

## **CHAPTER 7. EFFECTS OF TRADEMARKS**

### **Section 1. General Remarks**

#### **I. Nature of Trademark Right**

##### 1. Trademark Right

A trademark right is the exclusive right to use a registered trademark with respect to designated goods or services. The right is initiated upon registration of the mark. (Sections 18, 19 and 25).

##### 2. Characteristics of the Trademark Right

The subject of a trademark right may be described as an intellectual product or intangible property. However, its purpose is not for cultural advancement, as is a copyright. It is a kind of "industrial property" and its contribution is for "industrial purposes" (protection of users) (Section 1). The protection of industrial property focuses on patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition. (Paris Convention, Article 1, Paragraph 2). Under the Japanese legal system, a trademark right is one of the "industrial properties." The term, "industrial properties", is usually used narrowly and indicates the rights covered by the four main laws; namely, the Patent Law, the Utility Model Law, the Design Law and the Trademark Law. A broad definition of "industrial properties" includes various rights covered by the trade name provisions in the Commercial Code and the Unfair Competition Prevention Law. Whether interpreted broadly or narrowly, the Trademark Law is included in the definition of "industrial property rights." The terms "intangible property right" and "the Intangible Property Right Law" cover, in addition to the broad definition of industrial properties, copyright (and the Copyright Law) and the Agricultural Seed and Seedlings Law.

##### 3. Characteristics of Trademark Rights before Trademark Registration

The Trademark Law of Japan, which is based on the "registration principle" of trademark law, does not grant an exclusive right to a trademark application before the mark is registered. It does acknowledge, however, "a right that has accrued due to filing the trademark application" once the application is filed and a provision concerning a right to obtain a patent is applied mutatis mutandis to a trademark application. (Section 13(2); Patent Law, Sections 33, (4)-(7)). Some of the rights associated with an invention (patent rights) are applicable and similar to trademark rights in some respects. The prevailing opinion considers the right that accrues upon the filing of a trademark registration to be a public right and is based upon the belief that a trademark right is established by registration. (See p. 682 of Amino. Kiyose holds the view that the public right is granted in order to protect an incomplete trademark right before filing. See p. 57 of Kiyose. Many others opine that a trademark right is both public and private, or in-between.). Unlike the rights of an application, namely, a right to request a nation to grant a trademark right, a trademark right is an inherent "private right" to claim

exclusive possession of a trademark as between individuals.

#### 4. Exclusive Property Right

A trademark right is not a relative right or a claim right against a particular person, but is an exclusive right effective against the general public. A trademark right is an "absolute right that is similar to a real right in nature." (It is a "quasi-real right" because its subject is intangible property). It carries with it exclusivity; it is a right to exclusively use a particular trademark on particular designated goods. According to Ono, a trademark right protects the connection between the mark and its designated goods or services. The purpose is not to exclusively control a two-dimensional mark, but to protect the reputation represented by the mark (connective function) (Ono, "Unfair Competition Prevention Law", Hara Taikan (retirement) (Second volume), p. 953).

A trademark right is not a personal right connected to the specific status of an individual though it does have proprietary value. It may also be transferred or assigned. As a result, it is considered a "property right." Furthermore, because a trademark right is used with respect to intangible property, exclusive possession of a registered trademark with respect to designated goods or services, it falls under the category of "intangible property right."

#### 5. Number of Trademark Rights

If a trademark has two or more designated goods or services, the trademark registration is considered to attach to each of such designated goods or services (Section 69). It is also considered to be a single registration for a single trademark. However, in a trial for cancellation of a mark or for invalidation of trademark registration, surrender of a trademark right, or any action affecting its registration, each item of the designated goods or services is treated individually. A trademark right initially affects each individual item of goods or services; renewal registrations are also considered to apply to each individual item of goods or services. The trademark rights for two or more designated goods or services may be viewed by some scholars as "a group of trademark rights." If this were the case, Section 69 is fictitious. In such a case, it may be considered a reasonable and cautionary (Yoshiwara=Takahashi, p. 130) or declaratory provision (Amino, p. 573).

## II. Entry into Effect of Trademark Right

### 1. Definition of Trademark Registration

A trademark right commences when the mark to be used is registered (Section 18 (1)). This "registration for establishment" is a registration **ex officio**. By virtue of registration, a trademark is established. Registration of a trademark is also a "condition for entry into force", "condition for continuance" and "condition for prevailing against a third party." Trademark registration is one of the "actions for establishing rights" included in administrative dispositions.

### 2. First-to-file Principle

The Trademark Law of Japan adopts a registration basis to determine establishment of trademark rights, as opposed to a "first-to-use" system. It further adopts a "first-to-file rule" instead of following the principles of prior use.

Because a trademark system that looks only to registration to determine establishment is found to be defective, practically speaking, the first-to-use principle is adopted as well. The Law provides protection for a trademark that is unregistered but well known to the public (Section 4(1)(x)). A trial for invalidation under Section 46 (1)(i) may be held when one party attempts to register a mark that indicates goods or services connected with another person's business. Similarly, even if the owner of a well-known trademark fails to renew the trademark, a trademark registration made by others with respect to such trademark will be rejected and the registration by the owner will be permitted. The Trademark Law also has a provision providing for rights accrued by virtue of "prior use" (Section 32).

### 3. Adoption of a Registration-Based Trademark System

Some countries adopt a "first-to-use" trademark system; that is to say, a right comes into effect by virtue of use. It is difficult in this type of system, however, to confirm if a trademark is in fact being used. It is especially difficult to determine when the trademark began to be used. Therefore, the right may be unstable and may tend to cause disputes. In such situations, the system does not serve to protect owners of the right. These are some of the reasons the Trademark Law of Japan adopts the "registration principle." According to this principle, the process of the trademark registration begins from filing of an application, and the trademark right comes into effect upon registration of its establishment by the decision of the Commissioner of the Patent Office.

Although the registration principle is excellent in stabilizing rights, it has some weak points. Because use of the mark is not a requisite for registration, this system may be abused, causing many unused registered trademarks to exist. This results in a great number of unused trademark registrations preventing the public from freely choosing trademarks for use. They also cause unnecessary trouble during examination for trademark registration. For this reason, the Trademark Law shifts the burden of proof in a trial for cancellation of an unused trademark registration in order to reinforce an obligation to use trademarks.

Every country is trying to harmonize the registration principle and the first-to-use principle. There is no country which adopts either one of the principles to the complete exclusion of the other. (See "Chapter V, Section 1 "Registration Principle and First-to-Use Principle", p. 88 of this book).

## **Section 2. Effects of Trademark Right**

### **I. Effects of Trademark Right**

The owner of a trademark right shall "have an exclusive right to use the registered trademark with respect to the designated goods or designated services (Text of Section 25). The owner of a trademark has such "exclusive right" in order to protect the accrued

reputation with respect to designated goods or services and is entitled to take civil or criminal proceedings against any person infringing his or her right.

The effects of a trademark right extend throughout the country, but not beyond the territory (for example, Japan) within which the Trademark Law is enforced. The trademark rights in each country are independent.

The practical content of a trademark right is derived from the purposes of the Trademark Law. The protection of a trademark right refers primarily to the protection of the function of a registered trademark. It is based on a balance between the protection of the owner of a trademark right and the protection of consumers.

Accordingly, the infringement of a trademark right should not be limited to "an act to affix the registered trademarks of another without limitation." Instead, it should be defined as an act that impairs a function of a registered trademark. In Section 36 (Injunctions) and Section 38 (Presumption, etc. of amount of damages) of the Trademark Law, only the term "infringement of a trademark right," appears without definition. The definition of which acts are to be regarded as infringement depends on the interpretation of the particular circumstances of each case. (Such instances include a case of concurrent import of genuine products which is an infringement as a matter of form but is not considered to be an infringement, and removal of trademarks without permission which is deemed legitimate if an infringement is limited to an infringing person's act to affix registered trademarks without limitation.)

## **II. Active Effects**

### **1. Scope of a Right to Use (and the Right to Prohibit Others from Using)**

The right of trademark is an exclusive right to use a registered trademark (or any trademark identical to the trademark) with respect to the designated goods or designated services (or any goods or services identical to the designated goods or services). This is known as the "right of use"(active effects).

The scope of a right to use is limited to a "registered trademark" (or any identical trademark). It is, however, unreasonable to interpret that "identical" means "exactly identical" in this case. "Identical trademark" is interpreted to be a trademark which is regarded to be generally accepted as identical. (As recognized by precedent, or by a commonly accepted idea. See, for example, Toyosaki p. 393).

The owner of a trademark may prohibit a third party from using a registered trademark or a similar trademark with respect to the designated goods or services, or from using a registered trademark or a similar trademark with respect to the designated goods or services or any goods or services similar to the designated goods or services. This is known as the prohibitive right (negative effects) discussed in the Trademark Law. Third parties can freely use the trademark so long as the use does not enter the scope of the prohibitive right, which allows the owner of the trademark to prohibit any other use of the trademark that is in the scope of the prohibitive right. The prohibitive right provides for civil and criminal penalties under the law for offenses of trademark infringement. Although the scope of the prohibitive rights is typically defined, there are cases where

disputes have arisen regarding the scope of the rights. Under one Supreme Court case (the case of Kozozushi), the similarity of the marks contradicted the findings of confusion making the scope of the prohibitive right relative and variable. Under the former "associated trademark system" (Section 7 of the former Trademark Law), the registration of similar trademarks was required to receive the protection of the prohibitive right. Lawsuits involving the scope of a prohibitive right became even more difficult due to the abolition of this system.

## 2. Effects of Right of Use and Prohibitive Right

The owner of a trademark right has an exclusive right to use the registered trademark with respect to the designated goods or services (Section 25). The owner of a trademark has a right to use trademarks without interference from others (right of use) as well as a right to prohibit others from using his trademarks (prohibitive right). The former right serves to ensure stable use of trademarks, which is a key point of the trademark system based on the registration principle, while the latter right serves to support the exclusiveness intrinsic to industrial property rights.

The owner of a trademark may continue to use his own registered trademark that falls within the scope of similarity of another person's trademark without interference from the exercise of a prohibitive right by others until his trademark registration is officially invalidated (except where the use conflicts with any right of others or the owner is abusing his right). The owner of the trademark will not be required to discontinue the use of his trademark, if he uses it within the scope of his right of use, unless the use of the trademark conflicts with any right of others or is deemed to be abusive. According to Article 6 of the Unfair Competition Prevention Law (prior to revision) any exercise of a trademark right was not regarded as violation of the Unfair Competition Prevention Law. This legislation was based in part on the idea that any trademark right should be respected because it was granted by the nation through a due examination process. It was also based on the reality that when a trademark is registered without awareness of the existence of a well-known trademark, the Unfair Competition Prevention Law may be applied after the registration is invalidated under the Trademark Law (trial for invalidation).

However, at that time, acts of unfair competition by trademark owners were not permitted under a theory that such acts are abusive. (Vol. 35, No. 7, Supreme Court, Minshu, p. 1129, Oct. 13, 1981; Vol. 8, No. 8, Osaka District Court, Kaminshu, p. 1628, Aug. 31, 1957; Vol. 17, No. 7-8, Tokyo District Court, Kaminshu, p. 729, Aug. 30, 1966 and many other cases; See Ono, "Annotations", p. 456 f.) Section 6 of the former Unfair Competition Law was abolished for this reason. Because the provision that gave priority to trademark rights was abolished without sufficient discussion, the viewpoint that presumes that trademark rights are effective upon obtaining a trademark registration and the viewpoint that treats the Trademark Law and the Unfair Competition Prevention Law equally are currently coexisting. Therefore, the legal argument is not currently stable. The Report submitted when the former Article 6 of the Unfair Competition Prevention Law was abolished predicted that the current situation would not change even after the provision was abolished. Facts sufficient to deny the use of a trademark must be presented in order to deny one a right to use a trademark, even if there is no need to go so far as to require any evidence of abuse. We must be aware that the

function of registration is to stabilize trademark usage, and that that function cannot simply be denied by mere assertion that the Unfair Competition Prevention Law has been violated.

The purpose of the prohibitive right is to protect the business reputation of the owner of a trademark right. Therefore, in a case where a person other than the trademark owner imports and sells a genuine product, the act will not be deemed to be an infringement unless it degrades the reputation of the owner.<sup>1</sup> This is because the act will not change the quality of the product nor impair the function of the trademark in any way. However, if the act is likely to impair the reputation of the trademark owner (such as erroneous evaluation of the quality), it will be regarded as an infringement of the trademark. (Vol. 25, No. 5, \*\*Supreme Court, Keishu, p. 739, Jul. 20, 1971).

Currently, there is a controversy in Europe over selective distribution systems and trademarks. A selective distribution system is a system that endeavors to maintain a certain image of excellence by distributing cosmetics or other luxury products only through qualified distributors. Should genuine products be sold at low prices despite this situation, the brand image or the advertising function of the trademark is considered to be impaired. The controversy centers around whether discount sales of genuine products under the selective distribution system should be regarded as an infringement of a trademark right. The argument is hotly contested from both sides with the support of influential theories in the areas of the trademark law and economics.

### 3. Expanding the Effects of Trademark Rights

Under the Trademark Law, the effective scope of the prohibitive right is expanded to a group of acts which are deemed to be an indirect infringement (Section 37, (2)-(8)). Historically, the Law attempted to expand such effects under the associated trademark system and the defensive trademark system. Although the defensive mark system remained, the associated trademark system, an idea that originated in England, was discontinued under the pretext of promoting registration shortly after England abandoned it. Although it was discontinued, the significance of the associated trademark system will be discussed below.

#### (1) Definition of former associated trademark system

(a) If a person registers a trademark that is similar to an existing trademark on any goods or services that are similar to the designated goods or services of the existing mark, such registration will impair the rights of the prior registered trademark (Section 4 (1) (xi)). The new trademark will not be registered. However, if the new registration is made by the owner of the prior trademark, the registration does not infringe the trademark right of another, nor is it likely to cause confusion.<sup>2</sup> Therefore, the

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<sup>1</sup> A trademark right is based on territorial principles. If any goods to which a trademark is legitimately applied, which are for sale in a foreign country, are imported and sold in Japan, where the trademark owner did not intend to offer the goods for sale, the act will be deemed to be an infringement of a trademark based in Japan. (Vol.2, No.1, Osaka District Court, Mutaishu, p.71, Feb. 27, 1972).

<sup>2</sup> If the trademark concerned belongs to the scope of a prohibitive right of another person's trademark right at the same time, neither trademark will be registrable. This is commonly called, "mutual kick-

registration by a trademark owner of a mark in conflict with another registered trademark of his own was permitted under certain conditions. This was the "associated trademark system" (Former Section 7).

(b) Characteristics of associated trademarks

First, the registration of similar trademarks called "associated trademarks" was permitted because the owner of both trademarks was the same person. Because the trademarks had this special connection, the Trademark Law prohibited their separation and transfer (Former Section 24 (2)).

Second, the associated trademarks could be used defensively. If even only one of the trademarks was being used continuously, no person could demand a trial to cancel the registration of any of the trademarks (Section 50). The situation was not affected even if the remaining trademarks not being used satisfied the requirement for the trial for cancellation (Former Section 50 (2)).

Third, it was provided that, if only one of these associated trademarks was continuously being used and not the others, the renewal of the registration of the trademark was not to be rejected solely because the remaining trademarks were not in use (Former Section 19(2)(ii)).

(c) Problems and reason for discontinuation

One serious problem existed due to the special provisions that governed the examination of applications and the requests for a trial for cancellation or for renewal of registration. Many people took advantage of the benefits of the associated trademark system and used the provisions to obtain an excessive number of so-called "stock trademarks." This resulted in an increase in unused trademarks. It also led to the emergence of groups of trademarks in "chains." Trademark A, Trademark B.....Trademark D, and then Trademark E.... in this way, each trademark became associated with the next trademark one after another. These trademarks, which were called, "trademarks associated in a chain", sometimes formed a group of as many as 1,000 trademarks (Daishinin (former Supreme Court, Minroku, \*\* p. 715, May. 21, 1920). This increased the burden on the patent office and caused a delay in handling the examinations. Under the associated trademark system, it was obvious that the number of registered trademarks in Japan had increased at an abnormal rate and equaled to the total number of registered trademarks in Europe. The abnormal number of registered trademarks caused such a problem that third party businesses had a greatly limited choice of trademarks when adopting a new trademark.

The Law revised in 1996 discontinued the associated trademark system, and allowed the separation and transfer of similar trademarks as well as the division and transfer of identical trademarks. Some preventive measures were taken, from the viewpoint of public interest, in order to avoid confusion after the revision. However, many problems remained unsolved, probably because the measures did not function sufficiently.

(d) Problems in connection with the discontinuance of the associated trademark system

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out or mutual exclusion."

① In many cases, the range of trademarks similar to the registered trademark concerned or the range of goods similar to designated goods is ambiguous. Under the associated trademark system, the owner of a trademark right was able to clarify the scope of his prohibitive right by holding associated registered trademarks, serving to prevent disputes.

Because each of the associated trademarks was independent from the others, each satisfied the requirements for registration and did not qualify as unregistrable under Section 4. As such, associated trademarks were not different from individual trademarks. For example, if the scope of one trademark owner's prohibitive right overlaps that of a third party, the use of neither trademark may be prohibited within the overlapping scope. This phenomenon often occurred among the associated trademarks owned by various parties. This overlap caused trouble in registration as well as with infringement, and became commonly known as "mutual kick-out or mutual exclusion." (Vol. 6, No. 4, Tokyo District Court, Kaminshu, p. 718, Apr. 15, 1955).

② Similar trademarks owned by the same person

As of the 1996 revision, the rights of the now abolished associated trademarks existing on April 1, 1997 were deemed to have become regular trademark rights as of the same date, as a transitional measure. Similarly, applications for registration of associated trademarks that were pending on April 1, 1997 were deemed to have become individual trademark applications (Section 4 of the supplementary provisions of the 1996 revised Trademark Law).

Since April 1, 1997, when the owner of a registered trademark files an application for registration of a trademark similar to his own mark (both of which used to be treated as associated trademarks), the request will be made for an individual trademark registration and the new trademark will be so registered if there is no reason for rejection.<sup>3</sup>

③ Separation and transfer of similar trademarks, and division and transfer of identical trademarks and confusion

Because Section 24(2) of the former Trademark Law was deleted, the new law allows the separation and transfer of a trademark right related to similar trademarks. Similarly, the deletion of Section 24 (1) of the former Trademark Law has given way to the provision allowing the division and transfer of identical trademarks in respect of the designated goods and services that are similar to each other.

These changes have led to two problems. First, the transfer of a trademark right to a different person limits the filing due to the above-mentioned mutual exclusion. Second, the transfers may cause confusion among similar trademarks.

④ Prevention against confusion resulting from transfer of trademark rights

(a) Right to demand an indication to prevent confusion

Once the separation and transfer of similar trademarks and the division and transfer of identical trademarks are permitted, similar trademarks are allowed to exist concurrently.

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<sup>3</sup> The revision of deleted or amended any reference to the provisions related to associated trademarks.



This can cause confusion of source. In order to resolve this problem, a new provision concerning a request to demand an indication to prevent confusion has been added (Section 24(4)).

For example, in a case where the result of the transfer of a trademark right causes the trademark rights used for similar or identical goods or services to come to belong to different persons, if the situation is likely to cause any damage to the business interests of the owner of a trademark right (or the owner of a right of exclusive use), such owner (or right holder) may request the owner of the other trademark right to make a suitable indication so as to prevent any confusion between the goods or services concerned (Section 24 (4)). This right to request an indication to prevent confusion poses various practical problems that will be discussed in greater detail below (p. 252).

#### (b) Trial for cancellation due to confusion

In a case where the result of the transfer of a trademark right causes the trademark rights used for similar or identical goods or services to come to belong to different persons and where one owner uses his registered trademark for the purposes of unfair competition, or as a designation for goods or services in a way which may cause confusion with goods or services connected with the business of the owner of other registered trademark (or the owner of the right of its exclusive or non-exclusive use), either party may demand a trial for the cancellation of the trademark registration (Section 52- 2).

The trial for cancellation may not be demanded if five years have lapsed from the date on which the owner of a trademark right ceased to use the trademark (Section 52 applied mutatis mutandis to Section 52(2)(ii)). When the trial decision ordering cancellation of a trademark registration has become final and conclusive, the trademark right will become extinguished (Section 54(1)).

In a case where the owner of a trademark right has been granted a trial decision ordering cancellation of its trademark registration, the owner may not obtain a trademark registration for the same or a similar trademark, for the designated goods or designated services covered by the trademark registration or for goods or services similar thereto, until five years after the trial decision was final and conclusive (Section 52 (2) and Section 15(1) applied mutatis mutandis to Section 52-2(2)).

#### (2) Defensive marks

##### (a) Definition

The Trademark Law addresses similar trademarks and similar goods or services and grants a prohibitive right to a registered trademark owner to protect such similar trademarks and similar goods or services. This serves to protect the function of a trademark that indicates source. The prohibitive right does not extend to dissimilar goods or dissimilar services.

The more widely-recognized a registered trademark has become among consumers, the more likely it is to cause confusion of source if it is used with respect to dissimilar goods or services. In such a case, the reputation represented by the well-known trademark might be degraded. The exclusivity, distinctiveness and advertising ability of the well-known trademark is also likely to be impaired. Consumers who have confused

the different trademarks may be disappointed. To combat this, the Trademark Law established the defensive mark system. Under this system, the owner of a trademark right may, under certain conditions, extend his prohibitive right to goods and services other than those similar or identical to the designated goods or services covered by the registered trademark (Section 64 f.).

(b) Conditions for obtaining registration of defensive marks

The following conditions must be fulfilled in order to obtain the registration of defensive marks (Section 64)

① "The registered trademark is well-known among consumers as an indicator for the designated goods that are connected with the owner's business"

The same expression, "well-known among consumers", appears also in Section 32 (prior use) and Section 4(1)(x) (Unregisterable trademarks). However, in this provision, the trademark is required to be extremely well-known in light of the legislation surrounding Section 64. It must be a "big name" trademark.

The Trademark Examination Guidelines provide the following guidance: (Trademark Examination Guidelines, p. 71)

1. The phrase, "in the case where the trademark is well known" means "in the case where the trademark becomes famous"

2. The degree of prominence of the trademark shall be judged according to the following standards:

(1) The time when the trademark related to the defensive mark registration (hereinafter "original registered trademark") began to be used, the term of use, the territory of use, the range of goods or services for which the trademark is used and other conditions;

(2) How widely the original registered trademark is advertised and how widely the trademark is known:

(3) The size of the business of the owner of the original trademark right, conditions of the business (production and marketing, etc.), goods traded by the firm in connection with the designated goods or services;

(4) Whether the Patent Office is well aware that the original registered trademark is famous.

