mark function by acknowledging and protecting the advertising function of trade marks in the parallel importation case law. In *Dior v Evora*,⁽²⁸⁾ parallel imported perfumes bearing the DIOR mark were imported into the Netherlands from another EU Member State and were sold and advertised by a cut-price retailer. Although this was *prima facie* permissible parallel importation under Art.7(1) of Directive 89/104, the proprietor argued that it had legitimate reasons under Art.7(2) to oppose the further commercialisation of the goods in which way because the reputation of the DIOR mark would be damaged by this mode of sale and advertising.

Citing the fifth *BMS* factor (discussed above), the ECJ agreed in principle that damage to a marks's reputation can constitute legitimate reason to oppose resale. In particular, advertising of the parallel

(*25) *STP Corp v National Shoji KK et al*, Osaka District Court, 4 August 1976, reported by Teruo Doi in *Trademark and Unfair Competition Law of Japan – Digest of Court Decisions* (AIPPI Japan, Tokyo, 1980), p.114.

(*26) *MagAmp K Case* Osaka District Court, 24 February 1994.

(*27) This view is inherent in Dr Shoen Ono's statement (Shoen Ono, *Overview of Japanese Trademark Law* (Yuhikaku, Tokyo, 1999) – translated and available from <http://www.iip.or.jp/translation/ono/> that

[in the cases mentioned] refilling and rewrapping were found to be trademark infringement on the grounds that only the owner of the trademark right is allowed to conduct these acts. [Ch.7, p.106 of the translated version.]

(*28) *Parfums Christian Dior SA & Parfums Christian Dior BV v. Evora BVC*-337/95 [1998] ETMR 26.

imported goods must not detract from the 'allure and prestigious image of the goods in question and from their aura of luxury', nor must the mark be placed in a context that detracts from its image. The court that referred this issue to the ECJ spoke of such reasoning as protecting the mark's 'advertising function'.^(*29) This recognition of the advertising function may be less of a surprise when we consider that EU law provides statutory protection for the reputation of marks, in the form of protection against tarnishment (or 'detriment to repute' as it is known in the EU) under Art.5(2) of Directive 89/104.

There is no equivalent registered trade mark case law in Japan.

IV RECOGNITION OF TRADE MARK FUNCTION IN TRADE MARK USE CASES

1 The meaning and statutory basis of trade mark use

The issue of trade mark use asks whether it is necessary for the defendant to have used the mark 'as a trade mark' for the defendant's use to be infringing. Use as a trade mark has been taken to mean use that tells consumers about the source of goods (usually the defendant's, but sometimes the trade mark owner's).^(*30) This involves a particular focus on the origin function of a trade mark, which is apparent from the case law on trade mark use.

There is little statutory basis for a trade mark use requirement in either Japan or the EU. Neither jurisdiction has an express requirement that the mark in question be used 'as a trade mark' to indicate origin. In fact, the opposite appears to be true, since both elaborate the various activities that can constitute trade mark infringement without

restriction. Moreover, they describe the link that there must be between the trade mark and the defendant's goods as use 'in respect of' the goods in the case of Japan and use 'in relation to' those goods in the case of the EU. Neither term is indicative of use as an indication of origin.

2 The basic use requirement

Both Europe and Japan have required defendants to make trade mark use of the mark in question in infringement actions.

The European jurisprudence on the subject has largely been ambiguous, although most of the cases do appear to require use to indicate the origin of one of the parties' goods. However, in *Arsenal v Reed*,^(*31) although a question on trade mark use was referred to the court, the ECJ made no reference to trade mark use in its judgment, suggesting that such use is not a requirement. However, the court did require harm to the functions of the claimant's trade mark for there to be infringement. Since the ECJ only gave the origin function as an example of the functions which could be damaged, it appears that even this non-trade mark use, damage-based, standard afford a key role to the origin function. Nevertheless, the trade mark use issue is not settled in the EU. Subsequent UK cases have read *Arsenal* as imposing a trade mark use requirement, and subsequent ECJ cases have reverted to such a standard. Most recently, the Advocate General in *Adam Opel*^(*32) has said that, for infringement to take place, defendants must use the trade mark to indicate the origin of *somebody's* goods (though it need not be his own) and, in addition, the use must damage the functions of the earlier trade mark. Thus, the Advocate General combined the trade mark use requirement with the approach taken in *Arsenal*.

