

Product traceability and administrative handling of liquor products

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Introduction -- The importance of product traceability and lot codes

The improvement of product traceability is extremely beneficial with regard to any product. It has also become possible to improve the traceability of agricultural products, etc., whose trademarks and brands did not function sufficiently in the past, in association with the development of information technology (IT). Consequently, producers are now able to find out quickly and easily where there is a problem in the distribution process if a product with a problem in quality has been sold, and can take measures in regard to problematic areas. If producers make that kind of effort, [1] the producers can manage quality until the end of distribution, and as a result [2] consumers can place trust not simply on the product source, but also on the appropriateness of the distribution process. That is to say, the distribution process interposed between the producer and consumer was formerly a black box and the market can now function better because that process is made more transparent.

Traditionally, product identification numbers have been used conventionally to improve this kind of traceability. These have had various names such as serial numbers, identification numbers or lot codes, etc., but I use the term lot codes uniformly below. In essence, all of these have had the aim of making the distribution process more transparent by identifying individual products from others. It is extremely important for the improvement of product traceability.

1. The “quality assurance function” of trademarks and trademark infringements

From the legal aspect, this kind of traceability can be apprehended as the “quality assurance function” of trademarks. The Supreme Court judgment of 2003 that became the leading case in this area (Supreme Court Judgment of February 27, 2003, Supreme Court Reports Volume 57, No.2, p.215; hereinafter referred to as the “Supreme Court Judgment in the Fred Perry Case”) gave the direction with regard to the parallel importing of apparel products that the act of importing and selling a trademarked product subject to trademark rights will not be a trademark infringement if the following requirements are met.

A: Genuineness of goods

“The trademark in question was attached to the product legally by the owner or rightful licensee of the trademark in a foreign country.”

B: Identicalness of the domestic and foreign right holder

“The trademark indicates an identical source to that indicated by the trademark registered in Japanese because the trademark right holder in the foreign country in question is the same person as the Japanese trademark right holder, or the trademark right holder in the foreign country has a relationship with the Japanese trademark right holder such that both are legally or economically recognized as the same person.”

C: Substantial identicalness of quality

“There is evaluated to be substantially no difference in the quality assured by the registered trademark in question between the imported product and the product to which the Japanese trademark right holder has assigned the registered trademark because the Japanese trademark right holder is in the position of being able to control the quality of the product in question directly or indirectly.”

Looking at these from a different perspective, the sale of a product will be a trademark infringement if these requirements are not met.

The judgment above concerned parallel imports, but its basic framework also extends to products distributed only domestically in Japan. For example, even supposing that a secondhand car dealer sold a product to which a trademark

such as "Lexus" or "Demio" was attached, if the consumer understands that it is a product that differs to a new car due to time-related deterioration, it can probably often be evaluated that there is no substantial difference with regard to "the quality assured by the registered trademark in question" between that product and the case in which an authorized dealer of Toyota Motor Corporation sells a secondhand car itself. Actually, straight after the Supreme Court Judgment in the Fred Perry Case, there was a court case*¹ in which it was held with regard to the sale of secondhand health equipment that if a product is labelled "secondhand" or "secondhand product," its sale is not a trademark infringement as "it lacks substantial illegality because it does not impair the function of indicating the source of the registered trademark." There is no reference there concerning a requirement like that of C, but in light of the case, in that sense, it can be seen that there was no substantial difference with regard to "the quality assured by the registered trademark in question."

If we elaborate on this and reinterpret the gist of the Supreme Court Judgment in the Fred Perry Case with regard to an assignment, etc., in Japan, after excluding B above, a requirement particular to parallel importing, we can say that the use of a trademark will be legal if requirements like the following are met, but will be a trademark infringement if those requirements are lacking.

A': Genuineness of goods

The trademark in question was attached to the product legally by the owner or rightful licensee of the trademark.