② "When the use of the registered trademark by any other person with respect to services other than the designated services covered by the registered trademark and similar goods or services is likely to cause confusion between such services or goods and the designated services in connection with his business" (Section 64(1)).

The term, "confusion", is used here in a broad sense. Therefore it includes confusion with any services or goods that are generally regarded to be connected with the firm that is the source.

The Trademark Examination Guidelines provide as follows:<sup>4</sup>

"Whether any confusion will be caused with respect to the source of the goods or services shall be comprehensively judged, taking the following conditions pertaining to how the designated goods or services on which the original registered trademark is used

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<sup>4</sup> Trademark Examination Guidelines, p.72.

are related to the goods (services) designated in an application for defensive mark registration into consideration:

(1)

"Trademark in respect of goods"

With respect to the relationship with dissimilar goods, goods in question shall be considered as part of the same general business if they share the manufacturer, distributor, handling system, materials and the ways they are used, etc. With respect to the relationship with dissimilar services, services in question shall be considered as part of the same general business in view of the provider, content of the services and articles used for providing the services.

"Trademark in respect of services"

With respect to the relationship with dissimilar services, services in question shall be considered as part of the same general business in view of the provider, content of the services and things used for providing the services.

With respect to the relationship with dissimilar goods, goods in question shall be considered as part of the same general business in view of the manufacturer, distributor, handling system, materials and articles for use in the provision of services.

(2) In situations other than those referred to in (1), the source of the goods or services for which the mark is to be registered is generally recognizable as closely connected with the original owner of the registered trademark right.

③ "A mark which is identical with the registered trademark"

Similar marks may not be registered. In one case, the court held that "The defensive mark system is designed to expand the prohibitive effects of the registered trademark to goods not similar to the designated goods on the condition that there is a possibility of confusion. Therefore, the owner of a trademark right may obtain a defensive mark registration only for a mark identical to the registered trademark; namely, the mark of the registered trademark itself." For instance, the application for registration of a mark, "Mercedes-Benz" in Class 18, similar to "MERCEDES-BENZ", a big name car trademark was rejected (No. 1326, Tokyo High Court, Hanji, p. 145, Jul. 27, 1989).

When the owner of the trademark, "SCOTCH", a mark used in respect of the designated goods of the former Class 69, "sound magnetic recording tapes for electromagnetic sound reproduction apparatus, and any other goods classifiable in this class," filed for the registration of a defensive mark with respect to the identical mark to apply to "kitchen utensils" in the former Class 19, the Patent Office rejected the registration on the grounds that (a) the well-known and famous mark, "scotch", is indicated in small letters, and (b) goods in both classes are quite different from each other in terms of manufacturer, stores, and uses. However, this trial decision was canceled later because "SCOTCH" in capital letters also became well-known due to the fame of "scotch" in small letters, and there was a possibility of causing confusion if someone applied the trademark to kitchen utensils. For the above reason, this case met the requirement for registration of a defensive mark (No. 1563, Tokyo High Court, Hanji, p. 134, Jun. 30, 1996).

Considerations for registration of a defensive mark do not include the Section 3 requirements regarding distinctiveness from other goods or services or the Section 4 reasons for which a trademark is unacceptable for registration that are required for a regular trademark application. (Section 68(2)). This is because the basic trademark has already passed examination. The next question, then, is whether a trademark including the generic name of goods or services is qualified for examination for a defensive mark, if an application for a defensive mark registration is filed with respect to the goods or services other than the designated goods or services. The Trademark Examination Guidelines provide that a defensive mark registration will be approved, if an application for such registration is filed with respect to a trademark including the generic name of the goods or services to be used on any goods or services other than the designated goods or services, provided that the trademark satisfies the remaining conditions." (P. 72 of the Trademark Examination Guidelines)

However, the procedures for the registration of regular applications are applied *mutatis mutandis* to the filing or examination of the registration of defensive marks (Section 68(1)). An application for trademark registration may be converted into an application for registration of a defensive mark (Section 65).

Since the provision of Section 8 (First-to-file rule) is not applied *mutatis mutandis* to Section 68(1), more than one registrations can be made with respect to the same defensive mark.

#### (c) Effects

If a defensive mark is registered, the prohibitive range of the trademark right (principal trademark) forming the basis of the defensive mark will be expanded.

The following acts are deemed to be an infringement of the principal trademark right (or exclusive trademark right) as stipulated in Section 25 (Effects of a trademark right).

(i) Use of a registered defensive mark (hereinafter simply referred to as "defensive mark") in respect of the designated goods or designated services;

(ii) Acts of holding, for the purpose of assignment or delivery, the designated goods on which or on the packaging of which the registered defensive mark has been applied;

(iii) Acts of holding or importing articles which are for use by persons to whom the services are provided;

(iv) Acts of assigning or delivering articles which are for use by persons to whom the designated services are provided and to which the registered defensive mark has been applied, in the provision of the services;

(v) Acts of holding goods bearing a reproduction of the registered defensive mark for the purpose using such a mark in respect of the designated goods or designated services;

(vi) Acts of assigning or delivering, or of holding for the purpose of assignment or delivery, goods bearing a reproduction of the registered defensive mark, for the purpose

of causing such defensive mark to be used in respect of the designated goods or designated services;

(vii) Acts of manufacturing or importing goods bearing a reproduction of the registered defensive mark for the purpose of using such defensive mark, or causing it to be used, in respect of the designated goods or designated services.

The effects of the defensive trademark right extend only to trademarks identical with the original trademark, and to goods or services identical with the designated goods or services to which the original trademark applies and do not extend to similar trademarks, similar goods or services. Confusion does not necessarily occur with respect to similar trademarks, or similar goods or services. Because the Unfair Competition Prevention Law also serves to double-protect trademarks in addition to the expeditious and simple registration procedure, the effects of defensive trademark right are limited in order to avoid excessive protection.

Arguments or defenses based on the prior user's right or a non-voluntary license due to use prior to the request for an invalidation trial is also allowed. The registration of any trademark, identical to a defensive mark, that is to be applied to any goods or services identical to the designated goods or services covered by the defensive mark registration will be refused (Section 4(1)(xii); See Section 2, III (2) "Relative Reasons for Unregistrability", p. 133, supra).

Because the use of a defensive mark cannot be anticipated, the rules for cancellation of trademark registration due to non-use (Section 50), cancellation of registration of trademarks used in any misleading way (Sections 51 and 53), establishment of rights of exclusive use and non-exclusive rights (Sections 30 and 31), and establishment of pledges (Section 34) are not applied to defensive marks. The provision that allows an agent or a representative of a person who has a trademark right to demand a trial for cancellation in cases of illegitimate registration (Section 53-2) are applied *mutatis mutandis* (Section 68, Paragraph 4) to defensive marks.

#### (d) Transfer and extinguishment

Because the defensive mark registration aims to expand the protection of the principal trademark right, it cannot be independent from the principal trademark right. Therefore, if the principal trademark right is transferred, the right based on a defensive mark registration will be transferred together with the principal trademark right (Section 66, (2)). On the assumption that defensive mark registration covers the entire principal trademark right, when the principal trademark right is divided, the right based on the defensive mark registration will not remain in part nor be transferred in part together with the divided principal trademark but it will be extinguished (Section 66(1)).

The term of a right based on a defensive mark registration shall be 10 years from the date of establishment of the registration. A request must be made to renew the registration. Unless such request is made, the right will be extinguished (Section 65-2). A trial for invalidation of a trademark registration may be demanded (Section 68(4)), if one or more of the requirements for registration are not met (Section 64). Once a decision for invalidation has become final and conclusive at trial, the trademark right

will become extinguished. In the case where the owner of the right based on a defensive mark fails to renew the registration of such mark, or where an application for registration for such renewal does not meet the conditions for the renewal (Section 64), the defensive mark right will be extinguished. In such a case, Section 11-1 through 11-3 of the Trademark Examination Guidelines will be applied mutatis mutandis (See Section (b) concerning conditions for registration). "In such a case, how the principal trademark is currently used must be fully considered" (p74 of the Trademark Examination Guidelines).

(e) Problems in preventing unfair competition

The defensive mark system is applicable only to trademarks identical to registered trademarks. Its prohibitive effects do not extend to trademarks, goods or services beyond the designated range. The system does not affect the registration of a trademark that is only similar to the principal trademark used on similar goods or services. People seldom try to make an exact copy of a registered trademark. They usually use a trademark similar but different only in a few respects (except for some cases of illegitimate copy goods which aim at as close as possible resemblance). Where marks are copied exactly, the defensive mark system does not typically have a direct effect. This is one reason why defensive marks are unpopular. Additionally, the procedure for registration of a defensive mark is troublesome. And despite such trouble, the defensive mark system does not work very effectively when necessary. It seems as though the system would be useful only in cases where evidence is needed to show how famous the mark is.

### III. Negative Effects

#### 1. Definition

The owner of a trademark right has the ability to stop the acts of a third party that harm the value of the trademark right. This is called the negative effect of the trademark right.

The negative effect applies to everything within the trademark's scope of protection from direct infringement to indirect infringement as defined by Section 37 of the Trademark Law. The scope of protection of trademark rights covers "identical or similar goods and/or services" and "identical or similar trademarks."

#### 2. Identical or similar goods and/or services

##### (1) Goods and services

##### (a) Defining the concept of goods and services

The concept of goods and services is, along with the concept of the mark, most fundamental to Trademark Law. Its significance exceeds the trademark's scope of protection and the infringement of trademark rights.

Trademarks have value as a relational concept, linking the goods/services they represent with the marks that are used. Neither goods nor services, or marks, are subjects of protection per se. Trademark protection is concerned with the protection of "good will," the interdependence of the trademark and the goods or services it represents. Its purpose is to protect the trust or reputation regarding the origin of the goods or services

represented by the trademark. Furthermore, the concept of "identity or similarity of goods and/or services" is fundamental to the Trademark Law and one by which application for trademark registration is judged.<sup>5</sup>

Concepts of "goods" or "services" play major roles in the Trademark Law, and in the interest of expediency, they will be explained here primarily in the context of "identity or similarity of goods and services."

(b) Definition of "goods"

The Trademark Law does not expressly define goods or services. The most likely reason for this is due to discrepancies that may be caused when the nature of transactions undergo a change. For our overview, goods shall be defined as the tangible properties that can be exchanged on the market for money or other products with business being the objective.

Securities, such as bonds and debentures; stocks, shares certificates, and bills; "intangible" properties such as inventions and design; and "real estate," which is land-bound, are not considered "goods." In addition, products that are taken for personal use immediately upon completion and used solely for private consumption are not "goods" because they are not objects of business transactions.

(c) Definition of "services"

Services are deeds performed for the benefit of another person that can be taken independently to have business as their objective.

Specifically, they are services provided for consumers by workers employed in industries such as advertising, finance, construction, transport, accommodation and food services. Services that complement another service or sale of goods (e.g. free delivery or mending of purchased goods, courtesy bus rides offered by hotels) are not "services" because they are complementary and not services with business as their objective in their own right.<sup>6</sup> However, if goods bought at a department store are delivered free of charge to the buyer by a subcontractor who is an independent delivery company, then naturally the subcontractor's services will come under transport services.

(2) Identical or similar goods or services

(a) Identity of goods or services

"Identical" goods or services is defined here not to mean that they are physically and literally the same thing. This differs from the way the word is used in criminal procedures for example, when the goods in question are the same actual goods or services. "Identical goods or services" in the Trademark Law is the notion of degree of identicalness when comparing two or more goods or services.

For goods or services to be perceived as identical, it is not necessary for every characteristic to correspond to that of the other goods or services in question. The nature of the product, its effect and usage, and the nature of the service, its effects and

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<sup>5</sup> This idea is one reason given for unregistrability in Chapter 5.2, 4 (1) (xi), amongst others.

<sup>6</sup> See page 25 "Registration procedures of service marks" Review Board for Amendment.

usage as they are interpreted by society are carefully considered to determine whether they are identical or not. It is not dictated by the law; it is a necessary interpretation of the law. In the past, "identical" tended to be interpreted too narrowly and strictly, resulting in rulings that worked to the advantage of illegal competitors. It was therefore deemed necessary to introduce the phrase "similarity of goods."<sup>7</sup>

Producers, retailers and providers are free to name goods and services as they like. Identical goods and services may possess more than one name just as one name may be used for goods and services that are not identical. It is therefore important not to make judgements on the identity of goods and services on the basis of the names given to them.

(b) Similarity of goods and services

Judgment is passed on whether goods and services are similar or not by taking into account the circumstances surrounding the manufacturing and transactions of goods, their quality, usage and the like. The same applies for services: circumstances surrounding the provision of and transactions of services, their quality, usage and the like. An effort is made to disassociate any special attachment to a trademark perhaps because of its prominence.<sup>8</sup> Rulings are ideally based on whether an identical trademark being attached to more than one good or service would cause confusion. Socially conventional interpretation is taken into account as well as the fact that circumstances surrounding transactions change over time. Consequently views on the similarity of goods or services inevitably change over time. (The Supreme Court's ruling tends to take into account the prominence of actual trademarks when focusing on the probability of confusion regarding the trademark's origin, should it be used on both goods or both services.)

One ruling on "similarity of goods" states: "we should not simply be concerned with the possibility of goods themselves being mistaken in transactions. Rather we ought to note that even if there is little fear of the goods themselves being mistaken for another, if circumstances such as sharing the same manufacturer or retailer mean the use of identical or similar trademarks leading to a misunderstanding regarding the origin of the goods, then they will be considered similar. (For cases on mistaken origin: Vol. 15, No. 6, Supreme Court, Minshu, p. 1730, Jun. 27, 1961. also Vol. 17, No. 9, Supreme Court, Minshu, p. 1155, Oct. 4, 1936. Vol. 18, No. 5, Supreme Court, Minshu, p. 938, Jun. 16, 1964., Vol. 22, No. 12, Supreme Court, Minshu, p. 2559, Nov. 15, 1968.) Academia is divided into two camps: one group subscribes to the theory that trademarks protect against confusion over source the other believes that the protection is against confusion over goods. (For the Confusion over Source theory see Miyake p. 187, Shibuya p. 328, Amino p. 583, Eguchi/Hara "Taikan Kinen" Vol. II

p. 925, Ono "Standards for Differentiation of Goods" Kigyohou Kenkyu No. 111 p. 13.) The theory that trademarks protect confusion of source can be further divided into

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<sup>7</sup> The concept of "similarity of services" followed with the introduction of registration of service marks at a later date. See Nakamura, p.224.

<sup>8</sup> According to Vol.51, No.3, Supreme Court, Minshu, Mar.11, 1997, regarding the "Kozozushi" case, the courts do in fact take into account the prominence and other special attachments of the trademark in their ruling.



actual confusion and an abstract confusion; however, the Supreme Court rules on the bases of actual confusion over source. Regarding the theory that trademarks protect against confusion over goods, Kaneko-Someno p. 383 judges on the attributes of the goods in previous cases. Toyosaki p. 370 judges on whether the source could be determined by disregarding the trademark and looking at the goods only. (For further categorization see Nakamura p. 228.) Despite the great separation in the schools of thought, the Patent Office bases its decisions firmly on the "Standards on Similarity of Goods and Services in Accordance with The Classification of Goods and Services" (Edited by Trademark Department, Patent Office. Revised edition 1998 herein called Standards on Similarity.) The Supreme Court deals with specific confusions regarding the origin of goods or source in line with the stance taken by the Patent Office. The recent so-called "Pony" case (No. 1548, Tokyo High Court, Hanji, p. 132, Aug. 3, 1995.) whereby "shoes, boots" and "Jikatabi (traditional Japanese soft shoes)" were ruled as having the same source (manufacturer) is an example of the confusion theory in practice.

Courts have not yet ruled on how this applies to services, but a review of the decision on service trademarks (business indication) relating to the Unfair Competition Prevention Law, Section 1 (1)(ii) (prior to revision) is useful. It is worth noting, however, that the nature of the Unfair Competition Prevention Law considers the issue of confusion central to the concept of similarity, so much so that if there is confusion over the source of goods, then they must be similar. Moreover, despite the Supreme Court's stance that similarity and confusion are two separate issues, their ruling seems to indicate that they consider the two the same.

(c) Standards on similarity of goods or services

The "Standards on Similarity of Goods or Services" which outlines just that, is practically important because deliberation can be conducted speedily and consistency is maintained. Unfortunately when scrutinized, even this is not an absolute. This is discussed in the "Standards on Similarity of Goods or Services in Accordance with The Classification of Goods and Services." It is proper for all on the examining committee to deal with actual cases using this uniform standard but depending on the case, the fact remains that the Patent Office (page viii of "Standards on Similarity of Goods or Services") and courts can reach a decision that is inconsistent with this standard. (The supreme court's ruling cannot be interpreted from a confusion theory point of view with any consistency.) Even so, these standards are utilized in all deliberations and rulings and need to be carefully considered in lawsuits. These standards can even be taken as *de facto* evidence of transactions.

The Standards on Similarity offers guidelines to help define the similarity of goods, the similarity of services, and the similarity of goods and services in regard to Trademark Law, Section 4(1)(xi) (Trademark Examination Guidelines, p. 34, 35) as follows:

In deciding whether goods are similar, the following standards need to be considered as a whole. In principle, the Standards on Similarity of Goods and Services will be used.

- (i) Do the manufacturing sections coincide?
- (ii) Do the retailing sections coincide?
- (iii) Do the ingredients and quality coincide?

- (iv) Does their usage coincide?
- (v) Do their potential consumer groups overlap?
- (vi) Is their relationship one of finished product and component?

In deciding whether services are similar, the following standards need to be considered as a whole. In principle, the Standards on Similarities of Goods and Services will be used.

- (i) Do the means of provision, purpose or location coincide?
- (ii) Do the products that accompany the service coincide?
- (iii) Do their potential consumer groups overlap?
- (iv) Do they belong to the same business sector?
- (v) Are the same laws governing the business related to these services and the employers?
- (vi) Is the same employer providing these services?

In deciding whether goods and services are similar to one another, the following standards need to be considered as a whole and then the specifics of each one examined separately.

- (i) Is the same employer generally dealing with both manufacturing/retail of the goods and the provision of services?
- (ii) Do the purpose of the goods and the services coincide?
- (iii) Is the retail location of the goods the same as the location of the service provided?
- (iv) Do their potential consumer groups coincide?

(d) "Similarity of goods and services" and "Classification of goods and/or services"  
 "Similarity of goods and services" is not the same thing as "classification of goods and/or services"(Trademark Law Section 6, Trademark Order Section 1, Trademark Enforcement Regulations, Section 6). "Classification of goods and/or services" is used relative to application and examination. Goods are classified from Class 1: "Chemical products for industrial, scientific or agricultural use" to Class 34: "Cigarettes, smoking-related articles and matches." Services are classified from Class 35: "Advertising, business management/administration and clerical work" to Class 42: "Food services, ...programming of electronic calculators and other services not already covered by the other classes." The Patent Office has the right to determine to which "class" a new product or new service will belong and the responsibility to inform the applicant of its decision.

The 1996 Amendments introduced a new "one-application" system for simultaneous application for more than one class. The clause, "within the class (of the classification of goods and services) prescribed by the Cabinet Order" was deleted from Section 6 in order to enable filing for more than one product for various classes at the same time.

In contrast, "similarity of goods and services" relies heavily on the consumers' perception and in practice has to be decided in courts. Consequently, a standard against which the goods or services can be measured in their similarity to other goods or services is essential in trademark examination rulings. It is a mistake to regard the Patent Office's "Standards on Similarity of Goods or Services" merely as a guideline; it needs to be upheld as having more authority than it is perceived to have at present. In

current practice, the ultimate decision rests with the courts. Goods and services are classified for the convenience of examination, taking the similarity of the goods and services into account as an important factor for decisions on classification. Because of the differing nature of the two concepts, some classes contain goods or services which are obviously dissimilar: "beds" and "frames "(both class 20), "combs" and "pots" (21), "advertising" and "stenography" (35). On the other hand, goods/services that are considered similar are classified into different groups: "futon" (24) and "bed" (20), "hair accessories" (26) and "comb" (21), "telephone repairs " (37) and "telephone rentals" (38).

(e) "Attached Table to Cabinet Order" and "Attached Table to Ministerial Decree"

The current laws classify goods and services in accordance with International Classifications.

The "Classification of Goods/Services" includes a "Table Attached Pursuant to Cabinet Order,"<sup>9</sup> which is broadly set by the Trademark Enforcement Regulations, and designated according to Trademark Law Section 6(2) and the "Ministerial Decree"<sup>10</sup> The Ministerial Decree is based on the assumption that the Ministerial Decree of the Ministry of International Trade and Industry is designated according to the Trademark Enforcement Regulations 1 to deal with classification of goods and services.

The goods and services which appear in the "Table pursuant to Ministerial Decree" have been further categorized into subsections. The table may be used to indicate the designated goods/services for filings. It is only an example and new products may be designated for registration. The Patent Office has a Classification Examining Office specializing in such matters.

"International Classification" refers to "International Classification of Goods and Services for Registration of Signs Based on the Nice Agreement," which was set up to enable the use of a single system of categorization of goods and services, common to the international community. It comprises the "Table According to Class (which includes the notations) " and "Table of Goods/Services in Alphabetical Order." Japan has been using International Classification as its primary system since April 1 1992. Additionally, the Nice Agreement has undergone a few amendments. (6<sup>th</sup> Edition in effect from January 1 1992, 7<sup>th</sup> Edition in effect from January 1 1997.)

(3) Transferring

(a) Significance of Transferring

Trademarks (or defensive marks) applied to designated products that were classified under the old system of classification are transferred to the class to which they should belong in accordance with the current International Classification.

At present, five different systems of classification coexist, making search and examination procedures extremely complicated. The five classification systems are: 1.

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<sup>9</sup> Attached Table to Trademark Enforcement Order 1. Attached Table to Trademark Enforcement Regulations.

<sup>10</sup> Attached Table to Enforcement Regulation 6. Attached Table to the Ministerial Decree of International Trade and Industry.

Classification under the 1899 Law, 2. Classification under the 1909 Law, 3. Classification under the 1921 Law, 4. Classification under the 1959 Law, 5. Trademark registrations filed after April 1, 1992 under the current International Classification. The Meiji/Taisho Classification had problems such as the lack of clarity regarding scope of rights. To complicate matters further, the old listings were not transferred according to International Classification at the time of renewal.