The situation is clearer in Japan, and in

(*29) Although the ECJ did not use that precise term in its judgment.

(*30) It should be noted that 'use' has a wider meaning in the colloquial sense, which is to indicate the activity undertaken by the defendant to 'fix' the sign to his goods. See for example the UK Trade Marks Act 1994, s.10(5) and Jeremy Phillips and Ilanah Simon (eds), *Trade Mark Use* (OUP, Oxford, 2005), p.8.

(*31) *Arsenal Football Club plc v Reed*, C-206/01 [2002] E.C.R. I-10273, [2003] ETMR 19.

(*32) *Adam Opel AG v Autec AG* C-48/05, Opinion of Advocate General Ruiz-Jarabo Colomer, 7 March 2006.

the *Popeye* cases,^(*33) use as a trade mark has been required for infringement. Although this was justified by reference to both the origin and the guarantee functions, the focus is predominantly on the origin function. It is interesting to note that, like the ECJ, the Osaka District Court also considers whether there is damage to the functions of the trade mark, and identifies the origin function as the 'essential function' of a trade mark. However, this reasoning was not employed by the court in reaching its final ruling.

3 Applications of the use requirement

Trade mark use has been discussed in relation to a number of specific factual situations in both the EU and Japan, namely use to truthfully identify the origin of goods of a third party,^(*34) use of marks as the titles of literary or musical works^(*35) and use of marks on scale models, such as toy cars, in a way that imitates the full-sized subject of the model.^(*36) Although both jurisdictions have given a key role to trade mark use in these cases, they have, on some occasions reached different answers on the question of infringement. This is in part because the ECJ takes a more expansive view of trade mark use than Japan, recognising use to indicate the origin of the trade mark owner's *own* goods as a species of trade mark use. The difference demonstrates that even if the function of a trade mark is agreed on, the way in which that function is interpreted can lead to different results.

V CONCLUSION

This paper has demonstrated that on a theoretical level, a wide range of relatively fluid trade mark functions have been recognised. However, the case law in both Japan and the EU has been more

conservative, focusing primarily on the origin and quality guarantee functions. Having said this, in the EU at least, the perception of trade mark function is evolving, and there has been a limited acceptance of the advertising function. No such development can be seen in the Japanese case law.

Within the limits of the origin and guarantee function, it is striking that the two jurisdictions have given the functions a crucial role, reached similar conclusions utilising those functions, in a number of cases. It is also noteworthy that both jurisdictions have tended to take a more limited view of trade mark function in the trade mark use context than in the parallel importation context, placing greater emphasis on the origin function. However, one key difference is that the case law of the EU, but not Japan, has been distorted by an overriding interest in facilitating the free movement of goods, meaning that in many parallel importation situations, trade mark function is ignored.

(*33) *Osaka Sankei KK v Ox KK*, Osaka District Court, 24 February 1976, reported at p.130 of Doi in *Trademark and Unfair Competition Law of Japan – Digest of Court Decisions* (AIPPI Japan, Tokyo, 1980) and *Petition for the elimination, etc. of trademark infringement*, Supreme Court, the Second Petit Branch, 20 July 1990.

(*34) *Case for claim for injunction of infringement of trademark right* (TAKARA hon-mirin iri), Tokyo District Court, 22 January 2001 (Japan) and *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Deenik C-63/97* [1999] ETMR 339, [1999] E.C.R. I-905 (EU).

(*35) *Case of claiming damages (UNDER THE SUN)*, Tokyo District Court, 22 February 1995 (Japan) and *R v Johnstone* [2004] ETMR 2 (UK).

(*36) *Adam Opel* (cited above) (EU) and *Philip Morris Products Inc v Nikko 5E Co Ltd*, Tokyo District Court, 19 November 1993 – noted in 84 TMR 942 (Japan).