C': Substantial identicalness of quality

There is evaluated to be substantially no difference in the quality assured by the registered trademark in question between the product and the product to which the trademark right holder has assigned the registered trademark because the trademark right holder is in the position of being able to control the quality of the product in question directly or indirectly.

*1 Osaka District Court Judgment of March 20, 2003, 2002 (Wa) 10309 (Healthtron).

Of these two requirements, the thing guarantees that “the trademark right holder is in the position of being able to control the quality of the product in question directly or indirectly” of C’ is the lot code assigned to secure traceability. In general, if that is removed in the process of distribution, it will no longer be possible to say about such a product that there is “substantially no difference in the quality assured by the registered trademark in question.” Although there is still no appropriate lower court judgment to be seen, that allowing this kind of product to be distributed would constitute a trademark infringement should be regarded as the gist of the Supreme Court Judgment in the Fred Perry Case.

2. Trends overseas

The interpretation of Japanese law like that above is in line with trends in the advanced countries of Europe and America. In particular, I would like to emphasize here that not only in European countries, which are very enthusiastic about the protection of traditional brands, but in the USA too, that way of thinking is commonly accepted as natural.

Firstly, there is already established case law^{*2} that in cases of imports, if there is a “material difference” between the domestic and foreign products, it will constitute a trademark infringement. Also, the threshold for that “material difference” is generally extremely low^{*3} and a product for which measures have been taken such that the efforts at quality control by the producer, etc., come to naught will be a trademark infringing product^{*4} as there will be a material

*2 *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992); *Lever Bros. Co. v. U.S.*, 981 F.2d 1330 (D.C. Cir. 1993); *Gamut Trading v. ITC*, 200 F.3d 775 (Fed. Cir. 1999).

*3 *Nestle*, 982 F.2d at 642; *Martin's Herend Imports v. Diamond & Gem Trading USA*, 112 F.3d 1296, 1301-02 (5th Cir. 1997).

*4 *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991).

difference with the original product. For example, a recent appellate court judgment stated that a “material difference” did not only mean a physical difference in the products, and that the presence or otherwise of after-sales service and quality assurance provided by the trademark right holder was also a material difference and held there to be a trademark infringement^{*5}. Because the removal of lot codes is an act that makes after-sales service and quality assurance by the trademark right holder difficult, a product with the lot code removed would be a trademark infringing product.

This has been confirmed by a lot of judgments. For example, there is a case^{*6} that recognized a trademark infringement with regard to high grade Mont Blanc fountain pens from which the lot codes had been removed for the reason that, as a result of the removal, “Mont Blanc became unable to assure quality.” In addition, there is a case that held that the act of selling products after the seller removed the original lot codes and applied their own unique numbers constituted trademark infringement because it caused a material difference to occur with regard to the existence or otherwise of quality assurance^{*7}. Moreover, a recent lower court judgment in a case where Canon was the plaintiff dismissed the petition of the defendant,^{*8} holding that the act of causing products from which the product identification codes had been removed was highly likely to infringe the trademark right.

*5 *SKF USA Inc. v. Int'l Trade Comm'n*, 423 F.3d 1307, 1312 (Fed. Cir. 2005). A case about ball-bearings. This judgment cited *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984), in which a trademark infringement was recognized because quality assurance could not be obtained from the manufacturer for a Japanese-made (Mamiya) camera.

*6 *Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, 239, 241 (D. Mass. 2001).

*7 *Beltronics USA, Inc. v. Midwest Inventory Distrib, LLC*, 562 F.3d 1067 (10th Cir. 2009).

*8 *Canon United States Inc. v. F & E Trading LLC*, 121 U.S.P.Q.2d 1693 (E.D.N.Y. Jan. 11, 2017).

Because the removal of product identification numbers is considered to be a trademark infringement even with regard to industrial products, the idea that the act of causing food and liquor products, for which quality assurance in the distribution process is demanded more strongly, whose lot codes have been removed to be distributed will be a trademark infringement is thought to be naturally reasonable not only in Europe, but also in the USA, where lot codes themselves have not been made obligatory.