If the system was left as it was, there was real fear that the smooth running of the Trademark system would be jeopardized. Even if future changes took place in International Classification, failure to transfer the previously designated goods and services would exacerbate the distortions in classification. With this in mind, goods and services designated by registered trademarks and classified under the Japanese system were all transferred under the 1996 Amendments into classes according to International Classification. (Supplementary Provisions, 2 and 30)

In order to maintain trademark rights under the old system of classification, it was necessary to transfer previously registered trademarks to the present system of classification within a limited time period, as stated below.

#### (b) Summary of the Transferring Procedures

##### 1. Trademark owners obligation to transfer

The owner of trademarks filed prior to March 31, 1992 (and therefore classified under the old system) must apply to transfer registration between 6 months prior to expiration and one year after expiration (Supplementary Provisions 2, 3).

##### 2. Application for Transfer

Application for transfer began to be accepted in stages from April 1, 1998. The first date for application was to be designated by the Commissioner of the Patent Office. (Supplementary Provision 2(2)). Practically speaking, the official bulletin of September 4, 1997 announced that applications for transfer regarding trademarks originally filed prior to January 10, 1922 would be accepted.

When the initial application date is announced, the owner of the trademark right has to apply for transfer between 6 months prior to the first expiration date that falls 6 months after promulgation, and a year after that expiration date. (Supplementary Provisions, 3(2)).

This period roughly coincides with the period for renewal for trademark rights, enabling application for transfer to be made at the same time as that for renewal. (An application form for each must be submitted separately.)

##### 3. Examination and Registration

Upon receipt of the application for transfer of registration, the Patent Office will examine whether "the designated goods for which registration should be transferred" include any goods deemed unsuitable and whether the application itself is valid. Upon finding any reason for rejection, a letter will be sent, to which the applicant may respond with comments and amendments. If the reason for rejection is not corrected, an examination into the rejection will take place; if the outcome is unsatisfactory, the

applicant may take the case to the Tokyo High Court to seek cancellation of the decision.

Details regarding transfers of registration are listed in the Trademark bulletin (a formal arena for objection does not exist but a new system for ruling on unsuccessful transfer of registration is being set up.)

The important thing to remember is that trademark rights that were not transferred during the specified time will cease to be valid after the expiration date and renewal will not be considered. For this reason, the Patent Office will issue two consecutive reminders to the owner of trademark right informing them of the dates for application procedures.

The Trademark Examination Guidelines states the following regarding transfers: (Trademark Examination Guidelines, p. 77 f.)

1. Supplementary Provisions, 6(1) will be treated as follows:

(1) When the designated product of the trademark about to be transferred is not classified according to the classes set out for goods/services, it shall be considered as "not satisfying the criteria listed in the Supplementary Provisions, 4(1)." The same can be said if the designated product of the trademark about to be transferred is not practically within the scope for that product.

(2) The listed class of the goods or services is the class that shall be applied on the day the application is filed.

(3) If enough evidence is found to show that the designated product, whose registration is about to be transferred, did not exist when the trademark registration was filed, then the transfer shall be rejected on the basis that it is practically outside the scope of the designated product.

(4) The product in question will be treated as pertaining to the designated product if, when the it is viewed in terms of its quality, form, use and function (in addition to its concept and market convention), it is effectively the same type as the designated product.

For example, however, if the designated goods are specified as "wooden desks," there is no need to include "metal desks" in the designated goods.

2. Any changes or broadening adjustments for products that are being considered for transfer that appear on its application form will be accepted. (This is true of products that have already been amended by prior submission of amendment papers).

If, however, the amendments take the product outside the scope of the designated trademark right that is being submitted for transfer, then according to Supplementary Provision 6(1), the application for transfer will be refused.

3. In the event the trademark right ceases to exist during its application for transfer (for example, due to non-application for renewal, expiration due to a rejection of the renewal, abandonment, invalidity or withdrawal of all designated goods related to the trademark right), the request for transfer will be turned down.

4. In the event of abandonment, invalidity or withdrawal of one part of the designated product of the trademark right, the abandoned, invalid or withdrawn part will be examined to see if it coincides with, or includes, the product for which transfer of registration is being submitted. If it is, it will be deemed to be outside the scope of the designated product of the trademark right and the request for transfer will be rejected.

### 3. Identity or Similarity in Trademarks

#### (i) Identity in Trademarks

##### (a) Identity in Trademarks

Trademarks are identical if their formation (that is, letters, figures, sign, or three-dimensional shape, or any combination thereof or with any color) is identical.

A verbalized name is not a trademark (although in the American Federal Trademark Law sound trademarks are acknowledged). Therefore, even if two names are pronounced identically, they are not considered to be identical trademarks; if the letters differ, then they are merely similar trademarks. Trademarks using different styles of writing (fonts) such as printing or cursive, or the "flowing hand," trademarks using *kanji*, *hiragana* and *katakana* ("Chinese" characters, primary phonetic symbols and secondary phonetic symbols), trademarks using letters and trademarks using figures that are conceptually similar, may sound the same when verbalized (spoken) but they are not considered to be identical trademarks. Examples such as "FUJI (*kanji* used as in Mount Fuji)" "FUJI (*kanji* used to mean 'no other like this one') "FUJI fuji" ('Mt. Fuji' followed by *hiragana*) "fuji" (*hiragana*) "fuji" (*katakana*), and "FUJI"(in alphabets) will all sound the same and have identically pronounced names." Trademarks that have a border, ones that have place of origin or any other words or symbols attached ("{fuji}," "Satsuma fuji," "Ichi-fuji") are not identical to "FUJI"(*kanji*).

##### (b) Concept of identity in trademark

According to the narrowly defined concept of trademark identity, trademarks that are identical in every respect except in color are not considered identical. Similarly, a trademark using *shinchoutai* font and one using the gothic font are not similar because the fonts differ. A trademark using the cursive letters of the alphabet will not be considered identical to one using printed letters of the alphabet, nor will a trademark using *kanji* alphabets placed horizontally be considered identical to one using them vertically. The marks "VHC" and "water-cooled VHC compressor" are without question not identical despite the fact that it was contested.

A rigid interpretation of identity in certain cases, for example where the trademark has been revoked because it was not in use for 3 years or more, can actually create illogical results which are legally impossible to apply. Circumstances such as prior use may make a rigid interpretation of the identity impractical. In such cases, before a decision is made, two factors are taken into account: 1. the likelihood of social convention considering the two trademarks to be identical, and 2. circumstances surrounding transactions that are conducted in the particular field of the trademarked goods and/or services.<sup>11</sup> "Trademarks that are considered identical within the scope of their use and

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<sup>11</sup> See, for example, the Examination Standards Regarding Approval of Registered Trademark Use, Trademark Section, Patent Office, Mar. 1978.

that are generally accepted as identical" is sometimes referred to as the concept of "identity" in trademark, as opposed to "the identity" in a strict sense as described above. (Takeda 'Similarity in Trademarks' p. 100, Kyoto Law Society Magazine Vol. 7, No. 8, 1912).

In cases where the trademark has been revoked due to no recorded use for three years or longer, the definition of identical has been extended to include trademarks that are "generally accepted as identical" such as: 1. "a trademark consisting of identical letters with only a modification of font, 2. trademarks which, when spelled or written in characters of *hiragana* or *katakana* (Japanese phonetic characters) or the Latin alphabet, may imply an identical pronunciation or concept, 3. trademarks consisting of figures common in appearance, and 4. other trademarks generally accepted as identical to the registered trademark.(50.(1))" However, this broad interpretation does not apply to other rulings. ("Chikujo Kaisetsu" Commentaries on the Trademark Law, p. 1143).

It goes without saying that "trademarks that are considered identical within the scope of their use and that are generally accepted as identical" does not include "hashi" (in *hiragana*) "hashi" (*kanji* for 'bridge') and "hashi" (*kanji* for 'edge'). The latter two are not even similar, let alone identical. Another ruling relates to "aoboshi" ('blue star') and stated that the use of the word "aoboshi" (*kanji*), "aoboshi" (*katakana*) and "BLUE STAR" (English alphabet) might be used without fear of being mistaken with a trademark that consists of the pictorial representation of a blue star. The court ruled that they possessed similarity but they should not be treated as the same in transactions. (Vol. 22, No. 2, Supreme Court, Minshu, p. 159, Feb. 9, 1968.).

#### (c) Trademarks identical in the manner of use

The way in which a trademark is used is entirely up to the owner of the trademark right. If the trademark is placed directly on the product or on the wrapping, in a two-dimensional fashion or in a slightly three-dimensional fashion, or enlarged or diminished, the result will not be the creation of a different trademark. (Prior to Amendment, this often caused a problem when trying to provide practical evidence of a trademark having been in continuous use when being registered for renewal. Yamamoto/Kawazu, "Explanation of Trademark Usage and Description of Business (Tsusan Chosakai, 1980.) discusses on p. 64 and following, that even after the amendments regarding the description of the business and explanation of usage, a diagram or photograph with detailed explanations would be of great value to the person processing the papers.)

#### (2) Similarity in trademarks

##### (a) Definition of similarity in trademarks

"Similarity of trademarks" is defined as a likeness between trademarks which, when the two marks displayed on their respective products, may lead to confusion over their source. (Vol. 15, No. 6, Supreme Court, Minshu, p. 1730, Jun. 27, 1961. Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968. Originally it was regarded simply as an approximation of the marks, regardless of the nature of the transaction.) The recent interpretation has gained force to the point where trademarks are considered to be similar when a risk of the two being mistaken exists. They are considered to be dissimilar when such risks do not exist. (Vol. 51, No. 3, Supreme Court, Minshu, p.

1055, Mar. 11, 1997.)

The concept of similarity in trademarks is interpreted in this manner because trademarks are basically signs for distinguishing one's product from that of another. The purpose of the Trademark Law is to protect the trademark and thereby prevent confusion of the source of goods and services. (Section 1.) The Trademark Law applies the key concept of "similarity in trademarks," together with the concept of "similarity in goods and services," to various aspects of the Law in order to protect registered trademarks. (In the German laws, the scope of the prohibitive right of registered trademarks is "same type of product" plus "risk of confusion" (verwechslungsgefahr); in our Law it is "similarity of product" plus "similarity of trademark.")

(b) Screening standards for similarity in trademarks

(1) "Similarity" is a resemblance, but a set of standards is required in order to judge exactly what that means. In the Trademark Law, similarity in trademarks not only refers to the physical resemblance of the marks, but also to the "risk of confusion over the source" that the visual representation of trademarks used on goods or services may cause to traders and consumers. Indeed, it is this latter concern that has proved to be the ultimate standard for similarity as practiced by the Supreme Court. (Supreme Court, Mar. 11, 1997, *supra*.)

Despite the theory, traders and consumers still look at the "appearance" of the trademark used on goods or services, listen to them being "pronounced" and then think about the meaning of the "ideas" before associating the trademark with goods and services and identifying them. Because of this, the appearance, pronunciation and concept of the trademark have been used as the criteria in "screening standards of similarity" so that if there is risk of confusion regarding even one of these criteria the trademarks being compared will in principle be judged to be "similar." (Vol. 1, Tokyo High Court, Mutaishu, p. 280, Sept. 2, 1969.) On the whole, this method suffices in rulings on similarity and it is what is applied in practice. (In the past, the ruling went so far as to say that if there was similarity in either the appearance, pronunciation or idea of the trademarks being compared, the two trademarks would be considered "similar." (Daishinin, Precedents, p. 742, Mar. 14, 1931; Daishinin, Precedents, p. 743, Aug. 20, 1942.)

In summation, the ruling will be based on whether similarity is found in one of the following:

- (a) "Similarity of appearance" where the appearance or formation of the trademarks are alike and the distinction unclear.
- (b) "Similarity of pronunciation" where the pronunciation of the trademarks are alike and the distinction unclear.
- (c) "Similarity of ideas" where the meanings associated with the trademarks are alike and the distinction unclear.

The rules are empirical and are used in practice (only Shibuya considers them as forming the structure of similarity.) They are only one means of reaching a decision, because the real significance lies in the "overall observation" of the trademark. The ultimate screening standard is not the individual similarity in "appearance,"



"pronunciation" and "ideas" but the impression of the whole. Care must be taken to avoid the propensity for arbitrariness in dealing with "overall observation." But unless the risks of confusion as to source can be treated with objectivity, "overall impression" will be inferior to the empirical rules. The one thing that current theories and actual rulings agree on is that "similarity and difference regarding trademarks must be viewed comprehensively, taking into consideration the various elements including the trademarks' appearance, pronunciation and ideas." ("Shohyo Shinsa Kijun" (Trademark Examination Guidelines) p. 26).

Recently, the risk of confusion regarding the source of the goods or services utilizing the trademark has become the ultimate criterion in screening for similarity in trademarks. (Supreme Court, Mar. 11, 1997. Gradual transition of Trademark Law to be more like the Unfair Competition Prevention Law, supra.). Even so, the risks of confusion cannot be predicted subjectively. In cases where (a) trademarks possess similar visual elements (similarity in appearance) or (b) are pronounced in a very similar fashion (similarity in pronunciation,) products can easily be mistaken. Therefore, if either of the two elements is similar, the trademarks will be considered similar. (Feb. 17, 1927 edition of Shohyo Koho, Osaka High Court, Jan. 14, 1927. Takeda's "Shohyo no Ruiji," (Similarity in Trademarks) includes "concepts". He rightly argues that if special factors surrounding the transaction are not emphasized, then it is no different from the rule of thumb method.) However, in cases where it is solely the ideas behind the trademarks that are difficult to differentiate (similarity of concept), confusion over source is unlikely to occur, just as similarity is unlikely to be attributed to the trademarks if the similarity rests solely with the ideas. In such cases, additional factors related to the transaction must be found in order to reach a ruling on similarity.

#### (a) Similarity in appearance

Similarity of appearance occurs when the outward appearance or the visual elements of a trademark present difficulty in differentiation, posing risks of visual confusion.

There are occasions when trademarks as a whole can be easily mistaken, and when major visual components of the trademark are easily mistaken. When the major components are what cause the confusion in identity, the trademarks will be considered similar, even if other components are distinctly different. Not because the observation is terminated upon observance of the major components without consideration for the other elements, but because the trademark is viewed as a whole and the similarities in their major parts contribute to the overall impression.

#### (b) Similarity in pronunciation

Similarity in pronunciation is when a trademark is referred to in speech or its pronunciation presents difficulty in differentiation, each circumstance posing risks of aural confusion.

Trademarks will inevitably be referred to in speech for transactions. Even if they are very different in appearance, if the pronounced name is identical or similar and poses risks of confusion, their similar pronunciation makes them "similar trademarks." If trademarks are similar due to similarity in pronunciation, it will become apparent through references to them in speech. It is not determined by consumers' subjective

interpretation of the pronunciation.

Deciding what a trademark's pronunciation should be is of significance. (For example, the combination of two *kanji*, one meaning 'red' followed by another meaning 'plum' can have phonetic symbols to indicate that the word is to be read "beni-ume," however "koubai" is another natural pronunciation of the same word. The combination of two *kanji*, one meaning 'white' followed by another meaning 'plum' can have more than one phonetic equivalent: "shira-ume" and "hakubai." Trademark Examination Guidelines p. 26.) Trademarks that are not indivisible such as "FUJI hakucho," where "FUJI" is written in a larger size than "hakucho," will be similar to the two separate trademarks "FUJI" and "hakucho" written in respective, approximate sizes. This is also true of trademarks that have two words positioned at a distance from each other. "Tsurukame Manju" is similar to "Tsurukame" and "Manju" respectively. There are trademarks that may have more than one pronunciation and concept. A trademark combining a diagram with "*riratakarazuka* (in *katakana*), Takarazuka (in *kanji*), LYRATAKARAZUKA" may be referred to in transactions for expediency and simplicity by part of its name and concept, as opposed to the name and concept of each of the parts. This is especially true if the link between the individual parts is weak. More than one pronunciation may arise in these cases. (Vol. 17, No. 12, Supreme Court, Minshu, p. 1621, Dec. 5, 1963. Its interpretation, Yoshida, "Hyaku Sen" (100 Selected Cases), p. 58. In the "Maru Kome" case, the ruling was that both "kome" and "yone" were natural pronunciations of the same trademark. In Sokuho No. 250, Tokyo High Court, Feb. 15, 1996, p. 7072, the same ruling found that *kanji* with the meaning 'rice' could be pronounced "kome" and "yone," was reached.)

In the case of trademarks formed by Roman letters, rulings on similarity in pronunciation will be made by observing the linguistic similarity of the word formed by the alphabets etc. Rulings on similarity of pronunciation from a "voice" or aural point of view takes many things into consideration. Courts making such a determination will ask a variety of questions such as the following. 1. What is the common thread between the two trademarks in terms of tone, volume, intonation, and syllables? 2. Do they rhyme? 3. Is the sound just before the long or short vowel more strongly heard? 4. Is the end of the word pronounced softer? 5. Or if the number of sounds is relatively big, does the impression of the whole sound similar? Judicial cases reveal a wide spectrum of rulings. Suffice it to say that it is not within the scope of this book to go into details, however the Trademark Examination Guidelines has been listed at the back of the book for your reference.

#### (c) Similarity in ideas

When consumers or traders think of two trademarks and find their meanings to be difficult to distinguish, a risk of confusion in the intellectual understanding of the products is created. This is referred to as "similarity in ideas."

There are cases where the appearance and pronunciation of trademarks are different, yet the ideas create a sense of similarity. Ideas can often act as an additional element in determining similarity in appearance or pronunciation, but can also be a criterion for determining similarity in their own right. An example is the ruling that "Seki no Sonroku" and "Sonroku" are similar (Vol. 27, No. 3, Tokyo High Court, Chitekishu, p.

637, Sept. 27, 1995, Appeal Mar., 5, 1996.). Similarly, "Harabeishu" was ruled as being similar to "Beishu", the artistic name of the doll maker Tokushige Hara. (No. 1560, Tokyo High Court, Hanji, p. 136, Dec. 6, 1995). Similarity in ideas was not the only factor in this case of similarity but it was central to the court's decision.

The Japanese letter (non-character) trademark "SHISHI" ('lion' in *kanji*) is similar in concept to "lion" ('lion' in *katakana*). The Japanese-version of the English word "lion" is widely-known in Japan as having the same meaning as "SHISHI." When determining the similarity between Japanese trademarks made up of words and letters and those consisting of foreign words, it is the extent to which the foreign word is generally understood in Japan that acts as the screening standard. Therefore, a letter trademark of a foreign word will be considered similar to that of a Japanese word with the same meaning if that foreign word is commonly used in everyday conversation. If it is not used in everyday conversation, then the two will not be considered similar. The same is true for trademarks whose concepts are presented in the form of a figure.

The notion of trademark similarity has developed from mere similarity in appearance, to similarity in pronunciation and finally to conceptual similarity. When it comes to decisions on the similarity of trademarks, the idea of conceptual similarity seems to play only an explanatory role. Conceptual similarity by itself has not always led to findings of similarity in trademarks, even in cases where the concepts were identical (but the other elements were not similar). On the other hand, the trademarks "MICROLON" and "MAKROLON" were ruled as being dissimilar because, despite the resemblance in pronunciation, the syllables "makro" and "micro," would evoke concepts in traders or consumers that have two distinct concepts. The ruling was based on the belief that "makro/macro" and "micro" were foreign words that would be understood by the public in everyday use as being words of foreign origin with opposite meanings. (Vol. 23, No. 1, Tokyo Supreme Court, Chitekishu, p. 25, Jan. 24, 1991. Also Vol. 48, Tokyo High Court, Torikeshishu (1995), Mar. 15, 1995.).

## (2) Person setting the standards and the timing of standards

### (a) Reference of the standards

If the ultimate standard for similarity in trademarks is whether there is likely to be confusion over their source, then it is dependent upon the nature of the people who view them. For example, there are people who have an interest in the product in question and pay attention to the trademarks and there are those who are not remotely interested in the products or the trademarks. There are highly educated people with a good vocabulary and there are those with little education and a basic vocabulary. There are business people who deal regularly with goods bearing the trademark and their rivals and those that do not. It is usually the more sophisticated or educated groups of people in each of these examples that are less likely to be confused. Therefore, the decision as to similarity depends on which section of the population is targeted by the goods and services bearing the trademark. Proactive standards for similarity need to take the "consumers of the goods or services" into account in accordance with the aims of the Trademark Law. (Vol. 1, Osaka High Court, Minshu, p. 765, Dec. 18, 1922. Case 2651.3.2. Supreme Court, April 29, 1963. No. 539, Hanji, Supreme Court, p. 30, Oct. 29, 1968). The principal consumers of the goods and services bearing the trademark may be groups such as the elderly, children, or housewives, and, along with considerations

for other goods and services and the milieu of the transaction, the consumers' "general scope of attentiveness" must be regarded as the standard. Trademark Examination Guidelines p. 26).

In one example, a consumer wanting to buy an expensive microscope used by experts and not easily available on the market for individual customers, will possess a greater scope of attentiveness to the trademark than a customer wanting to buy candy that could be easily bought by even a child. The former will be unlikely to buy the expensive item on impulse whereas a customer for the latter, most probably a child, could well buy the cheap candy on impulse. Therefore, it is less likely for confusion to arise even from a small difference in the trademark of the expensive microscope used by experts than it is for confusion to arise from the same level of difference in trademarks on items purchased on a day-to-day basis. The "risks for confusion" will be judged according to the nature of the product, so that what risks there are in the field of "candies" as a result of a difference in the composition of trademarks, will pose no risks in the field of "microscopes" where the trademarks possess the same level of compositional difference. The trademarks for microscopes will not be considered similar. An implication as to composition is enough to suggest similarity with respect to the candy, while the same level of implied composition is insufficient to imply similarity with respect to a sophisticated microscope.

Since the era of the Daishinin (former Supreme Court), similarity been judged with the consumers, the nature of the goods, and the transaction milieu in mind. (No. 4718, Osaka Court, Newspaper, p. 20, May 27, 1941. No. 539, Supreme Court, Hanji, p. 30, Oct. 29, 1968). The rulings on similarity should take into account those who trade and consume the goods and services bearing the trademark. It is their general depth of attentiveness that needs to be the standard governing the decisions. Note that the main concern is how attentive the general business partners and the customers for the goods and services are, not that of the business people involved in a particular aspect of the goods or services in question.

A good example is the ruling on "hanabira mochi", ('Flower Petals' rice cake), a fairly well-known type of Japanese rice cake which is mentioned in some general dictionaries and the like and is sometimes referred to as "hanabira" for short. Despite this, the court's ruling was that it could not automatically be assumed that the name was familiar to consumers of "snacks and bread," the class under which the product bearing the trademark was filed, even if it was familiar to workers dealing in traditional Japanese desserts and consumers who were particularly fond of them. The ruling was that the phrase "Chigiri hanabira" as a whole was distinctive enough to identify it from other products, the "chigiri" part of the trademark also having been ruled as being dissimilar to the cited trademark "CHIGIRI" written in *kanji*. (Vol. 22, No. 1, Tokyo High Court, Mutaishu, p. 311, Apr. 24, 1990.) Another example of a ruling that is just as extreme is the case of the trademark "MICROLON" and "MAKROLON" the cited trademark. The pronunciations of the two seem on the surface to be very alike, but because the traders and consumers can identify a specific concept from the name as a whole or from one part of the name, it was ruled that there was no ambiguity between the two, which were separate and distinct. The ruling was based on the belief that "micro" and "makro/macro" were words that would be understood by the public in everyday use as

being words of foreign origin with opposite meanings, so that they could be considered dissimilar and would not lead to confusion. (Vol. 23, No. 1, Tokyo High Court, Chitekishu, p. 25, Jan. 24, 1991.)

Because the standard for determining similarity between trademarks depends on the perceived normal depth of attentiveness of business partners and consumers, it must be pointed out that attention to trademarks in general, or to specific goods and services, changes with the times, just as people's knowledge of foreign words and the milieu of transactions change. These factors need to be considered when referring to cases from the past.

Another point of interest is that the similarity of trademarks for products found around the home is determined primarily with the consumers in mind, whereas the similarity of trademarks for interim product components is determined primarily with the business people requiring the raw ingredients in mind. But with the recent trend to take the risk of confusion as the ultimate criterion (Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mar. 11, 1997.), referring to past cases for guidance has become insufficient. Making judgments on similarity regarding past cases has always been difficult but applying it so that a standardized ruling is reached consistently is proving to be a problem.

(b) Timing of implementing standards

The timing of implementation of standards for similarity should take note of the potential for changes in factors influencing the transactions and the ways in which that would affect the risks for confusion regarding the source of the products. Therefore, for cases where trademark rights have yet to come into effect, the time to implement standards would coincide with the time of the ruling. For cases where trademark rights have been in force, the implementation of standards coincides with the time that the act of infringement occurred. (The trend to take the risk of confusion as the ultimate criterion regarding similarity (Supreme Court, Marc. 11, 1997, supra) has led to difficulties in applying the original concept of timing to infringement lawsuits. The ability to request an injunction and demand compensation for damages has led to an urgent need to review the whole idea of timing. It is balancing the fluctuating risk of confusion caused by current cases against the risk of confusion posed by a specific similar trademark. Trademarks that were considered similar at the time the right came into effect may now be considered dissimilar due to subsequent media attention brought about by a publicized trial for infringement. The question of how to determine adequate compensation for damages in cases where rulings on similarity depend on the timing of the implementation of standards remains to be answered.)

(3) Similarity examination methods

(a) Examination at different locations and times

Issues of similarity should be examined following an "interval," as in real life transactions, and not as a side-by-side comparison of marks. (Vol. 15, Daishinin, Minroku, p. 212, Mar. 12, 1911, No. 2312, Daishinin, Newspaper, p. 3, Jul. 15, 1926, No. 3266, Daishinin, Newspaper, p. 18, Apr. 21, 1931. Vol. 1 Appendix, Supreme Court, Gyoshu, p. 1936, Nov. 10, 1950). "Detached examination" is a way of observing two trademarks apart from one another (e.g. in a different location and at a different time). "Examination by comparison" involves taking the two trademarks and comparing them

side-by-side in the same location and at the same time. This unsuitable method is often the one chosen.

When consumers shop, purchases are made in one place and then later in another place. A product with a trademark advertised may be seen in a certain place at a certain time, but the consumer will probably pick up the product later in another location. It is because of this pattern of decision-making that similarity in trademarks needs to be examined in a differently (both in time and space) than a straightforward comparison affords. A side-by-side comparison will allow many details to be absorbed, so that the trademarks will seem dissimilar. However, when examined at another time, in a different venue, they could be considered similar.

It is often mistakenly assumed that detached examination is applied solely in the area of similarity in appearance but this is not the case. Current thought and actual judicial rulings prove that detached examination is just as applicable to similarity in pronunciation and in concept. Trademark Examination Standards states that trademarks should be examined for ambiguity by comparing the overall impression that the listener gets when the trademarks are verbalized in one location at a certain time, with the overall impression he gets when it is verbalized in another location at a different time. (Trademark Examination Guidelines, p. 28, 6(1))

(b) Examination of major component

"Examination of the major component" is a method of taking the component that provides distinctiveness in the trademark and studying that specifically. In other words, because the major component of the trademark functions as the indicator of the source, it makes sense to compare the appearance, pronunciation and concepts derived from that part in order to compare with those derived from the major component of the other trademark. (Kaneko-Someno does not accept the method of examining major components for appearance, p. 466, but since the examining of the major component is only a supplementary function of the examination of the whole, it does not seem necessary to make the exclusion.)

Examination of the major component is frequently used in settling similarity disputes. (No. 14, Osaka Court, Keiroku, p. 772, Sept. 22, 1910, No. 22, Osaka Court, Minroku, p. 1909, Oct. 16, 1916. Vol. 1, Osaka Court, Minshu, p. 597, Oct. 18, 1922., Vol. 5, Osaka Court, Minshu, p. 820, Nov. 16, 1926., Vol. 10, No. 7, Supreme Court, Keishu, p. 981, Jul. 3, 1956., Vol. 17, No. 12, Supreme Court, Minshu, p. 1621, Dec. 5, 1963.) However, there may be more than one major component in a trademark; consequently there may be more than one pronunciation and/or concept derived therefrom.

Fundamentally, trademark similarity should be judged by examining the marks whole; examination of the major component(s) should only be carried out when the whole is inevitably seen as a sum of major component(s) and secondary components.

If the trademark includes a component that describes the quality of the designated goods or services, it is customary to assume that that particular component does not function as an indicator of the origin of the product. So a trademark bearing an indication of the quality, raw materials or ingredients of the product ('descriptive words') will be deemed

similar to an otherwise similar trademark that does not include these supplementary (descriptive) parts.

For example, "super LION" and "LION" are considered similar. Similarly, the "SUPER" part of the trademark "PIONEERSUPER" is a term describing superior quality and does not function as a distinctive identifier of the product. (Hanrei 2707, Tokyo High Court, p. 103, Dec. 22, 1988.) In another example, the word "SOFT" in the trademark "SOFTJOY" describes the footwear's comfort and quality, but does not function as a distinctive identifier. (Second Term edit. 7241, Tokyo High Court, Hanrei p. 7, Sept. 6, 1990.) In the case of trademarks using a combination of words where one part is a letter in general use, they will be compared by omitting the letter part from the trademark as, for example, with regard to the sake "kiku masaune" (*kanji*) and "kiku" (same *kanji*). For trademarks composed of a trade name, trademark similarity will be judged first by excluding "limited company (or corporation)" or "K.K." the Japanese equivalent of "Co. Ltd." etc.

Recently the Supreme Court ruled that "KOZO" and "KOZOSUSHI" or "KOZOSUSHI" were not similar (Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mar. 1, 1997.). However the Tokyo High Court ruled that "KAPPA" and "KAPPASUSHI" or "KAPPAZUSHI" were similar. "SUSHI" is an indicator of the product and the discrepancy in the two rulings is therefore hard to justify. It is likely that, in future cases, the Patent Office may disregard the first as erroneous for in cases of infringement when dealing with standards of similarity. Even so, the "KOZOSUSHI" ruling has made it easier for those with established trademarks to protect and maintain their trademarks.

The well-established part of the trademark is usually the major component of the trademark. Even if the major component is actually smaller in size when compared to the secondary components, the pronunciation and concepts are deduced from the distinctive identifying characteristics of the major component. ("Shohyo Shinsa Kijun" p. 28, 5(1)). In the case of "SEIKO EYE," the cited trademark designated for watches and glasses, the Supreme Court explained that it was in fact the "SEIKO" part of the whole that people identified with the famous makers of watches, etc. The "EYE" was a general term used for the company's optical goods. As a result, the Supreme Court ruled that a trademark combining a cross-shape with the letters "EYE" had no similarity with "SEIKO EYE." (Vol. 47, No. 7, Supreme Court, Minshu, p. 5009, Sept. 10, 1993.). However, both trademarks can be used on watches. In which case, the "SEIKO" part of "SEIKO EYE" is identical to the rest of the products that the same company deals in. A more logical explanation would have been if the "EYE" part of "SEIKO EYE" and the trademark "EYE" were seen as having similarity in pronunciation.

A trademark can have more than one major component because a combined trademark may contain many parts that are equally significant. For example, in the "Mandarin Oriental Hotel" both "Mandarin" and "Oriental" are major components. The interrelationships of the trademarks' major components should be closely examined. There are trademarks that are easily divisible that will not be a unified whole, there are those in which one part of the major component is weak or has an appendage, and there are those with two components of equal stature. In such cases, a simplistic examination after an interval of time and space can create a risk of straying from the facts regarding the transaction.

Some trademarks can be easily divisible for various reasons. The whole may be so long that it creates difficulty in pronunciation or it may be long and have two major components, each in its own font. It could also be made up of components with different size letters. In contrast, a trademark that cannot be easily divided is likely to be short and easy to pronounce in one breath. "Nikkei," the shortened form of a famous newspaper, was combined with "gift" to form the trademark "Nikkei gift." The court ruled that the mark would be distinctive and identifiable as a single entity so that there would not be a similarity with other registered trademarks bearing the word "gift." (Vol. 24, No. 1, Tokyo High Court, Chitekishu, Nov. 12, 1991.). In the same way, "Bessatsu Friend" (a comic book) was distinctive and identifiable as a trademark of single entity and unlikely to be confused with "Friend English-Japanese Dictionary," when the transaction milieu was taken into account. (Vol. 24, No. 1, Tokyo High Court, Chitekishu, p. 528, July, 28, 1992.).

An important consideration is the traders' and consumers' usual ways of referring to long trademark. This is not the same as simply chopping up a name that is considered too long to pronounce. A fairly long trademark such as "KITCHEN HOUSE" is made up of two words of equal significance and both English words would be familiar in everyday use. It is simple enough to be pronounced as one name and not divisible without losing meaning. Because of this, the trademark was considered dissimilar to the trademark "HOUSE" which combines the letters of the word with a picture of a house. They differ in both the pronunciation and the concept. (Second Term edit. 7213, Tokyo High Court, Hanrei, p. 12, Jun. 11, 1990.).

An example of a case where a part of the major component is weak is seen with the comparison of the trademarks "Mandarin" and "New Mandarin." "New" is the weaker component of "New Mandarin" so the two trademarks are considered similar. In another case, a registered trademark, "PLUS," is designated to various musical instruments, stereos and their parts. The defendant used the marks "PIANO PLUS" and "RECORDER PLUS." Both marks consisted of the first component, which was the word indicating the type of product, and the second component, which did not have a direct link with the product. In terms of identifying one product from another, it was actually the "PLUS" component that caught the listeners' attention, indicating that this was in fact the major component. As a result, the ruling was that the defendant's marks were similar to the registered trademarks. It is perhaps of little significance but in this case, both "PIANO" and "PLUS" are weak components but the former is by far the weaker of the two. (Vol. 20, No. 1, Osaka Regional Court, Mutaishu, p. 47, Feb. 9, 1988.). Another example is the combined trademark, "lyratakazuka" (*katakana*) with a figure, "TAKARAZUKA" (*kanji*) and "LYRATAKARAZUKA." This is an example of the rule of thumb that says if the trademark is long and divisible, not all the components will be remembered nor will they give rise to concepts, but rather, in most cases, a simplified version will be found for pronunciation and conceptualization. (Vol. 17, No. 12, Supreme Court, Minshu, p. 1621, Dec. 5, 1963. See Yoshida "Shohyo Hyakusen" (100 Selected Trademarks) p. 58 for interpretation of the judicial ruling.).

An example of a case in which one component is an appendage to another can be seen when a trademark contains components that explain the nature of another component.



Frequently the appendage is an indicator of the quality of the goods or services bearing the trademark and does not function as a distinctive identifier. In a case debating the similarity of "JOY" and "SOFTJOY," the "SOFT" part of the latter trademark was seen as an expression of the quality and comfort of the footwear bearing the trademark, and did not contribute to its distinctiveness. The ruling in this case was that the two were similar. (Second Term edit. 7241, Tokyo High Court, Hanrei, p. 7, Sept. 6, 1990.).

The case discussed earlier regarding the trademark that combines the letters EYE within a diagram depicting a cross and its relationship to the trademark "SEIKO EYE" can also be viewed from this angle. Both trademarks are designated to watches and glasses. The analysis of "SEIKO EYE" was that the "SEIKO" part would be immediately associated with the famous watch makers, while "EYE" would be understood as the general term for eyes. In fact, "SEIKO" was the component people focused on when determining its pronunciation and concept, that trademark was different from the trademark with the cross and "EYE." (Vol. 47, No. 7, Supreme Court, Minshu, 5009, Sept. 10, 1993. Criticism of this ruling has been discussed earlier. The problem lies in how one interprets the significance of the words "SEIKO" and "EYE.")

(c) Examination of the whole

Examination of the trademark as a whole is fundamental to decisions concerning similarity because it is the impression made by the whole which gives marks their distinctiveness. (No. 102, Supreme Court, Minshu, p. 169, Jan. 21, 1971.). The examination of only the major components is only one method of viewing that can act as an aid. "Examination of the Whole" is to view the whole, including the major components, when forming rulings on similarity. This is not only true in similarity regarding appearance; it is significant in the similarity of pronunciation and of concepts. A verdict of dissimilarity might be reached after a viewing of the whole, even if there was, for example, a similarity in pronunciation. "Shouzan" (*hiragana*) was a trademark designated to thread, which came under scrutiny through a comparison with another trademark for glass fiber, which combined the word "Hyouzan" with a picture of an iceberg. According to the ruling, "trademark similarity needs to be judged according to the risks for causing confusion of origin if the trademarks are used on identical or similar products. The decision should be made with the actual circumstances surrounding transactions in mind, as the trademark thus used is viewed for its appearance, concepts and pronunciation and the impressions, memory and associations that they may instill in the traders." Despite the similarity in pronunciation, the two trademarks were considered not to be similar because their appearances and concepts were very different. Furthermore, in glass fiber transactions the trademarks were distinguished by their pronounced name only, but there had hardly been any need to check on the quality by finding out where it originated. As a result the two were judged to be dissimilar. (Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968. For an interpretation of the judicial ruling, see Yano, Ikuo, and "Interpretation of Judicial Ruling of the Supreme Court: 1968 (Minji edit.) p. 56.).

In another case, a trademark combining the letters "SPA" with a figure has been declared dissimilar to "SPAR spar" [where the second "spar" appears in katakana] because despite the similarity in pronunciation, the appearance, concepts and use are distinctive. (Vol. 28, No. 2, Tokyo High Court, Chitekishu, p. 406, Apr. 17, 1996.). The trademark combining "Kodak" with a figure is all too famous, but "Cosack" is also well

known. Even though Kodak is not a trademark associated with chemical goods, if the trademark was given to chemical goods, the traders and consumers would assume that they were somehow associated with the Kodak with which they were familiar. It is very unlikely even for chemical goods bearing the Kodak name to be confused with goods bearing the cited Cosack trademark; therefore the ruling was that the two trademarks were dissimilar. It is interesting that the familiarity of the Kodak trademark was taken into account in the decision. (Vol. 22, No. 3, Tokyo Court, Mutaishu, p. 551, Sept. 10, 1990.).

In contrast, "Daishinrin" (*kanji* for big, forest, bush) and the allegedly infringing trademark "Dairinshin" (*kanji* for big, bush, forest) are confusing in appearance and concepts, and depending on the situation, it was decided that the consumers might mistake one for the other. The original ruling stating that the two were dissimilar was quashed and the case referred back to the lower court. (No. 1437, Supreme Court, Hanji, p. 139, Sept. 22, 1992.).

In practice, if the trademarks have been examined in terms of appearance, pronunciation and concept with the result that there is similarity in at least one of these criteria, then except for those with special reasons, the trademarks as applied to goods and services will be seen to pose a risk of confusion as to origin. When the similarity in at least one of the three criteria is not enough to consider the trademarks similar, or if exceptional circumstances are being strongly voiced by those involved in the transaction, only then will a ruling be made by referring to the actual circumstances surrounding the transaction.

(d) Examination of major component(s) and examination of the whole

Although it may seem contradictory, the examination of the major component complements the examination of the whole, (Toyosaki, p. 367). A combined examination is the most thorough test of similarity. The impression of the whole is necessary and right, yet care must be taken to ensure that the ruling is not arbitrary depending on the examiner or the judge.

(e) Consideration for Factors affecting Transactions

Judgments on similarity may also take into consideration factors such as the relationship between the trademark and the goods or services, and the customs of trademark use in that particular industry that might affect transactions. However, the other considerations must be generally and consistently applied, such as the usual method of transaction for that type of product, the use of trademarks and the existence of trademarks belonging to other businesses. (Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968, Vol. 1, Tokyo High Court, Mutaishu, p. 280, Sept. 2, 1969.). Recent trends show an increase in rulings that take current factors into account (Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mr. 11, 1997.) The recent trend has been to permit for consideration the relative familiarity of trademarks (Vol. 21, Osaka High Court, Minshu, p. 651, Jun. 10, 1942; Vol. 14, No. 12, Supreme Court, Minshu, p. 2408, Oct. 4, 1960; Vol. 14, No. 14, Supreme Court, Minshu, p. 3103, Dec. 20, 1960; Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968; Vol. 8, No. 2, Tokyo High Court, Mutaishu, p. 249, Jul. 13, 1976; Vol. 17, No. 3, Tokyo High Court, Mutaishu, p. 444, Oct. 15, 1985, Toyosaki, p. 368.).

Factors that are not permitted for consideration include fluctuating factors that affect only the transactions of the designated products, the differences or similarities of trademark appendages (Vol. 4, No. 11, Tokyo High Court, Gyoshu, p. 2707, Nov. 5, 1953), and the differences or similarities of wrapping papers (Vol. 10, No. 6, Tokyo High Court, Gyoshu, p. 1161, Jun. 23, 1959).<sup>12</sup> Recent Supreme Court rulings reflect a tendency to seriously consider the factors affecting trade and to view the risk of confusion to be synonymous with similarity. The Supreme Court's ruling of dissimilarity for the "KOZO"/"KOZO SUSHI" case was the most poignant example of this. (Supreme Court, Mar. 11, 1997, supra.). Viewed within the framework of past examples, this ruling is tantamount to a change in the law.

(c) The Relationship between goods and services and confusion

The concept of "similarity" has, as its counterpart, the concept of "confusion." (Section 4 (1) (xv)). What is meant by "confusion over goods and services" is in fact "confusion over the origin of the goods and services." Until recently, rulings on "similarity" were an acknowledgement that a danger of an abstract, stereotypical sort of confusion regarding origin existed. However, the Supreme Court is now considering actual transaction practices in determining verdicts.

Registered trademarks which are not in use (but are within 3 years of registration) come under the same protection given to all trademarks; the future use of registered marks needs to be protected. That a mark is not in use will not be permitted as a defense (No. 4598, Daishinin, Newspaper, p. 9, Jun. 27, 1941). For trademarks not yet in circulation, rulings will be conducted in the customary manner. However, if a trademark begins to be used during judicial proceedings, the ruling might be influenced, threatening the stability associated with registration. These issues need to be settled at some point by the Supreme Court's Grand Bench, but for the time being the courts will rule on similarity based on market practices while the Patent Office continues to make judgment on similarity regardless of the rulings of the Supreme Court.

In practice, when the appearance, pronunciation or concepts of two trademarks are ambiguous, the closer the marks are to each other in semblance and the more likely it is for confusion to occur regarding the source of the goods or services. The German Law requires that "goods be of the same type" and have a "risk of product confusion" to exercise the prohibitive right with regard to registered product trademarks, while Japanese Law considers the similarity of goods and/or services and the "similarity of the trademarks" within the scope of prohibitive right of registered trademarks. Even so, with the Supreme Court's ruling that "similarity of trademarks" poses "risks for product confusion" the discrepancies in the outcome according to the two Laws have become negligible. Interpreting similarity has evolved from an emphasis on the composition of trademarks derived from a similarity of marks, to an emphasis on similarity causing risks of confusion. With the ruling on "Kozozushi," the concept of confusion-similarity (where the two concepts of confusion and similarity are merged into one concept of similarity) has been firmly established. (Supreme Court, Mar. 11, 1997, supra.).

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<sup>12</sup> Nakamura follows the changes in factors affecting transactions in theories regarding trademark similarity, p.238. Nakamura, "A hypothesis: 'Rule of Thumb' or 'Factors affecting Trade'" serialized in Tokyo News (Patent News.)

Recently, in determining similarity, the Supreme Court will take into account the practical market situation while paying attention to possible confusion of goods and services in transactions. In practice, this stance results in well-known trademarks being advantageously protected. (Unfair Competitions Prevention Law, Section 2(1)(ii) has recently been set up which removes the need to prove a risk of confusion.).

(d) Resulting effect of ruling confirming Similarity

A trademark that bears similarity to an already registered trademark cannot be filed by a third party because of the confusion that it will cause regarding source. To allow such a filing would violate the fundamental order of Trademark Law that upholds the notion of the "uniqueness of the trademark;" therefore, the later filing will be refused. (4 (1)(xi), 8,15,43(2) and 46.). The associated trademark system that was previously in place was accepted because it had no adverse effects, but since its abolition, each trademark must now be registered independently. This change has provided the impetus for the role of trademark monitoring to shift from the law to the individual. Under the previous law, the transfer of associated trademarks had been a legal impossibility. Now, if a trademark is registered in error that is similar to an existing mark and were to be handed over to a third party, it will result in limiting the effect of your the first trademark.

Using a trademark that is similar to a registered trademark is forbidden because it violates the uniqueness of the registered trademark. (Section 37(1)). If a person uses an amended trademark which is similar to his own registered trademark and it results in a confusion of origin with another person's registered trademark, then the original trademark may be canceled. (Section 51). Until recently, the concept of trademark similarity had been used in Trademark Law in connection with prevention of "risk of confusion over source," because similarity was more suited to our people's thought patterns when compared to the concept of "danger of confusion." However the more recent Supreme Court rulings indicate that the two have now become indistinct. With the deletion of Section 6 of Unfair Competition Prevention Law, it is likely that the cases dealing with similarity will in practice be ruled much more frequently under the Unfair Competition Prevention Law than under the Trademark Law.

(e) Color and Trademark Similarity

Trademarks that differ only in color are considered similar; this is included in the provisions for exceptions. (Section 70). If color is used in the trademark, pronunciation and ideas may stem from the color.