3. The quality assurance function of trademarks and labelling legislation for liquor products

If considered in the same way as above, importing liquor products from which the lot codes have been removed or causing such products to be distributed in Japan should be understood to constitute a trademark infringement. In such cases the important points would be as follows.

This interpretation does not oblige business operators to attach lot codes. As with many products, the policies of producers and importers with regard to liquor products could vary. A business operator with no interest in product traceability in the distribution process would probably not assign lot codes, etc., and there is no problem with that whatsoever. In that case, an act that impaired traceability would not constitute a trademark infringement. The significance of the interpretation above is the case in which a business operator attempting to improve product traceability actively using lot codes asserts an infringement of its rights against an act that brings its efforts to naught. In other words, if a business operator does not make efforts to strive towards the improvement of the quality assurance function, the scope of effect of its trademark rights will be small, and the more effort it makes, the more the scope of its rights will expand. Whether or not to make efforts towards the improvement of the quality assurance function will depend on the management policy of each individual business operator and is not something to be made obligatory uniformly. That is, business operators are not obliged to assign lot codes.

Under this assumption, based on Article 86-6(1) of the Act on Securing of Liquor Tax and on Liquor Business Associations, it would be appropriate to establish provisions that a seller of liquor goods shall not import or sell products from which the lot codes have been deleted as one of the standards to be observed. That is to say, the same provision authorizes the Minister of Finance (Head of the National Tax Agency due to the main paragraph of Article 20(1) of the Ordinance for Enforcement of the Act on Securing of Liquor Tax and on Liquor Business Associations) to set standards with regard to the "display of the liquor manufacturing method, quality and other matters established by government ordinance." Further, because Article 8-4 Item 1 of said Ordinance specifies "the liquor manufacturing method, quality and other matters similar to these" as the matters established by government ordinance, and a measure such that products from which the lot codes have been removed are not distributed is required to ensure the quality assurance function of trademarks, that, namely a matter related to the quality of liquor products, can be considered to be a matter authorized by said Article 8-4 Item 1 .

Rightly, from the perspective that the ultimate purpose of said act is "the securing of liquor tax and the stability of liquor product business," (Article 1), even in enforcing a legal restriction like the one above, giving consideration to the "stability of business" is possible and appropriate, rather than promptly and uniformly prohibiting transactions of products currently being distributed in the market from which the lot codes have been deleted because they are trademark infringing products. A certain period of grace was also provided with regard to the labelling restrictions for Japanese sake and Japanese wine, and when carrying out labelling restrictions like those above too, the provision of consideration is conceivable by delaying enforcement for a certain period during which subject products are present as distributed inventories so that business is not confused.

Conclusion

Because importers of wines and spirits have been enthusiastic about the problem of the deletion of lot codes for some time, some people may have had the understanding that it was a special problem that occurs only with a very small fraction of business operators involved with liquor products. However, the same problem occurs in the foreign destination countries to which Japanese producers export. Today, when improvements in the quality of Japanese sake, Japanese wine and Japanese whisky have been remarkable and they are attracting attention in various foreign countries, in order to improve traceability and implement quality management thoroughly to the end of the distribution process. It has been necessary for them to establish legal systems on a par with those of the Europe and the USA corresponding to that aim. Japanese liquor products are cutting edge products of the so-called "sixth-order industry" and the securement of a quality assurance function corresponding to their high quality is called for in order for them to enter into global markets. Also, when they do so, it would be difficult to assert to the outside world the securement of traceability and transparency in the distribution process when actually in Japan, a developing country-type quality legal system has been preserved.

I believe that I am aware of the difficulties in the actual situation, but despite that, I assert the above because I am convinced that it is appropriate to the long-term national interest as a faculty member of a national university who is paid with the national taxes of citizens.

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