(f) Trademark Examination Guidelines regarding Similarity in Trademarks (4(1)(xi). Trademark Examination Guidelines p. 26 and p. 34).

- (1) Rulings on trademark similarity must take a comprehensive view of appearance, pronunciation and ideas.
- (2) Ruling on trademark similarity must take into consideration normal market practices including the primary consumer group of the goods or services bearing the trademark (for example, experts, the elderly, children or women). The consumer's usual scope for attention must be the standard that guides the ruling.
- (3) For pronunciation of trademarks written in letters that contain phonetic indicators,

the following should apply:

(i) For a trademark containing *kanji* for 'red' and 'plum,' even if a phonetic indicator "beni-ume" is included, the pronunciation "koubai" will also be assumed.

(ii) For letter trademarks that have two or more natural pronunciations, such as in the trademark containing *kanji* for 'white' and 'plum,' where "hakubai" and "shira-ume" are natural pronunciations, even if one is used as a phonetic indicator, the other will also be assumed.

(iii) For trademarks containing phonetic indicators that coincide with a natural pronunciation, then an unnatural pronunciation will not be considered an option. For example, a trademark containing three *kanji*, 'dragon,' 'rice field' and 'river,' with the phonetic indicator "tatsutagawa" alongside it, will only have "tatsutagawa" as its pronunciation. An unnatural pronunciation such as "ryudensen" will not be assumed.

(4) In the case of combined trademarks, the degree of emphasis for each component and the relationship between them needs to be considered. However, where there is evidence of considerable difference in appearance, pronunciation or ideas, the following may not necessarily apply.

(i) Combined trademarks containing descriptive words or phrases (that indicate the quality of the goods, ingredients, originating region, etc.) will be deemed similar to those which do not have the same appending component.

Example of similarity

"SUPER LION" and "LION,"

"GINZA KOBAN" and "KOBAN,"

"LADY GREEN" and "LADY."

(ii) Trademarks containing letters which vary in size will be deemed similar to a trademark which is otherwise similar except for the size of the letters.

Examples of similarity:

"FUJI HAKUCHO " and "FUJI" or "HAKUCHO"

"SUN MOON" and "SUN" and "MOON"

(iii) Trademarks containing parts or words which are positioned considerably apart will in principle be deemed similar to a trademark consisting solely of one of the parts.

Examples of similarity:

"Tsurukame Manju" and "Tsurukame" or "Manju"

(iv) Trademarks that, due to a long pronunciation, or due to components that are more significant than the rest so that a simplified name is a possibility, will be deemed similar to a trademark consisting solely of that simplified name.

Examples of similarity:

"Cherryblossomboy" and "cherryblossom"

"Chrysanthemumbluesky" and "chrysanthemum" or "bluesky"

(v) Trademarks that combine a word with a general term used in association with the designated goods or services will be deemed similar to a trademark consisting of the trademark minus the general term.

Example of similarity (for product trademarks):

For sake: "Otokoyama Fuji" and "Fuji", "Kiku Masamune" and "Kiku"

For folding knives: "Sakura Higomori" and "Sakura."

Example of similarity (for service trademarks):

For booking seats on leisure travel: "Playguide Shuttle" and "Shuttle"

For hotels: "Kuroshio Kanko Hotel" and "Kuroshio."

(vi) Trademarks combining a well-known trademark for designated goods and services with other words will be deemed similar to the well-known trademark.

Examples of similarity:

For tape recorders: "SONYLINE" and "SONY"

For delivery by air: "JALFLOWER" and "JAL"

For film production: "TOHOHAKUBAI" and "HAKUBAI."

(vii) Trademarks that are also trade names (including trademarks consisting of the abbreviated form of the trade name) will be deemed similar to trademarks consisting solely of the major component and excluding "Co., Ltd.," "Association," "CO.," "K.K.," "Ltd.," "Union," "cooperative" etc., regardless of where they are positioned in the original trademark.

(5) (i) If a trademark consists of a significant identifying component, even if it is indicated in smaller print than the insignificant components, the mark's pronunciation and concepts would result from the identifying component.

(ii) If trademarks are colored, the pronunciation and concepts will result from that part.

(iii) If the major component of the trademark does not contribute to the trademark's distinctiveness, but that component, through use, acquires distinctiveness, then the pronunciation will result from that component.

(6) When trademark pronunciation is examined solely in terms of the use of voice, either (I) or (II) listed below shall apply.

In determining similarity in pronunciation of trademarks, the tone, volume, intonation and syllables of the trademarks will be examined for similarities (see notes 1-4). The trademarks will also be examined to determine if they are made-up words (different concepts may affect intonation and the attention given to pronunciation). The two trademarks will be verbalized at different times and in different locations, in order to gauge the overall impression to the listener in order to determine the risk for confusion.

When both trademarks come under the standards listed in II(1) to II(8), they will be deemed similar.

(Notes 5-7).

## I.

[Note 1] Decisions on similarity of tone between two trademarks (nature of sound resulting from the quality of the vowel and consonant) are based on the following:

(a) Does the syllable that is not identical to any syllable of the mark in question have a vowel that is the same? For example, in Japan, the court will look at the distinguishing syllable and see if it 1). is either in the middle or at the end of the word and has the same vowels or 2). has consonants that are similar based on the position of the stressed or emphasized syllable. (Questions the court may consider include: Are the syllables articulated identically or at least similarly, according to the consonant table? Are they both, for example, bilabial or fricative sounds? Some discrepancies occur depending on the position and articulation of the dissimilar syllable as compared to the number of syllables in all.) When the same vowel is used, the whole often sounds alike.

(b) Does the syllable that is not the same as its counterpart in the other mark have the same or a similar consonant? For example, the one syllable that is different (1) has consonants that is in the same column within the Japanese alphabet table and whose vowels are alike due to the shape of the mouth and the positioning of the tongue: 'e,'

long 'a' and 'i' are alike; 'o,' short 'a,' 'u' are alike; or (2) is a syllable included in the columns of 'ga, za, da, ba', being mistaken for a syllable in "pa" column, or a syllable in the columns of 'ka, sa, ta, ha' respectively. In these cases the impression made by the whole is very similar.

[Note 2] Decisions on volume (the length of the syllable) are based on the following.

(a) Is the syllable that does not have a counterpart in the other mark a prolonged sound of the vowel in the previous syllable? (The sole difference would be whether a prolonged sound is there or not).

(b) Is the dissimilar syllable a halting of the consonant that follows? (The sole difference would be whether a quick sound such as pp, tt, ss is there or not).

The length of a sound is linked to volume (loudness/softness) because both prolonged and quick sounds tend not to be noticed. By contrast, the syllable just before the prolonged or quick sound tends to be noticed. Prolonged and quick sounds often give the impression of forming a unit of sound that may also be treated as a syllable.

[Note 3] Decision on intonation (the combination of loudness or softness of sounds and the positioning of the accent or stressed syllable) is based on the following.

(a) Is the dissimilar syllable a soft sound (weak resonance) in both cases? Is there a soft sound in one and not in the other? Or is it simply that one is a prolonged sound and the other a quick sound? Soft sounds tend to be absorbed into the previous syllable and difficult to hear.)

(b) Is the dissimilar syllable in both cases placed in the middle or the end of the word? Middle and end syllables are heard as relatively soft.

(c) Is the beginning or the end of the words pronounced in the same loud sound? When the strong syllable comes at the beginning or the end of a word, the impression of the whole is often alike.

(d) In European letter trademarks, does the accent fall on the same syllable in both cases?

The volume of sound is sometimes a result of the mechanism involved in its articulation. Vowels 'i' and 'u' are pronounced with the mouth slightly open, 'm' and 'n' are pronounced with the mouth shut, 'f' and 's' are pronounced without the vocal cords vibrating, all of which contribute to the softness of the sound. In addition, a sound will seem soft or loud in relation to others depending on the position of the dissimilar syllable and the number of syllables and their length. For example, even if the differing syllable is a soft sound according to the above, it may not be considered soft if those on either side are also soft.

[Note 4] Decisions on syllables are based on the following.

(a) In regard to the number of syllables:<sup>13</sup> Do the two marks both contain more than one syllable? The overall impression often sounds alike if there are a fair number of syllables in each, even if one of the syllables is dissimilar.

(b) Is there a common characteristic in the way the two marks fall naturally into

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<sup>13</sup> Each *kana* is a syllable. A *kana* combined with a small *kana* such as 'kya' and 'sho' is a syllable. Prolonged and quickened sounds as well as the 'n' are all considered to be single syllables.

syllables or pauses? When there is a common characteristic the overall impression often sounds alike.

[Note 5] The standards listed are the main, recurring criteria that were taken into account in reaching a decision of similarity in a number of pronunciation-related cases.

[Note 6] Standards (1) through (8) deal predominantly with tone, intonation, volume, and syllables; each factor affects rulings. One factor not listed anywhere between Notes 1-4 is a change in pronunciation over time. For example, two consecutive syllables may, over time be inverted in pronunciation.

[Note 7] Even if the case falls into one of criteria (1) - (8), the following three exceptions will apply if the overall impression is different.

(a) When there is a conspicuous difference in the tone or intonation of the first syllable.  
(b) When the dissimilar syllable is not at the beginning of the word but there is conspicuous difference in the tone (for example if the dissimilar syllable has a consonant in the same column but with distinctly differing vowels) or in the intonation (for example if a strong accent falls on the dissimilar syllable.)  
(c) Regarding syllables

(i) when there are only a few syllables (less than three.)

(ii) when there is an obvious disparity in the way they fall into natural syllables or pauses.

Standards (6) and (7) will apply in cases that do not belong to (1) through (5).

(II) The second set of criteria for determining similarity in pronunciation is as follows.

(1) Both contain the same number of syllables and the one dissimilar syllable has the same vowel:

"schipper" (*katakana*) "skipper" (pronounced 'skippah')

"VANCOGIN" "BUNCOMIN"

"MIGION" "MICHION"

(2) Both contain the same number of syllables and the one dissimilar syllable is in the same column within the Japanese alphabet phonetics table:

"ASBA" (*katakana*) "ASPE" (*katakana*)

"Atomin" "Atamin"

"VULKENE" (pronounced 'varuken') "VALCAN" (pronounced 'varukan')

(3) Both contain the same number of syllables and the one dissimilar syllable's sole difference is that of the "pure" syllable of 'h' 'k' 's' 't' has been changed to 'b' or 'p', 'g' 'z' and 'd' respectively:

"HETRON" (pronounced 'hetoron') "PETRON"

"KUREKA" "GLECA"

"SANSHEEL" (*katakana*) "SANZEEL"

(4) The dissimilar syllable is a weak syllable in both cases, or the weak syllable is omitted in one:

"DANNEL"(pronounced 'danneru') "DYNEL" (pronounced 'daineru')



"Yamasei" (*kanji*) "Yamase" (*katakana*)

"VINYLA" (pronounced 'binira') "Binilus" (pronounced 'bilirasu')

(5) The difference between the dissimilar syllables lies in the omission of the prolonged sound or of the quickened sound, or in the replacement of the prolonged sound with the shortened sound, or with a weak sound or vice versa.

"Lehman" (*katakana*) "Leman"

"coroneht" (*katakana*) "CORONET" (pronounced 'koronetto')

"takarahato" (*hiragana*) "takarahto" (*katakana*)

(6) Fairly long words containing the same number of syllables where only one syllable differs.

"saibatoron" (*katakana*) "saimotoron" (*katakana*)

(7) Fairly long words where one contains an extra syllable:

"CAMPBELL" (pronounced 'canpuberu') "Cambell"

"BPLEX" "VITAPLEX"

(8) Others where the overall impression is alike include:

(a) Words where two syllables are dissimilar but their differences fall into one of the categories from (1) to (5), listed above:

"COREXIT" (pronounced 'korekushitto') "Coreskit" (*katakana*)

"biserajin" (*katakana*) "bizeramin" (*katakana*)

"Frehgen" (*katakana*) "Frigen" (*katakana* and *hiragana*)

"tenjingan" (*kanji*) (pronounced 'tenjingan') "denshingan" (*kanji*) (pronounced 'denshingan')

"COMPA" "COMBER"

(b) One syllable is a single *kana* and the corresponding syllable in the other words is a merging of two *kana*:

"SAVONET" "SHAVONET" (*katakana*)

(c) The syllable that differs from its counterpart in the other mark is similar to a word of foreign origin in its vowel or consonant and is pronounced as the foreign word:

"TYREX" (pronounced 'tairekkusu') "TWYLEX" (pronounced 'tyuirekkusu')

"FOLIOL" (pronounced 'foriohru') "HELIOL"

(d) The vowel or consonant of the dissimilar syllable is the same as that of the other mark:

"SALIGZE" "Sally Gee" (pronounced 'sariji')

"CERELAC" (pronounced 'cererakku') "SELENOC"

(e) The sound that has the greatest impact in pronunciation appears in both:

"hapaya" (*katakana*) "pappaya" (*katakana*)

(f) Others:  
"POPISTAN" "HOSPITAN"

Note: The pronunciations indicated in the above parentheses were authorized in trial decisions.

(g) Guidelines relating to the similarity of three-dimensional trademarks

The promulgation of regulations relating to three-dimensional trademarks has far-reaching implications for the economic activities of those other than the owners of trademark right. This is particularly the case in Japan due to the overriding significance given to registration and to the semi-permanent status of the trademark right. The Patent Office has announced in brochures outlining and explaining the new Law, that distinctiveness will be rigorously examined in rulings on similarity. Furthermore, guidelines as to similarity of three-dimensional trademarks were announced and were later assimilated into the Similarity Examination Standards. The original guidelines are as follows:

(a) When compared to a two-dimensional trademark, the three-dimensional trademark has a distinctive feature: its appearance depends on the angle from which it is viewed. Fundamentally, however, the rationale behind the rulings on similarity is the same; the normal scope of attention of the principal consumer groups (experts, the elderly, children, ladies etc.) of the goods and services bearing the trademark will be taken as the standard, taking into account any other relevant market factors. These standards are used in examining the trademark's appearance, pronunciation and concepts, in the same manner as for two-dimensional trademarks.

(b) With these points in mind, rulings on similarity for three-dimensional trademarks will on the whole be conducted as follows. One exception will be when the three-dimensional trademark is viewed from an angle whereby its distinctiveness is not apparent because it is unlikely that such an angle would be used when examining the origin of the product in transactions.

A three-dimensional trademark should resemble an identical or similar two-dimensional trademark when the three-dimensional trademark is viewed from a specific angle.

Three-dimensional trademarks which have a common appearance (or very similar) when viewed from a specific angle will be considered similar in appearance.

The pronunciation and concepts of three-dimensional trademarks will also be associated with the view from a specific angle and not just of the whole. When the trademark consists of a combination of a three-dimensional shape and letters, pronunciation and concepts could conceivably be derived solely from the letters.

The original guidelines as stated above have now been assimilated into the current Trademark Examination Standard as follows:

7. (1) Taking into consideration that the distinctiveness of three-dimensional trademarks depends on the angle from which it is viewed, rulings on similarity will be conducted as

follows. However, there may be exceptions when the three-dimensional trademark is viewed from an angle whereby its distinctiveness is not apparent.

(a) A three-dimensional trademark should be viewed from a specific angle where the image received is similar in appearance to the comparable two-dimensional trademark.

(b) Three-dimensional trademarks which have a common appearance (or very similar) when viewed from a specific angle will be considered as possessing similarity in appearance.

(c) The pronunciation and concepts of three-dimensional trademarks will also be associated with the view from a specific angle and not just of the whole.

(2) When the trademark consists of a combination of a three-dimensional shape and letters, pronunciation and concepts may be derived solely from the letters.

(3) Protection of well-known indicators

(a) The standing committee on trademarks within the World Intellectual Property Organization (WIPO) held a meeting in June 1999 where 70 nations, including Japan and other international organizations, adopted a resolution to "recommend the protection of well-known trademarks." The general assembly of the Paris Union, concerned with the protection of industrial property rights, and the general assembly of WIPO will present this recommendation as a joint resolution to their members at a later date.

As if to predict this, the Patent Office revised the Examination Standards for Trademark Law 4 (1) (x), (xi), (xv), (xvi) and (xix)] in June 1999 under the heading "Amendment of Standards relating to Protection of Well-known/Famous Trademarks." The trademarks are referred to as well-known/famous trademarks, but the protection concerns the famous trademarks more so than the well-known ones. In fact, the distinction between the two is unclear, which is probably why the phrase "protection of well-known/famous trademarks" was adopted.

The Patent Office announced the examination procedures for the protection of well-known and famous trademarks and introduced the documents for both application and examination. There are problems in applying for well-known or famous trademarks that will be dealt with later. The new examination procedures clarified the use of foreign country names in trademarks. And the Trademark Examination Standard was revised, the details of which will also be discussed later.

The Patent Office reviewed the examination standards regarding the protection of well-known and famous trademarks. This is merely a review of standards for the benefit of the Examiners. It is not a decision that impacts the interpretation of law in the courts.

(b) Similarity in the Trademark's Scope of Protection

(1) The international climate leading up to the review of the protection afforded well-known or famous trademarks has been briefly addressed; the domestic situation still needs to be examined.

Similarity is found when two trademarks, being used on their designated products in transactions, are compared and lead to confusion over the origin of the products. (See, for example, Vol. 15, No. 6, Supreme Court, Minshu, p. 1730, Jun. 27, 1961; Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968; No. 1437, Supreme Court, Hanji, p. 139, Sept. 22, 1992; Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mar. 11, 1997.)

In the Daishin-In period (particularly in the Meiji era) similarity was interpreted only in terms of the likeness of the marks themselves, irrespective of market factors. There were Daishin-In rulings that considered trademarks to be similar if even one of the three criteria of appearance, pronunciation or concept, was similar, and some Patent Office operations followed their example. In some cases, an indication of similarity in pronunciation is sufficient for two trademarks to be ruled as similar. Perhaps it is not an offense to rule on similarity solely on similarity of pronunciation.

Even in those days there were rulings that stated "It is obvious that we cannot accept that trademarks are always similar just because their pronunciation is identical, without taking into account other factors such as their form." (753, Daishin-In, Hanrei, p. 7, May 28, 1900.). The original decision for another case argued that similarity existed between the trademarks "kouka" (*kanji* word meaning 'favorable' and 'flower') and "kouka" (*kanji* word meaning 'royal' and 'flower') because "comparisons must not be made solely on the basis of a difference in letters" and because their pronunciation is the same. It is not surprising that this decision was later re-tried and judged to be wrong on the basis that a holistic observation was neglected. (767, Daishin-In, Hanrei, p. 9, Oct. 12, 1930.).

The concept of "similarity of trademarks" has been radically transformed since the Daishin-In days. This is evident in the prevailing notions and in actual cases of the Supreme Court, even in cases that deal with examination. Similarity in pronunciation is seen as only one factor in a system that makes its rulings based on the view of the whole because the appearance, pronunciation and concepts of the trademark under actual market conditions are the determining factors whether the two are likely to cause confusion over source.

These cases have become "anchor precedents" in their significance regarding the change from the original Daishin-In rulings. Certain questions still need to be answered, however, including the issue of whether to use the "empirical rules" method or to consider actual market factors in rulings on similarity of trademarks not yet in use. Registered trademarks that are not in use (but within 3 years of registration) come under the same protection given to all trademarks because their future use needs to be protected. It is not an adequate defense to argue that the mark was not in use, [No. 4598, Osaka High Court, Newspaper, p. 9, Jun. 27, 1940.] For trademarks not yet in circulation, rulings will be conducted in the customary manner. But if trademarks start being used during judicial proceedings, the ruling might be influenced, threatening the stability associated with the "registration principle." These issues need to be settled at some point by the Supreme Court's Grand Bench.

Recently the trends to take unfair competition seriously have become so strong that similarity of trademarks is being defined solely by whether it poses a risk of confusion

or not. If such a risk does not exist, courts will frequently declare the marks dissimilar. (Mar. 11, 1997, Supreme Court op.cit.).

(2) Actual cases in which the Supreme Court ruling reflects an Emphasis on Transactions

(i) In the beginning the Supreme Court explained the presumption regarding of trademarks in the Tachibana *shouchu* (distilled spirit) appeal:

"It is appropriate to rule on the similarity of trademarks by considering whether a trademark's use on a product will pose a risk of confusion over the product's origin." (Vol. 15, No. 6, Supreme Court, Minshu, Jun. 27, 1961.).

(ii) However, in the Hyozan appeal, the interpretation had evolved as follows:

"Trademark similarity should be decided by considering whether the use of both trademarks on identical or similar products will cause confusion regarding identity of origin. It is important to view the whole, taking into account the impression, memory and association that a mark's appearance, concept and pronunciation trigger in the trader. A comprehensive observation of these factors, combined with as much information as is available regarding market factors surrounding the transaction, need to be taken into account in reaching a verdict." (Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968.).

(iii) The following is taken from the Daishin-In appeal case:

"In defining the similarity of trademarks on identical or similar products, it is important to take a view of the whole, taking into account the impression, memory and association that its appearance, concept and pronunciation trigger in the trader. A comprehensive observation of these factors along with as much information as is available regarding market factors surrounding the transaction need to be taken into account in reaching a verdict. (No. 110, Gyo- Tsu, Supreme Court, 1964; Vo. 22, No. 2, Supreme Court/Third Small Court Ruling, Minshu, p. 399, Feb. 27, 1968.). Even if, upon a thorough observation, the appearance, concept and pronunciation are not individually similar, the marks when viewed as a whole may be similar depending on actual trading situations. It is therefore necessary to remember that actual trading situations, which take into account the elements of appearance, concepts and pronunciation, will influence the similarity of the marks as a whole. (No. 165, Supreme Court, Minshu, p. 407, Sept. 22, 1992.).

(iv) The following citation is from the Kozozushi appeal (Supreme Court, Mar. 11, 1997, op.cit.):

"In determining similarity for trademarks on identical or similar products, it is important to view the whole, taking into account the impression, memory and association that the appearance, concept and pronunciation trigger in the trader and consumer. A comprehensive observation of these factors along with as much information as is available regarding market factors surrounding the transaction need to be taken into account in reaching a ruling. The similarity of trademarks in appearance, concepts and pronunciation are only a standard for gauging the risk of confusion of origin of the products. Therefore, even if there is similarity in one of the three elements, significant differences in other elements or the presence of market factors that nullify the risks of confusion will not automatically result in a finding of similarity of the trademarks. (No. 110, (Gyo-Tsu), Supreme Court, 1964; Vo. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968.).

(3) Emphasis on the idea of "actual market practices" as it relates to actual rulings and the protection of well-known trademarks

Trademark similarity should be decided by considering whether the use of both trademarks on identical or similar products is likely to cause confusion over identity of origin. It is important to view the mark in question as a whole, taking into account the impression, memory and association that its appearance, concept and pronunciation trigger in the trader. A comprehensive observation of these factors along with as much information as is available regarding market factors surrounding the transaction need to be taken into account in reaching a decision. This will naturally result in an expansion of the scope of the well-known trademark's effects.

However, since a view of the whole is fundamental to rulings on similarity, there will be cases where trademarks with similarity in pronunciation will, after an overall review, be declared dissimilar. (Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968.). Infringement litigation should be treated in the same fashion, with "risks of confusion over origin" being the deciding factor, after actual market factors have been taken into account. It is therefore too simplistic to assume that well-known or famous trademarks are treated as exceptions.

The Supreme Court's ruling proves that a view of the whole is the governing principle. The Court further discusses the idea that the composition has an impact as a single united entity, so an overall view is essential. Merely observing the major component is only valid as a means to assist the overall view, as further expressed by the Court. (Toyosaki, p. 367)

Therefore, similarity in trademarks is defined as trademarks that, when used on products in transactions, will cause difficulty in differentiation to the point of being likely to cause confusion over the products' sources. (Vol. 15, No. 6, Supreme Court, Minshu, p. 1730, Jun. 27, 1961; Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968. In the past, market forces were not taken into account. A likeness in the actual marks was interpreted as similarity of trademark.) Perhaps a change in standards such as this one is a call for a change in direction across the board.

In the German Law, the concepts behind the laws protecting registered trademarks and the scope of the prohibitive right of registered product trademarks, have been "same type of product" and "risk of confusion (verwechslungsgefahr)." In Japan, on the other hand, they have been "similarity of product" and "similarity of trademarks." To use similarity of trademarks as a standard for judicial rulings, "similarity" cannot simply be "a likeness." Questions of exactly what resembles what according to which standard, need to be addressed. The Trademark Law defines trademark similarity as not only a resemblance in the outward appearance of the mark, but also anything that is likely to cause a risk of confusion for traders and consumers if the trademarks were used on goods or services. This has now become the ultimate standard. (Supreme Court, Mar. 11, 1997, op.cit.).

Traders and customers still generally use the old-fashioned method. That is, they look at the appearance, hear it pronounced and understand the concept in order to distinguish

the goods and services bearing the trademark. The appearance, pronunciation and concepts are the criteria by which trademarks are compared by the public and if any of them are considered difficult to differentiate, then the trademarks will be deemed similar. (Vol. 1, Tokyo High Court, Mutaishu, p. 280, Sept. 2, 1969.). Because, in most cases, this method suffices to define similarity, it is the method that is predominantly used in practice. (In the past, when the trademarks being compared were similar in any one of the three criteria, the trademarks were automatically considered to be similar. Hanrei, p. 742, Daishin-In, Mar. 14, 1931; Hanrei, p. 743, Daishin-In, Aug. 20, 1942.).

Confusion over the appearance or formation of trademarks is "similarity in appearance," confusion over the pronunciation of trademarks is "similarity in pronunciation," and confusion over the meaning of the trademarks is "confusion over concept." Empirical rules use these criteria as standards for deciding similarity. (Only Shibuya still considers this the basic test for similarity.) However, as explained earlier, the ultimate standard for determining similarity is not any one of these, but in the overall observation of the transactions, taking into account a comprehensive view of the appearance, pronunciation and concepts. ("Shohyo Shinsa Kijun" (Trademark Examination Standards,) p. 26.). Unlike in law suits, the risk of confusion is not as easily identified in trademark examinations. And because confusion of products is likely to occur in cases of similarity in appearance or pronunciation, when either of these are present, the trademarks will typically be declared similar. (Trademark Gazette, Feb. 17, 1936 issue, Daishin-In, Jan. 14, 1936. Takeda in "Shohyo no Ruiji" (Similarity in Trademarks) mentioned earlier, includes concepts.). If similarity in concepts is the only ambiguity found, there is little risk of confusion and it is usually not sufficient come to a conclusion of similarity, unless there are other market factors that need to be considered. Nakamura follows the changes in theories on trademark similarity and its relationship to factors affecting transactions, p. 238. Nakamura, Hideo. " A hypothesis: 'Empirical Rules' or 'Factors affecting Trade'" serialized in "Tokkyo News" (Patent News.). Recent High Court rulings reflect a tendency to take seriously the factors affecting trade and to view the risk of confusion as synonymous with similarity. The High Court's ruling of dissimilarity for the "KOZO" /"KOZO SUSHI" case was the most poignant example of this. (Supreme Court, Mar. 11, 1997.). This ruling is tantamount to a change in the law. (For the time being, the courts will most likely rule on similarity based on market practices, while the Patent Office continues to make is own judgments on similarity regardless of the rulings of the Supreme Court.).

The reality in the market is that when the appearance, pronunciation and concepts of trademarks are ambiguous, particularly when the marks are alike, there is a specific "risk of confusion over the origin of the goods or services." This is the reason the German Law has made "same type of product" and "risk of confusion" the requirements for the prohibitive right of registered product trademarks. This is the direction taken by the standing committee on trademarks within WIPO that adopted a resolution to "recommend the protection of well-known trademarks." It is probably the path that our own Trademark Law needs to take in the future.

The recent stance taken by the Supreme Court is that actual product transactions and the confusion of goods and services that occurs in transactions need to be considered in rulings regarding similarity of trademarks. This stance has led to the protection of

famous trademarks. (Unfair Competition Prevention Law 2(1)(ii) has been newly set up to deal with "protection of famous trademarks.).

The concept of "trademark similarity" has been favored over the "risk of confusion" in preventing the risk of confusion over source, because it was seen as the concept more suited to the Japanese mentality in making decisions. In recent court cases, the Supreme Court's rulings indicate that the difference between similarity and risk of confusion has become negligible. In addition to this, Section 6 has been deleted from the former Unfair Competition Prevention Law. This deletion paves the way for a move away from actual rulings being conducted under the Trademark Law to being conducted under the Unfair Competition Prevention Law.

(c) Amendment of Examination Standards relating to the Protection of Well-known or Famous Trademarks

The following is a list of the problems facing the examiners at present.

(i) Amendment of Examination Standards relating to the Protection of Well-known or Famous Trademarks

"1. i) The protection of well-known or famous trademarks ... will be in proportion to the significance of protecting the well-known/famous trademark." This is an attempt to amend the explanation given in Trademark 4(1)(x), (xv) and (xix).

The statement that "ii) Well-known and famous trademarks that are combined with other letters or figures will be refused on principle" is also too simplistic. Although it states, "on principle", this provision differs too much from the original purpose of the trademark law and will be too radical in some cases from an international perspective.

In practice "(iii)... the 700 or so trademarks listed in the Patent Digital Library under 'Japan's well-known/famous trademark search'" will be treated as well-known or famous trademarks. (This coincides with 4(1)(x), (xi), (xv), (xix) and the standard decision is to refuse).

Problem number iv states that "'well-known foreign trademarks' (those which have been submitted to the Patent Office by foreign governments or public sector groups on behalf of foreign governments) and 'Selected Famous Trademarks of Japan' (as determined by AIPPI, the International Association for the Protection of Industrial Property) may be considered to be well-known or famous trademarks in trademark examination." This may also be considered too simplistic.

The section goes on to say in v) that "the trademarks which may be considered as well-known or famous trademarks according to iv) will, as a rule, be accepted with the assumption that they are well-known or famous trademarks and will be treated as such." (Notification for reasons of refusal will be given if they fall under 4(1) (x), (xi), (xv) or (xix). Trademarks combining trademarks described in iv) with other letters and figures will also receive a notification of reasons for refusal.)

In regard to timing "(vi) for cases whose date falls after the revision of examination standards, they will be judged in accordance with the amended standard for examination, regardless of prior judicial cases or circumstances of registration." The notion of what



is the exception to the "default" rules, (in other words the theories of strong mark vs. weak mark,) will no doubt be debated in the coming years.

The next item to be reviewed in the Standards was "2. Guidelines for Rulings concerning Trademarks which include the name of a foreign country.

The names of foreign countries that are included in trademarks will be interpreted as the place where the goods were produced or where the nature of the services is distinctly indicative of that country, or where the service is provided.

For these reasons, marks including the names of foreign countries will be refused in accordance with 4(1)(xvi), except when the goods were produced in that country, or when the nature of the services is distinctly indicative of that country, or when the service is provided in that country.

These amendments to the Trademark Examination Standards are very sketchy and it is no wonder that a monthly meeting will take place with Japan Intellectual Property Association in order to exchange ideas on how the amended Standards are working in practice.

## 2) Examination Standards

1. Examination Standards relating to Protection of Well-known/Famous Trademarks <sup>14</sup>
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No. 3. Section 4 paragraphs (1) and (3)  
(Reasons for non-registration)

VIII. Section 4 paragraph (1) item (x)

Trademarks that are well-known among consumers as indicating the goods or services that are connected to a certain person's business, and trademarks similar thereto that are used in respect of the same or similar goods or services.

1. The phrase "well-known among consumers" used in this item includes not only those trademarks that are known to the end consumer but also those that are known to traders. They include not only those that are known nationwide but also those widely known in a particular region.

2. Trademarks cited for use in regard to this item must be widely known among the consumers in the country at the time of the trademark's registration application. (See Section 4 (3)).

3. In regard to this item, this Standards' No. 2, (Section 3 (2)) 2. (1) and (2) will apply mutatis mutandis for means of proving and adjudicating on how well known a trademark is.

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<sup>14</sup> The changes made with the amendments of June 14, 1999 are underlined in the Trademark Examination Standards.

4. Trademarks that combine another person's unregistered trademark that is "well-known among consumers" with letters or figures will be considered similar to the unregistered trademark if its outward form is a unified whole or is unified in its concepts.

However, this excludes cases where the part made up of the unregistered trademark is a section of an existing word, or when it is obvious that it will give rise to very different appearance, pronunciation or concepts.

(Example) This case is the same as standard No. 3, IX (Section 4, paragraph 1, item 11), 4 (6).

5. AS mentioned previously, the proof and adjudication regarding how well-known a trademark is requires extra consideration when it comes to goods and services traded under special conditions. (An example would be drugs for medical services that are traded in a specified market, or the examination, testing and research of medicines that are services provided only in limited markets.)

6. In determining how familiar a foreign trademark is in our country, any documents relating to its familiarity abroad, or proof of its export to or the provision of services in several other countries, need to be carefully examined.

7. "Trademarks that are well-known among consumers" as stated in this item will include trademarks that have been registered as a defensive mark or that have been recognized as a trademark well-known among customers by deliberation or ruling (Note 1) in accordance with the registration or verification.

(Note 1) These trademarks can be searched in the Patent Digital Library on the Internet under 'Japan's well-known/famous trademark search' provided by the Patent Office.

(Reference) See "Trademark Examination Manual" for other materials related to "trademarks which are well-known among consumers."

IX. Section 4 paragraph (1) item (xi)

Trademarks that are identical or similar to another person's registered trademark that was applied for prior to the filing date of the trademark application concerned and that are used on the designated goods or designated services<sup>15</sup> covered by the trademark registration referred to or on similar goods or services.<sup>16</sup>

4. A ruling on the similarity of composite trademarks has to take into account the strength or weakness of the combination before making a decision. This does not necessarily apply to those that will obviously give rise to very different appearances, pronunciations or concepts.

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<sup>15</sup> Meaning the goods or services designated in accordance with Section 6(1) (including its application under Section 68(1))-hereinafter referred to as "the designated goods or designated services."

<sup>16</sup> Excerpt relating to well-known trademarks.

(1) - (5) omitted

(6) Trademarks combining another person's registered trademark that is "well-known among consumers" with letters or figures will be considered similar to the registered trademark if its outward form is a unified whole or is unified in its concepts.

However, this excludes cases where the part made up of the registered trademark is a section of an existing word, or when it is obvious that it will give rise to very different appearance, pronunciation or concepts.

(Example) Examples of Similarity

For tape recorders "SONYLINE" "SONY LINE" "SONY/LINE" and "SONY"

For cosmetics "LOVELOREAL" (*katakana*) and "L'OREAL" "rorearu" (*katakana*)

For baggage "PAOLOGUCCI" and "GUCCI"

For delivery by air "JALFLOWER" and "JAL"

For film production "Toho Shiraume" (*kanji*) and "Toho" (*kanji*)

Examples of Dissimilarity

For metal processing machinery "TOSHIHIKO" and "IHI"

For watches "Arbeit" (Arubaito *katakana*) and "ALBA/Aruba(*katakana*)"

For game machines "Segare" (*hiragana*) and "SEGA"

(Note) For determining what is well-known among the consumers, apply Item 7 of Standards No. 3, XIII mutatis mutandis. (4 (1) (10)).

(7) omitted

XIII. Section 4 paragraph 1 item 15

Trademarks that are likely to cause confusion with the goods or services connected with another person's business (other than the trademarks mentioned in paragraphs (x) to (xiv)).

1. "Cases that are likely to cause confusion with the goods or services connected with another person's business" in this item does not only refer to mistaking goods and services for those that are connected with another person's business and the likelihood of confusion on the part of the consumers. It also includes cases where goods and services are mistaken for those connected with the business of another person who may have economic or organizational connections with them. The consumers of these goods and services are likely to be unable to distinguish the origin of these goods and services.

Some examples of this include:

(1) A first business uses Trademark M on goods G and this is well-known throughout his country. A second business uses Trademark M on its goods X (goods X are dissimilar to goods G, and do not have any connections with G in terms of manufacturer, retailer, network, ingredients or use). However, a consumer who comes across goods X may not believe they belong to the first business, yet he may conclude that they are a product that belongs to a subsidiary or other company. Though such a company does not actually exist it is seen as the origin of the goods, thereby resulting in confusion

over source.

(Note) Example(1) shall apply to services as well, so that if the first business and the second business are involved in providing services, the word "goods" shall be read as "services" and the phrase "do not have any connections with G in terms of manufacturer, retailer, retail system, ingredients or use" shall be read as "do not have any connections with G in terms of the provider of the services, the method of provision, its purpose and any products related to the provision of service."

(2) A first business uses trademark S on its provision of services and this is well-known throughout the country. A second business also uses mark S on his goods (which is dissimilar to the first business's services). A consumer who comes across this product mistakenly thinks that it is somehow related to the services of the first business and confuses the origin of the product.

(Note) Example(2) shall apply in cases where the first business is engaged in the production of goods and the second business is engaged in the provision of services.

2. Criteria for determining "Trademarks that are likely to cause confusion with goods or services connected with another person's business" are as follows:

- (a) How well-known the other person's mark is (the extent and prevalence of their advertisements and commercials)
- (b) Whether the other person's mark is a created mark or not.
- (c) Whether the other person's mark is a house mark or not.
- (d) The possibility of the firm diversifying.
- (e) The association between goods or services, or between goods and services will be taken into consideration.

In determining the extent of (a), the trademark does not necessarily have to be well-known nationwide.

3. Definition 2(a) shall be substantiated by applying mutatis mutandis the Standard's No. 2, 2.(1) and (2) (Section 3 (2)).

4. For trademarks that incorporate a famous trademark as part of its trademark, the following will apply:

(1) If it is similar to another person's famous registered trademark and it is used on goods and services identical or similar to the goods or services designated by the famous registered trademark, then it will be ruled in accordance with 4 (1) (xi).

(2) If it is not similar to another person's famous registered trademark or if it is similar but the goods or services are not similar to their corresponding counterparts, then in cases that are likely to cause confusion of origin, it will be ruled in accordance with this item.

(3) Even if it is similar to another person's famous trademark, if the goods or services are not similar to their corresponding counterparts and are not likely to cause confusion, then in cases of use with unlawful intent, it will be ruled in accordance with 4 (1) (xix).

5. Trademarks combining another person's famous registered trademark with letters or figures will be considered likely to cause confusion of origin of the goods or services and will be treated as such if its outward form is a unified whole or is unified in its concepts.

However, this excludes cases where the part made up of the registered trademark is a section of an existing word, or when it is obvious that it will not be likely to cause confusion of origin regarding the designated goods or services.

(Example) Examples of trademarks likely to cause confusion of origin:

For clothing "arenoma" and "renoma" (bags etc.)

For toys "Par.Sony" (*katakana*), "Par Sony"(*katakana*) or "Parsony"(*katakana*) and "Sony"(*katakana*) (electrical appliances)

Example of trademarks not likely to cause confusion of origin:

For camera "POLAROID" and "POLA" (cosmetics)

6. Marks that are famous abroad and are considered to be famous by the consumers of this country (not necessarily the end consumer) at the time of the filing for trademark registration (see 4 (3)), will be included in the famous marks cited for refusal on the basis that it is likely to cause confusion in origin should the person filing for registration use the trademark on his goods or services.

7. Careful consideration must be given to market conditions and other factors in deciding whether it is likely to cause confusion with another person's goods or services.

8. If a three-dimensional trademark is in the shape of an architectural structure and its form is well-known in this country prior to the trademark's filing as that of the particular building belonging to another person, this item will apply.

9. For verification of prominence, this Standard's No. 3-VIII, 7. (4 (1) (x)) will be applied mutatis mutandis.

XVII. Section 4 paragraph 1 item xix

Trademarks that are well-known among consumers in Japan or abroad as indicating the goods or services connected with another person's business, and trademarks identical with or similar thereto that are used by the applicant for unfair intention<sup>17</sup> (other than the trademarks mentioned in each of the preceding paragraphs) with respect to such goods or services.

1. The following trademarks show how this item applies:

(a) When trademarks that are identical with or similar to another person's trademark that is well-known abroad are filed for registration by taking advantage of the fact that it is

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<sup>17</sup> Intention to gain unfair profits, intention to cause damage to such another person and other unfair intentions - hereinafter the same.

yet to be registered in this country, and they are filed for registration with the intent to force others to buy from them at a higher price at a later date, or with intent to prevent the foreign owner of the right from entering this market, or with intent to force them into an agency agreement.

(b) Trademarks that are identical with or similar to another person's trademark that is well-known in this country nationwide, that are filed with the intent to dilute the effectiveness of the origin the mark indicates (though perhaps not going so far as causing confusion) and those that are filed with the intent to jeopardize the well-known trademark's reputation.

2. "Trademarks that are well-known among consumers" stated in this item includes not only trademarks that are widely recognized to the end consumer, but also those which are widely recognized by traders.

3. "Trademarks that are well-known among consumers abroad" stated in this item should be well-known in the particular country being referred to, but they do not have to be well-known in more than one country. Also, they need not be well-known in this country.

4. Decisions on "unfair intention" should involve a thorough view of any documentation which exists, such as those discussed in (a) - (f), below.

(a) Documentation evidencing the fact that the other person's trademark is well-known among consumers. (Period, scope, and frequency of use).

(b) Documentation indicating whether the well-known trademark is a made-up word or whether it has a very distinct characteristic in its formation.

(c) Documentation indicating that the owner of the well-known trademark's right has specific plans to enter our market. (For example export to our country, retail within the country.).

(d) Documentation to prove that the owner of the well-known trademark's right has plans to expand the scale of his business in the near future. (For example to open new businesses in a new region.).

(e) Documentation indicating that a request for purchase of the trademark or for entering into an agency agreement, etc. has been made by the applicant.

(f) Documentation indicating the risk of damage that will be done to trust, reputation or the customer-attracting power associated with the well-known trademark should the applicant use the trademark.

5. In accordance with this item, an application for trademark registration that fulfills (i) or (ii), below, will be treated with the assumption that another person's well-known trademark is used with unfair intention.

(i) It is identical with or similar to a trademark that is well-known in one or more foreign countries or well-known in Japan nationwide.

(ii) The well-known trademark is either a made-up word or it has a very distinct characteristic in its formation.

6. For gauging how well-known it is, this Standard's No. 3-VIII, 7. (4 (1) (x)) will apply mutatis mutandis.

2. Guidelines for Trademarks containing the name of a Foreign Country
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No. 3 Section 4 (1) and (iii)  
(Reasons for Refusal of Registration)

XIV. Section 4 (1) item (xvi)

Trademarks that are likely to cause a mistake relating to the quality of goods or services.  
(Excerpt regarding trademarks that contain a country name.)

3. When trademarks that contain the name of a country or region are interpreted as 1. the place where the goods were produced, 2. the place of where the nature of the services is distinctly indicative, 3. the place where the service is provided, 4. already in use on goods that are produced elsewhere, 5. in use on services other than those whose nature is distinctly indicative of that country or region, or 6. in use on services that are provided elsewhere, they are likely to cause mistakes regarding the quality of the goods or services and a decision will be made in accordance with this item.

In trademarks containing the name of a particular country, even if the outward form is a unified whole, or is unified in its concepts, the name of the country shall still be seen as the place where the goods were produced or where the nature of the services is distinctly indicative of that place, or where the service is provided and will be ruled in accordance with this item. (This excludes cases where the name of the country will obviously not be recognized as such because it forms a part of an existing word etc.).

However, in cases such as the following where the indication is appropriate and unlikely to mislead regarding quality of goods and services, this may not apply:

(a) For clothing or related goods bearing a trademark containing the word "Britain" and the designated goods are actually articles of clothing "made in Britain."

(b) For services involved in the provision of food and drinks that bear a trademark containing the word "France" and the designated services are actually "provision of French food."

If the name of the region connected to a product, a sale or the nature of a service is used as an appendage within the trademark, deletion of that name will be permitted in corrections.

Example: Cases to which this applies:

"SWISSTEX" Designated good Class 14 Watch

<N.B.> "SWISS" implies the country Switzerland.

Cases to which this does not apply:

"dodoitsu" (*hiragana*) Designated good Class 11 bath tub

<N.B.> "dodoitsu" is associated with its *kanji* counterpart denoting a popular form of song.

### **References**

Guidelines for data concerning "trademarks that are well-known among consumers."

For rulings on Trademark Law 4, (1) (x), (xi), (xv) and (xix), the following reference resources will be used in order to obtain seamless rulings and application of a uniform standard.

The following data will be used sequentially as they are completed as reference resources for rulings; they will be announced as such.

### **Types of Data**

Foreign well-known trademarks

German Edition: BDI (Bundesverband der Deutschen Industrie e. V)-- compiled by "German Industrial Federation"

French Edition: compiled by "Industrial Property Right Office of France"

Italian Edition: INDICAM (Istituto di Dentramarca per la lotta alla contraffazione)]- compiled by Italian Institute for Combating Imitation goods.

This data is provided by the country (the foreign government or a corporation in public interest) as a compilation of well-known trademarks of that country.

The list will be updated as the data come in.

### **Use of Data**

The listed trademarks will be assumed to be trademarks well known among consumers in that country.

(Related Section)

Section 4 (1) (xix)

### **Types of Data**

FAMOUS TRADEMARKS IN JAPAN

"Famous trademarks in Japan"

This data concerning famous trademarks of this country is compiled and provided by the International Association for the Protection of Industrial Property, Japan (AIPPI).



JAPAN).

### **Use of Data**

Listed trademarks will be treated by default that they are well-known among consumers in this country.

(Related Section)

Section 4 (1) (x), (xi), (xv) and (xix) (as of July 22, 1999.).

Protection of famous trademarks is essential and necessary and the government is right to grant that protection. A recitation of the standards is adequate for administrative purposes, but the protection, and therefore the scope, of trademark protection needs to be dealt with more extensively from here.

## **IV Restrictions Resulting From Limits of Right**

### **1. Definition**

Trademark registration is a means of protecting the trust inherent in trademarks. Its purpose is not to allow the monopolization of letters or figures. It is obviously not to prevent another person from exercising his right to use his own name, or to restrict his freedom to attracting customers by describing the goods. Its purpose is actually to balance the effect of trademark rights with the freedom to use indicators, making sure that the freedom to use trademarks is safeguarded in cases where a monopoly of the trademark would go against the public interest. (Reply 11). The following three restrictions are the outcome of logical reasoning.

Section 26 lists cases where it is not in the public interest to allow one individual to monopolize a trademark. The first is registration by mistake or in excess. The second is in cases where a part of the trademark that is similar and not the entire trademark itself applies to the Section and where the trademark right does not extend to the entire mark. The third is in cases where the distinctiveness occurs subsequent to Section 26, which effect does not extend to that degree.

#### **(1) In Cases of Registration by Mistake or in Excess**

If a mark that is not distinctive and therefore, unregistrable (see Section 3 (1) (i) to (iv), 4 (1) (viii)), is erroneously registered and the owner of the trademark right has been exercising his rights, the situation can be salvaged by invalidating the registration at trial. Unfortunately, in reality, the mark will be not salvaged if the wait for a trial decision for invalidation lasts for years. It is important to have in place a strategy to remedy a registration by mistake or in excess by clearly stating the limits of trademark rights so that it is not dependant on the outcome of the trial for invalidation. In the case of trademark registration of indistinctive marks, it is all the more urgent because once the period of exclusive appeal by the examiner has passed, (Section 47) the trademark registration cannot be cancelled. For these reasons, the Trademark Law states that the effect of trademark rights does not extend to the following: (Section 26)

(i) Trademarks indicating, generally, one's own portrait, name, famous pseudonym, professional name or pen name or a famous abbreviation thereof (except cases where the intent to be unfairly competitive arose after registration.).

(ii) Trademarks indicating, generally, the generic name, origin, place of sale, quality, raw materials, efficacy, use, quantity, shape (including packaging shape-hereinafter referred to in the following paragraph as "shape") or price or the method or time of manufacturing or using the designated goods concerned or goods similar thereto or the generic name of services similar to the designated goods, location of provision of the services, quality, articles for use in such provision, efficacy, use quantity, modes, prices, or method or time of such provision.

(iii) Trademarks indicating, generally, the generic name of designated services or services similar thereto, location of provision of the services, quality, articles supplied for use in such provision, efficacy, use, quantity, modes, price, or method or time of such provision or the generic name, origin, place of sale, quality, raw materials, efficacy, use, quantity, shape or price, or method or time of manufacturing or using the goods similar to the designated services.

(iv) Trademarks customarily used on the designated goods or designated services, or goods or services similar thereto.

(v) Trademarks consisting solely of three-dimensionally shaped goods or their packaging with the shape indispensable to the function of the goods or their packaging. An example of a judicial ruling affecting Section 26 (1) (ii) of the Trademark Law is the case of "dorokon" (*katakana*) that was found to be lacking in distinctiveness as a trademark. The word was being used as a generic name for wall plaster for walls by builders, decorators and building contractors in that particular region. It was therefore considered to be a trademark indicating the designated generic product in a common way; the effects of the trademark right regarding this registered trademark were limited to the marks written in *katakana* from left to right. (No. 765, Nagoya District Court, Hanyu, p. 232, Nov. 30, 1990.). Each of the following marks, written vertically: "Insougaku: Divination of fate through a study of one's personal seal," "Insougaku and the Company Seal" "The Seal and Insougaku" "Insougaku Seal" are all what this item calls trademarks indicating in a general way the quality, use, and method of manufacturing. As a result, the effect of the registered trademark right for the designated product "inshou" (seals) with the trademark "insougaku" written in cursive style and from left to right, would not cover the individual signs mentioned earlier. (Vol. 13, No. 1, Tokyo High Court, Mutaishu, p. 360, Mar. 30, 1981.). An example of a judicial ruling against Section 26 (1) (ii) is the case of "mizore," a sign written vertically in *hiragana* in brush strokes meaning sleet for use on *amanatto*, sweet soy beans. Despite a vague implication of the quality and shape of the semi-dried *amanatto*, "mizore" could not be taken as a common way to refer to *amanatto*, and was not the common way to indicate the quality or shape of the product. (Vol. 18, No. 2, Nagano District Court, Mutaishu, p. 239, Jun. 26, 1986.). Similarly although the mark containing "choco-crispy" (*katakana*) is used on a breakfast cereal box, the traders and consumers for the product in this country will not recognize its English meaning of "crispy, crunchy" and will not assume that it is a word denoting quality. (Vol. 23, No. 1, Osaka District Court, Chitekishu, p. 264, April 26, 1991.).

Amendment No. 65 of 1991 saw the introduction of the provision related to service

marks, in the shape of Section 26 (iii), which was later amended to Section 26 (iv). Then the 1996 Amendments saw the addition of subsection(v) regarding three-dimensional trademarks. But prior to these changes, the marks "Junsei" (*kanji* meaning 'pure') or "Junsei buhin" ('pure parts') were being used within the car industry as the name given to car parts made by a specific motor company or related parts manufacturers. (In other words, brand name, or genuine parts.) They were seen as a commonly used trademark for car parts and accessories whose quality was guaranteed by the particular motor company. As a result, a trademark, which was a slight variation on "Junsei/JYUNSEI," was considered to be limited in its effect because of this mark. (Vol. 8, No. 2, Tokyo District Court, Mutaishu, p. 262, Jul. 19, 1976.). In contrast, a registered trademark consisting of two twigs of laurel placed symmetrically so that they form a crown, having clothing, fabric accessories and bedding as its designated products, was held not to be a commonly used trademark. (Vol. 4, No. 1, Tokyo Regional Court. Mutaishu, p. 1, Jan. 31, 1977; Vol. 8, No. 1, Tokyo High Court, Mutaishu, p. 41, Jan. 29, 1976.).

(2) Cases in which the above falls within the FORMAL scope of the prohibitive right  
Some trademarks can be registered without a problem, but do not have the power to prevent use by a third party if, for example, they indicate generic names, quality, use, etc. (For example, if "nerikirin" (*katakana*) is registered for *mitsumame* (Japanese dessert combining sweet beans and jelly) "nerikiri" would fall within the scope of prohibitive right due to its composition. Even so, "nerikiri" used on other Japanese dessert whether it is written in *kanji* and *hiragana* combined or in *katakana*) will not be infringing upon the trademark right for the former. This limit on the effect on trademark rights needs to be clearly defined. Under the former Law, a system of disclaiming rights existed which clearly stated that "nerikiri" would not be affected by the prohibitive powers. Now that this system has been abolished, many wish it to be legally reinstated to combat abuse of trademark right.) The exception to the rule is if, through use, there is a greater awareness of its prominence.

Even if registration of the trademark is permitted, the registration itself does not prevent another person from exercising in a fair manner his right to use his own portrait, name, famous pseudonym professional name or pen name or a famous abbreviation thereof.<sup>18</sup> Neither does it prevent the freedom to indicate in a common way, the generic name, commonly used trademarks, (the concept itself embodies the notion of common use),<sup>19</sup> origin, place of sale, quality, raw materials, efficacy, use, quantity or location of provision of the services, quality, articles for use in such provision, efficacy, use, and quantity of services.<sup>20</sup>

For example, if "ICHI" was registered, this trademark would have the pronunciation of "I-C-H-I." If the system of "disclaiming rights" still existed, the pronunciation of "ichi" for the trademark would have been submitted for it. The owner of the trademark right for "ICHI" does not have the right to require an injunction against the use of the numeral "1."<sup>21</sup> (The trademark "JUN" for example, is registered as an alcoholic

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<sup>18</sup> Subsection (i).

<sup>19</sup> Subsection (iii)

<sup>20</sup> Subsection (ii).

<sup>21</sup> The numeral "1" is pronounced "ichi" in Japanese.

beverage, but its owner of right does not have the right to acquire an injunction against the use of "jun" (*kanji* meaning 'pure') on distilled spirits.). The trademark "ICHI" can be registered without a problem, but even though the use of the numeral "1" is within the scope of prohibitive right in terms of its composition, the limits on right outlined in Trademark Law Section 26 prevents the trademark right from having this effect. In terms of similarity, "ICHI" could not be considered similar to "1" on the strength of similarity in pronunciation alone. The issue here is much more about the numeral "1" not falling within the scope of prohibitive right of this trademark. This reasoning is articulated by the freedom of use by a third party of the numeral "1" or, in other words, whether it is a common use indicated in a common way or not. If "1" was used in an uncommon way written in an unusual style, this will be considered use without permission and be regarded as an infringement of trademark right, according to limits of right stated in Trademark Law 26. However, if the numeral "1" was not included in the scope of prohibitive right from the time the trademark "ICHI" was registered, then it will not be considered an infringement of right, regardless of whether it was used with or without permission, or whether the numeral "1" is used by a third party in a common way or in an unusual way. The reasonable interpretation would be that the numeral "1" is not included in the scope of prohibitive right.

The word "jun" (*kanji* meaning 'pure') is distinctive in its use, being associated solely with distilled spirits and registered with this in mind. In this case, the trademark "JUN" used on non-Japanese alcoholic beverages does not fall within the scope of prohibitive right of the trademark "jun" for distilled spirits. Nor does "jun" fall within the scope of similar trademarks. Trademarks that are registered on the basis of their distinctiveness derived from their use, will also have similar goods and similar services. There is also a tendency to extend the scope of identity. But it is far better to define identity narrowly so that the increase in distinctiveness through use will be an exception leading to an increase in identity. Thus the scope will be maintained.

### (3) When a change occurs in distinctiveness after registration

Occasionally, a trademark becomes a generic name or commonly used trademark after its registration so that people's ability to distinguish its association with a designated product is diminished. When this happens, a third party is guaranteed the use of the indicator that has now become a generic name or commonly used trademark. An example would be if a new town, created after the trademark registration, was given a name that was identical to that of the trademark and the town became the origin of a product or its place of sale. Also, the spread of foreign customs in Japan after registration of the trademark may mean that the trademark will be seen as an indicator of the use of its designated product. It is not permitted, however, to use the trademark that is in the process of becoming a generic name or commonly used trademark with the intent to compete unfairly. This would be an infringement of the registered trademark right.

## 2. Application Requirement (Meaning of "indicating in a common way")

"Indicating in a common way" sometimes refers to the way in which trademarks are used (Vol. 13, Daishin-In, Minshu, p. 742, May 17, 1934; Hanmin, 63 incidents.). "Common" indications are usually determined by examining transaction practices. Some believe that the important issue is whether the owner of the trademark right has

lost profits relating to trademark use, and on that basis, any use similar to that of his trademarks should not be considered as "indicating in a common way." (Eguchi (1) p. 62 f.; No. 620, Osaka High Court Hanji, p. 100, Apr. 10, 1970. See also Vol. 8, No. 1, Tokyo High Court, Mutaishu, p. 41, Jan. 29, 1976; Vol. 4, No. 1, Tokyo Regional Court, Mutaishu, p. 1, Jan. 31, 1971.).

### 3. The Scope of Effect of Registered Trademarks with Reasons for Invalidation

Trademark Law 26 comes to the rescue where a trademark registration has been affected negatively as a result of Section 3 on registrability of trademarks, and the period of exclusion (Section 47) has elapsed. Regarding the trademarks that have been effected negatively by Section 4 on unregistrable trademarks, whose period of exclusion has elapsed, and whose violation is evident, one has to wonder if there is any other way to save the situation other than a ruling under Section 26.

The idea is that there can be no infringement when a right is a mere "formality." For a trademark that has become a generic name, its registration is allowed to exist, yet it does not have the power to prevent another person from using the trademark or to restrict others' freedom to use it as an indicator. Incidentally, in Patent Law, the effectiveness of a patent that has reasons for invalidation is rationalized logically. This originated in Germany as a result of the influences of the right to use and right to prohibit others from using.

On the other hand, there are trademarks that have been resurrected after they have become generic names. (After the Supreme Court's [Daishin-In] decision, trademarks that had become a generic name and were subsequently resurrected as a trademark with distinctive characteristics that exclude others, include "SINGER" and "GOODYEAR" in the U.S.A. and "BENBERG" in Japan.). A registered trademark with reasons for invalidation should not become a non-right. Instead, it should retain its right of use; however, the scope of the prohibitive right should be limited to actions would harm the reputation of the trademark that is in use.

## **V. Restrictions on the Effectiveness of Trademark Rights Restored by Retrial (Section 59)**

### (1) Main points

If a registered trademark ceases to exist due to opposition to an approved trademark registration, a trial decision for invalidation, or a trial decision for cancellation, the trademark can be used without restriction. If a trademark right relating to a revoked, invalidated or cancelled trademark registration has been restored through a retrial, the question of infringement of a trademark right is raised. However, it is unreasonable to retroactively regard any act of a person who has used the trademark in good faith, believing in the previous ruling for cancellation, or trial decision of invalidation or cancellation as an infringement. For this reason, the Law provides that the effects of a trademark right shall not extend to the good faith use of the registered trademark on the designated goods or services, or the acts mentioned in Section 37, after a decision to revoke or a trial or retrial decision has been finalized but before demand for retrial has been registered. Section 59 restricts the effects of the trademark right in this manner.

## (2) Effects

Although Section 59 of the Trademark Law restricts the effects of a trademark right, the provision does not mention goods or articles made or produced by the acts enumerated in the provision (acts deemed to be infringement) or goods on which the trademark is applied. In contrast, the Patent Law refers to articles created or produced as a result of infringing acts. This is because the question is when such articles were made as a result of the infringing acts. The effects of a patent right extend to the use or product of an invention for which a patent has been granted, while the effects of a trademark right do not extend to goods or articles themselves. A trademark right concerns only the connection of the trademark and the goods to which it applies. If the trademark in question is removed from the goods, the goods can be sold. Therefore, the provision as to goods or articles has not been inserted in the Trademark Law because the economic loss was considered to be relatively small. ("Chikujo Kaisetsu (Commentaries on the Trademark Law)" p. 1167; Amino p. 739).

In the case where a person has been using a conflicting trademark in good faith after the trial decision for invalidation or cancellation became final and conclusive but before the demand for a retrial has been registered and, as a result, the trademark has become well-known among consumers, such person shall have a right to use the trademark in the goods or services provided that he does so continuously (Section 60).<sup>22</sup>

## **VI. Limitation Due to Design Right, Patent Right or Copyright of Others**

### (1) Main points

There may be some cases where the use of a registered trademark, being used in respect of the designated goods or services, conflicts with another person's patent or design right (which application was filed prior to the filing date of the trademark application concerned) or with another person's copyright taking effect prior to that date. These cases depend on the manner of use. The following focuses on how such conflicts are settled.

In such a case, the use of the registered trademark in a manner that infringes on another person's design right, patent right or copyright is not allowed on the part of the designated goods or services that give rise to a conflict with that other person's design right, patent right or copyright (Section 29). The conflicting relationship of trademark rights, design rights, patent rights and copyrights are adjusted in the manner described below.

Trademarks are sometimes shaped like designs for various reasons. One example is in the recent boom of the corporate identity ("CI")<sup>23</sup> movements. Conversely, however, designs or artistic works have increasingly come to play the role of trademarks. The introduction of three-dimensional trademarks has brought trademarks even closer to designs. If a design or copyright is registered as a trademark, the design right or copyright is protected by the trademark right that lasts semi-permanently after the expiration of the term of the design right or the copyright.

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<sup>22</sup> This may be construed to be an involuntary license.

<sup>23</sup> The revitalization of businesses through unification of the corporate symbol on the basis of corporate identity.

The former Trademark Law had a provision of adjustment for the conflicting relationship of a design right and a trademark right expected to arise in the case of overlapping registration of the rights that were in conflict because there was no order in the filings (See Section 7(3) of the former Trademark Law; Section 8 (3) of the former Design Law). However, such conflicting cases increasingly arise between the Patent Law and the Utility Model Law due to the new allowance of the three-dimensional trademark registration system.

## (2) Conflict

The phrase, "depending on the manner of use (the trademark may conflict with other rights)", in Section 29 pertaining to conflicting applications means depending how a registered trademark is used with respect to the articles (goods), articles for use in the provision of services, and trademarks to apply to such articles ("Chikujo Kaisetsu (Commentaries on the Trademark Law)" p. 1079). Originally, legislators inserted this provision about design because they were thinking trademarks being used as design. However, the provision was not actually changed due to its effect on after-arising amendments.

One example is regarding the trademark of Parker's fountain pens. In this case, the trademark, which is a clip in the shape of an arrow, is used for the clip of the fountain pen (Amino p. 723, Toyosaki p. 417). In the case where the figure of a clip in the shape of an arrow is used in graphical advertisements, it is not a figure of the goods (fountain pen); that is, as the advertisement does not show the goods, it cannot be a design of the goods. Therefore, the use of the trademark (figure of an arrow) in this manner (advertisement) does not conflict with other rights.

On the other hand, if the trademark is used for the clip, the design is the trademark (figure or graphics of an arrow or three-dimensional trademark) applied to the goods (a fountain pen) and is also a design of the goods (a fountain pen) that uses the figure of an arrow.

## (3) Adjustment

### (a) Trademark and design right

If, in the case where a trademark conflicts with some other intellectual property right, the owner of the trademark right uses the trademark, which is one of the other intellectual property right's given manner of use of a design or works, he must obtain a working license from the owner of a design right or obtain a license to utilize it from the owner of the copyright. There is no compulsory licensing system with respect to other intellectual property rights under the Trademark Law.

In this case, the use of a trademark within the scope of protection of the trademark right (e.g. the prohibitive right) or within the scope of a right to use conflicts with a design right filed earlier, the scope of the trademark right will be limited and the use of the trademark in the manner as the design will not be allowed. Conversely, if the use of a design as part of the protection of the design right conflicts with an earlier filed trademark right, the conflicting part of each right will not be usable. ("Chikujo Kaisetsu (Commentaries on the Trademark Law)" p. 1078; Amino p. 724).

Due to a belief that no conflict would occur between the right of a two-dimensional trademark and patent rights and utility models before the introduction of the three-dimensional trademark system in 1996, the Trademark Law had no provision as to such conflict. However, the introduction of the three-dimensional trademark registration system gave rise to the possibility of a conflicting relationship.

(b) Trademark and patent right, etc.

In the case where a trademark right conflicts with a design right and a copyright, there was a provision to adjust these rights as described above, even before the 1996 revision (Section 29 of the former Trademark Law; Section 26 of the former Design Law,). In connection with the introduction of the three-dimensional trademark system, the possibility of conflict has arisen between a trademark right, patent right and utility model right, in cases where the shapes of the goods which are registered as a patent invention or registered new utility model (which were not registrable as two-dimensional trademark) are registered as a three-dimensional trademark at the same time. Accordingly, the Law as revised in 1996 has a provision concerning a possible conflict with patent rights and utility model rights in addition to design rights and copyrights. That is, "where the use of a registered trademark in respect of the designated goods or services conflicts with another person's patent, utility model or design right under its application filed prior to the filing date of the trademark application concerned or after the effective date of another person's copyright, the owner of the trademark right or of the right of exclusive or non-exclusive use shall not use the registered trademark in such a manner on the part of the designated goods or services giving rise to the conflict." (Section 29)

(c) Trademark and copyright

At the time a trademark registration is filed, the relationship with a copyright is not considered; therefore, the registration will not be rejected. However, if the use of a registered trademark that is like a work, such as if the company Iwanami Shoten uses for a trademark Millet's "The Sower", conflicts with the copyright, the user must obtain a license to use it from the owner of the copyright.

Determining whether the trademark or the copyright takes precedence is based on which occurred earlier, the filing for the trademark registration or the commencement of the copyright. If the copyright has taken effect prior to the trademark application, the scope of protection of the trademark right is limited in keeping with Section 29. If the trademark application occurred earlier, both rights are considered to exist independently, because there is no relevant provision in the Copyright Law. ("Chikujo Kaisetsu (Commentaries on the Trademark Law)" p. 1079; Amino p. 726). If, however, the trademark has a works-like quality, the question becomes one of the copyright of the trademark versus other copyrights. Because subjective conditions need to be fulfilled in order to prove copyright infringement, there is no possibility that an earlier copyright could infringe a copyright taking effect later. It is impossible for the author of the earlier work to imitate the later work. The later works may be regarded as an infringement if objective requirements as well as subjective conditions are fulfilled.

One example of a dispute over a trademark-copyright relationship, is a case concerning



the Popeye comics. This case spawned several trials. A trademark using graphics, a combination of the characters "POPEYE" in alphabets, "POP AI" in *katakana* characters on each side and a figure of Popeye in the center was registered before World War II without contacting the author of the comics. The trademark was applied to the designated goods in former Class 36, "clothing, handkerchiefs, hand towels, buttons, pins, accessories and the like." The owner of this trademark right used the graphic portion of the trademark for mufflers, etc. When he discovered a seller of the mufflers using a mark consisting of the figure of Popeye and characters of the caption, and a mark consisting of the characters of "POPEYE," the trademark right owner demanded an injunction and compensation for damages. But the seller had obtained the approval of the author for reproduction of the well-known figure of Popeye. In this case, the conflict between trademark right and copyright was the crux of the argument. Although there was an argument that the figure of Popeye was not subject to the prohibitive right based on Section 29 of the Trademark Law, the court held that the characters "POPEYE" do not have the nature of works and therefore, Section 29 was not applicable. (Vol. 17, No. 3, Osaka High Court, Mutaishu, p. 411, Sep 26, 1985; See Kikuchi, "Chosaku Hyakusen" (A Hundred Excellent Books), First edition, p. 57). On appeal, the second small chamber of the supreme court held that Section 29 of the Trademark Law be interpreted as follows: Section 29 of the Trademark Law provides that if a trademark right is found to conflict with a copyright that came into effect prior to the date of application for the trademark registration, the owner of the trademark may neither use the trademark after then, nor may request for injunction if another person's act of using a reproduction of the works as a trademark conflicts with his own trademark right." The court also decided that since the graphic mark is a reproduction of the original works, "Popeye", it is not deemed to be an infringement of the trademark right. However, character marks are independent of the works and do not have a nature like works. Therefore, such a mark cannot be regarded as a reproduction of the work. "The owner of the trademark is utilizing the fame of the figure without compensation. Considering that one of the legislative purposes of the Trademark Law is to objectively maintain fair competition, it is an abuse of the trademark right for the appellee to claim infringement when the seller of the [mufflers] has obtained the approval of the copyright owner for Popeye." This was a significant ruling with respect to the relationship of the Trademark Law and copyright, and to abuse of the trademark right. (Vol. 44, No. 5, Supreme Court, Minshu, p. 875, Jul. 30, 1990; Vol. 17, No. 3, Osaka High Court (original instance), Mutaishu, p. 411, Sep. 26, 1985; Vol. 16, No. 1, Supreme Court (first instance), Minshu, p. 138, Feb. 28, 1984.).

Another common point of contention involves the titles of works. For example, in one case, the question was whether or not the release of a CD album with the title, "UNDER THE SUN", infringes the right of a registered trademark consisting of the identical characters. The title, "UNDER THE SUN", was written in relatively large and bold characters across the upper part of the surface of the CD, and the same characters were also written in the same way on the upper right part of the CD jacket, with the musician's name, "INOUE YOSUI", written in characters larger than the title underneath. Furthermore, the characters, "UNDER THE SUN", were written from the center to the left side of the CD jacket in large designed or pictorial characters. The court stated, "It is not appropriate to extend the effects of the prohibitive right of a trademark to trademarks that are used in a manner that does not indicate source or does

not show distinctiveness from other goods, even if they do not fall under Section 26 (1) (ii)." The court did not adopt the argument of trademark infringement on the theory that the use of the characters, "UNDER THE SUN", on the CD album is perceived by consumers as the title of the edited works. (No. 1526, Tokyo District Court, Hanji, p. 141, Feb. 22, 1995.) Many precedents show that titles do not constitute trademark infringement. This is seen in both the POS case (No. 1292, Tokyo District Court, Hanji, p. 142, Sep. 16, 1988.) and the Kiko-jutsu (Qigong) case (No. 1510, Tokyo District Court, Hanji, p. 150, Apr. 27, 1994.) with regard to books. (With respect to the latter case, the court held that the trademark fell under Section 26 (1)(ii) of the Trademark Law, "trademarks indicating in a common way the quality of the designated goods" on the ground that the title of the book in this case was regarded to be indicative of the content of the book (i.e., designated goods). In a case for computer game software, a provisional injunction was requested for a game with the title of "Sangogkushi" (Romance of the Three Kingdoms). However, the court denied the injunction under the following rationale: "It can be said that the mark used as the title of the software in order to indicate the content of the creation." (Vol. 26, No. 21, Chitekishu, p. 1076, Aug. 23, 1994.).

#### (d) Provisions of other Industrial Property Laws

① Section 29 of the Trademark Law, Section 72 of the Patent Law, Section 17 of the Utility Model Law, and Section 26 of the Design Law are all corollaries that provide for cases in conflict with trademark rights. These sections stipulate that if any patent right, utility model right or design right (hereinafter referred to as "patent rights, etc.") conflicts with another person's registered trademark right that was applied for prior to the application for the patent rights, etc., the licensee of such patent rights, etc. (including exclusive and non-exclusive licensees) may not use the patent, work, or invention, etc. in connection with business.

#### ② Right to use trademarks after the term of the patent rights, etc., expires.

In cases where any trademark right conflicts with any patent right, utility model right or design right ("patent rights, etc."), and the application for the patent rights, etc. is made on the same day or prior to the date of filing for trademark registration, the patentees, etc. may freely use their patents or works without any restriction imposed by the owner of the trademark right.

However, patent rights, etc. have a term, while trademark rights last semi-permanently through renewal procedures. If a trademark right is still effective after the term of patent rights, etc. expires, it is possible that the original patentees, etc. may be unable to use or work his own previous patents and inventions after such expiration.

Section 33-2 of the Trademark Law was added for this reason. In the case where a patent right under a patent application filed prior to or on the date of a trademark registration application conflicts with the trademark right under that trademark application and the term of the patent right has expired, the patentee's right to use shall continue to the extent of the original patent right, in spite of the registered trademark (Section 33-2 (1)). However, this provision shall apply only where the registered trademark is used without the intention of violating the rules of fair competition. Similarly, a patentee may not "work" a patent that expired a long time ago with the

intention of illegally impairing the business interest of his competitor.

③ If more than one person is entitled to a right to use a trademark, the owner of the registered trademark right or of the right of exclusive use may request the original patentee who has a right to use the trademark, to mark his goods or services with a suitable indication so as to prevent any confusion between the goods or services connected with the trademark owner's business and those connected with the other person's business (Section 33 (2)).

In the case where a utility model right or design right applied for prior to or on the filing date of the trademark application conflicts with a trademark right under that trademark application, it is treated as a patent right (Section 33 (3)).

According to the provision of Section 33-3 of the Trademark Law (the right to use the trademark of an exclusive licensee), any person who has the exclusive license or a non-exclusive license (non-exclusive license registered for establishment only) on the patent right at the time of its expiration of the term shall have the right to use the registered trademark, as the patentee does, within the scope of the original patent right (Section 33(1)). As with patent rights, the owner of the trademark right or of a right of exclusive use may request the person having the exclusive or non-exclusive license to mark his goods or services with a suitable indication so as to prevent any confusion between the goods or services connected with the owner's business. In this case, the trademark owner may receive due consideration (Section 33 (2)). This provision is also applicable to an exclusive licensee or a non-exclusive licensee of utility model rights and design rights (Section 33(3)).

### **Section 3. Scope of Effects of Trademark Right**

#### **I. Scope of Effects of Trademark Right**

##### **1. Scope of use and scope of prohibition**

The right to use a trademark extends to a trademark identical with the registered trademark (a trademark recognized to be identical) in respect of the goods or services identical with the designated goods or services (goods or services recognized to be identical); the prohibitive rights of the trademark extend to (1) a trademark identical with the registered trademark, (2) a trademark similar to the registered trademark, in respect of the designated goods or services, (3) a trademark identical with the registered trademark or (4) a trademark similar to the registered trademark, in respect of the goods or services similar to the designated goods or services

##### **2. Standards for determining the scope of the trademark**

① The "scope of a registered trademark" must be decided on the basis of the trademark (trademark sample) stated in the request (Section 27 (1)). ② The scope of the designated goods or designated services must be decided on the basis of the statement in the request (Section 27 (2)). These two provisions are reasonable. (In theory, an actual trademark sample, instead of the Trademark Gazette, is to be used for the decision. Practically, however, a mark appearing in the Trademark Gazette is used. No serious errors occur by this method.). Section 27 of the Trademark Law is merely a cautionary

provision.

## **II. Hantei (interpretation) or Advisory Opinion on Scope of Trademark Right**

### **1. Hantei System**

#### **(1) Definition of Hantei**

The Trademark Law provides that a request for Hantei may be made to the Patent Office with respect to the effects of a trademark right. The decision on identical or similar trademarks or identical or similar goods or services is extremely difficult. To determine the scope of the effect of trademark rights is even more difficult. The owner of a trademark right tends to interpret the scope of his own trademark right broadly. A third party tends to interpret it narrowly. Therefore, any person may request the Patent Office for Hantei (Section 28(1)).

The Hantei system has replaced the confirmation and examination system that was in place under the former Trademark Law (Former Section 22 (1) (iii)). Although opinions were divided as to whether the confirmation and examination system, which determined the scope of the trademark right under the former Law, was legally binding, a person who had an objection was permitted to make an appeal to the court. On the other hand, under the Hantei system, any appeal cannot be made. Furthermore, Hantei is not legally binding and there is no prohibition against double jeopardy for Hantei. It is a specialized service provided by the Patent Office, not an administrative measure. Furthermore, a request for examination cannot be made under the Administrative Appeal Law (Vol. 22, No. 4, Supreme Court, Minshu, p. 936, Apr. 18, 1968.).

It may be appropriate for the Patent Office to interpret ("conduct Hantei") the similarity of a trademark with the registered trademark, or the similarity of goods or services with the designated goods or services. However, it is unreasonable that the Patent Office should decide the effect of a trademark right based on whether there is a prior user's right that involves intentional unfair competition, or based on consumers' recognition of the name as a common name under the Hantei system, which lacks the procedure for examination of evidence. The duty of the Patent Office, essentially, is not to draw a final conclusion about the facts. It is stipulated that the Patent Office should give Hantei ("interpretation") of the effects of trademarks and also of such facts. However, the Patent Office does not provide Hantei in a practical sense concerning the effects of a trademark, which are determined on the basis of the recognition of the intent of unfair competition and facts of use.

#### **(2) Nature of Hantei**

Hantei is not administrative. (This is contrary to a comment once made by the Commissioner of the Patent Office that it is administrative measures.). Under precedential case law, Hantei was treated as an administrative act or an expert's appraisal by an administrative agency, and not as administrative measures. If it were considered an administrative measure, an appeal to a district court would be allowed, and the procedure for Hantei would become more complicated than the "confirmation and examination procedure to determine the scope of trademark rights" under the former Law. The result would be a deviation from the purpose of the amendment of the Law, which intended for a simplification of procedures and settlement of disputes

without lawsuits.

## 2. Hantei procedure

### (1) Request for Hantei

When a request for Hantei is made, the Commissioner of the Patent Office shall designate three appeal examiners to answer the request (Section 28 (2)).

Any person who makes a request for Hantei about the effects of a trademark must submit a written statement containing the following items to the Commissioner of the Patent Office (Section 2 (2) of the Trademark Order; Section 3 of the Patent Order).

- ① A description of the case for which Hantei is requested;
- ② Name or appellation, address and domicile of the party and its representative;
- ③ Purpose of the request and the reasons therefor

### (2) Designation and exclusion of appeal examiner

There are provisions concerning who is excluded from participating in Hantei. The Commissioner of the Patent Office shall not designate the following persons as an appeal examiner (Section 2 (2) of the Trademark Order; Section 3 of the Patent Order).

- ① Any person who is or was a party to the case, or whose spouse or whose ex-spouse is or was a party to the case;
- ② Any person whose relative within the fourth degree by blood, or within the third degree by marriage, or whose relative living in the same house is or was a party to the case;
- ③ A guardian, supervisor or curator of a party to the case;
- ④ Any person who is or was an agent of a party to the case;
- ⑤ Any person who has any reason to prevent the fairness of the appeal examination of the case.

The Commissioner of the Patent Office shall dismiss a designated appeal examiner who is deemed to be inappropriate for involvement with Hantei and replace him with another examiner (Section 2 (2) of the Trademark Order; Section 4 of the Patent Order). Hantei shall be given by the collective body of the designated three appeal examiners. The decision shall be reached by a majority of members (Section 2(2) of the Trademark Order; Section 5 of the Patent Order). The Commissioner of the Patent Office shall designate one of the appeal examiners to be the chief appeal examiner. The chief appeal examiner shall supervise the affairs concerning the case for which Hantei was requested (Section 2 (2) of the Trademark Order; Section 6 of the Patent Order).

### (3) Appeal examination

The chief appeal examiner, upon request for Hantei, shall deliver a copy of the document specified in Section 2 (2) of the Trademark Law Enforcement Order and Section 2 of the Patent Law Enforcement Order to the person requested to reply. The written reply shall be due by a date specified and a copy of the reply shall be delivered to the requesting person by the chief appeal examiner (Section 2 (2) of the Trademark Law Enforcement Order; Section 7 of the Patent Law Enforcement Order.).

Appeal examinations are conducted principally through an exchange of documents.

However, upon motion by a party or by ex officio, the chief appeal examiner may conduct the proceedings orally. (Section 2 (2) of the Trademark Law Enforcement Order; Section 8 of the Patent Law Enforcement Order.).

With respect to an oral appeal examination, any staff designated by the Commissioner of the Patent Office shall, upon the orders of the chief appeal examiner, prepare minutes to record the summary of the process and result of the examination each day on which examination is conducted (Section 2 (2) of the Trademark Law Enforcement Order; Section 9 of the Patent Law Enforcement Order).

In the case where the examination has included matter not introduced by the requesting party, the chief appeal examiner shall provide a copy of the result of the examination to the requesting party and shall offer an opportunity to respond within a specified period (Section 2 (2) of the Trademark Law Enforcement Order; Section 7 of the Patent Law Enforcement Order Section 2 (2) of the Trademark Law Enforcement Order; Section 7 of the Patent Law Enforcement Order).

Proceedings under the Patent Law intended for the reinforcement of procedures such as examination of evidence shall be applied mutatis mutandis to Hantei (Section 28 (3) of the Trademark Law; Section 71 (3) of the Patent Law).

#### (4) Hantei report

When each appeal examination for Hantei is concluded, a Hantei report containing the following matters shall be prepared:

- ① Request number for Hantei proceedings;
- ② Description of the case for which Hantei was requested;
- ③ Name or appellation, address or domicile of each party and its representative;
- ④ Conclusion and reasons of Hantei;
- ⑤ Date Hantei was concluded

The Commissioner of the Patent Office shall deliver a certified copy of Hantei to each party concerned (Section 2 (2) of the Trademark Law Enforcement Order; Section 11 of the Patent Law Enforcement Order).

### 3. Expert testimony system

#### (1) Expert testimony system

The Commissioner of the Patent Office shall, upon request by the court for expert testimony, designate three appeal examiners to conduct expert testimony (Section 28 (2)).

#### (2) Nature

Expert testimony is not administrative and is not binding upon the court. Because the expert testimony proceedings are designed to enable the court to utilize Hantei proceedings, the result would be the same as if a party made a request for Hantei to the court.

However, because expert testimony is relied upon by the court to judge the effects of

trademark rights, the practical influence on the judiciary may be significant, depending upon how the system is utilized. Because of this, the adoption of expert testimony for Hantei should have been more sufficiently discussed.

### (3) Proceedings

The expert testimony proceedings are designed to enable the court to utilize Hantei. Many regulations of Hantei proceedings are applied *mutatis mutandis* to these expert testimony proceedings (Section 28-2 (2) of the Trademark Law; Section 71-2 (2), Section 136 (1) and (2), Section 137 (2), and Section 138 of the Patent Law).

## III. Grant of Right of Use

The rights of use consist of rights of exclusive use and non-exclusive use. These rights are exercised in order to utilize the value of a trademark right as a property right. For instance, a right of exclusive use, especially with respect to an internationally famous trademark, is utilized in connection with subsidiaries, joint ventures, and sole distributorship agreements. The reputation acquired by the use of a trademark, not only by an owner of non-exclusive right of use but also by an owner of exclusive right of use, belongs to the owner of the trademark. (Amino p. 785; Toyosaki p. 449). In such a case, no compensation problem arises unless there are special circumstances.

### 1. Grant of right of exclusive use

#### (1) Establishment of right of exclusive use

##### (a) Right of exclusive use

The owner of a trademark right may grant a right of exclusive use with respect to his trademark right (Section 30 (1)). In cases of joint ownership, the other owners' consent shall be required (Section 35; Section 73 (3) of the Patent Law).

The owner of a right of exclusive use shall have an exclusive right to use the registered trademark with respect to the designated goods or services for which the exclusive right is granted to the extent laid down in the contract granting such right. This extent may define, for example, manners of manufacturing, sale or offering, term and the territory.

Because a right of exclusive use is like a real right (a right in rem) and has exclusive effects, it is protected in the same manner as a trademark right (Section 36). If a right of exclusive use is established, the owner of the trademark right may not use the registered trademark in light of the right of exclusive use. (If there is no special term to the contrary, exceptions which enable a particular person to use it may be made.)

##### (b) Criticism

At the time of legislation of the current Trademark Law, many people opposed allowing the right to grant exclusive use because it renders registered trademarks unusable by the owner of the trademark right, contrary to the philosophy of the Law (which is to protect owners of trademark rights) (Report by the Council for Amendment 14 (9)). Currently, some criticize the exclusive right system, claiming that it attaches too much emphasis to economic benefits and is insufficiently restrictive with respect to supervision, guarantee of quality, etc. as compared with overseas laws. (Toyosaki p. 444, Miyake p. 246; Amino p. 781). It is necessary to reexamine the grant system from consumers' viewpoint. Some argue that sole distributors need to have a right of exclusive use, but

others insist that only an exclusive right of non-exclusive use would be sufficient (Yoshiwara=Takahashi, p. 168).

(c) Establishment within the scope of prohibitive right

There is a question whether the owner of a trademark right may establish a right of exclusive use only as to the right to use or also within his prohibitive right. That is, opinions are divided whether a right of exclusive use may be granted only in respect of goods or services identical to the registered goods or services or also in respect of similar goods or services. The former opinion is generally accepted. This is based on the ground that a prohibitive right is not properly within the scope of a right of exclusive use (Yoshiwara, p. 169) or that a prohibitive right cannot be transferred with the right of use (Amino, p. 783). In practice, many contracts granting exclusive rights beyond the scope of right of use are entered into. The owner of a trademark right may grant an exclusive right only with respect to identical goods or services; in such a case he may not enforce his prohibitive right of the trademark with respect to similar goods or services. The owner believes that the grant of a right of exclusive use is under his control and within his power. If the owner is aware of the distinction between a right of use and prohibitive right, preparation of a contract granting a right of exclusive use, while distinguishing between a right of use and a prohibitive right, would make the contract too complicated. Therefore, a simple contract for establishment of a right of exclusive use is made for the purpose of registration, while a business contract for granting rights of use is, in many cases, entered into without a distinction between rights of use and prohibitive rights.

An unresolved question is whether such agreement is interpreted as an agreement to cancel the prohibitive right of a trademark or, practically, as an agreement to grant the right of use. At least, a broad interpretation should be given to the definition of an identical trademark and goods or services. In the actual world, an agreement granting a right for exclusive use is an agreement for establishment of a right of exclusive use in some cases, or an agreement combining an agreement for establishment of a right of exclusive use and an agreement for cancellation of the owner's prohibitive right in other cases. The number of latter cases is considered to be more than the former cases.

(d) Prohibition of establishment

A state, a local public entity, an agency thereof, a non-profit organization working in the public interest, or a person carrying on a non-profit public enterprise may not grant a right of exclusive use with respect to a well-known registered trademark (identical or similar trademark) indicating such organization or individual. Because the reasons for registration are based on the assumption that the right of use is only used by such organization or individual, a right of exclusive use may not be granted (Proviso of Section 30 (1), Section 4 (2), Section 4 (1) (vi)).

(2) Details of right of exclusive use

"The owner of a right of exclusive use shall have an exclusive right to use the registered trademark in respect of the designated goods or designated services to the extent set out in the contract granting such right." (Section 30 (2)).

Because a right of exclusive use appears to be a real or natural right (a right in rem,



effective against anyone), the owner of the trademark right is prohibited from using his registered trademark in the scope of such right of exclusive use. If a right of exclusive use covers the entire scope of a trademark right, the owner of a trademark right may not use it at all. However, special provisions inserted to the agreement can permit the owner of the trademark right to continue to use the right. Everything depends on the content of the agreement establishing the right of use. If the owner of a trademark uses his rights that are within the scope of the exclusive right specified by the agreement, he is regarded to be infringing his own trademark right (right of exclusive right). Conversely, the holder of the right of exclusive use is regarded to be infringing the trademark right if he uses the trademark beyond the scope of the right specified by the agreement.

The right of exclusive use usually restricts goods, services, term and territory. It may specify manner of use, such as manners of sale or provision (e.g., sale only to a distributor), and quantity (e.g., limit the quantity to be manufactured, sold, or provided by a manufacturer, seller or provider) or may specify suppliers of the goods with the trademark applied in some cases. Apart from whether such restriction violates the Anti-monopoly Law, it is possible to enter into such restrictive agreement under the Trademark Law.<sup>24</sup>

#### (3) Infringement of right of exclusive use

Any owner of a right of exclusive use is entitled, as the "owner" of a trademark, to the right to demand injunctions and compensation for damages (Chapter 4-2, Section 36 f. (Infringement)). Penal provisions are also provided (Chapter 9, Section 78 f., (Penal Provisions)).

#### (4) Transfer of right of exclusive use

The owner of a trademark is vitally interested in who owns his right of exclusive use because that ownership will influence the reputation of the trademark. Therefore, the owner of the right of exclusive use may transfer such right only with the consent of the owner of the trademark right. In the case of inheritance or other general succession, the consent of the owner of the trademark is not required because of the nature of such right of exclusive use (Section 30 (3)).

The owner of the right of exclusive use may not assign or license that right. The viewpoint of the current Law is that a transfer of the right would be sufficient, were such transfer allowed (by the trademark owner). However, in cases where the right of exclusive use is granted internationally, this system may be insufficient. For instance, Party B (the owner of the right of exclusive use of a Japanese trademark) has acquired the right to use the mark exclusively in Asia from Party A (an international enterprise that owns the Japanese trademark) who owns many trademark rights in many countries. If Party B assigns the right of exclusive use to C1 in India, to C2 in Indonesia and to C3 in Japan, in such a case, it would be more suitable to the situation that Party B sublicense the right of exclusive use to C3 in Japan. However, the current trademark law will not permit Party B to grant or register even the permissible sublicense.

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<sup>24</sup> As discussed below, the act is not necessarily a violation of the Anti-monopoly Law. It is regarded as an act of exercising a right and exempted from application under Section 23 of the Anti-Monopoly Law.

(5) Extinction of a right of exclusive use

A right of exclusive use terminates by the expiration of the term, cancellation of the agreement concerning the grant of the right, and surrender of the right. The right will also terminate with the extinction of the principal trademark. This significantly influences the interest of the owner of the right of use. Therefore the Trademark Law provides that the trademark owner must obtain the consent of the owner of the right of use when surrendering the trademark (Section 35 of the Trademark Law; Section 97(1) of the Patent Law).

(6) Surrender of right of exclusive use, creation of pledge and grant of right of non-exclusive use

If there exist pledgees or holders of non-exclusive use rights with respect to the trademark, the owner of a right of exclusive use may surrender the right only with their consent, so as not to cause them unexpected loss or damage. Likewise, the owner of a right of exclusive use may create pledges or grant (assign) the right of non-exclusive use only with the consent of the owner of the trademark so as to avoid any unexpected loss or damage. In cases of joint ownership, the consent of the remaining owners is required (Section 30 (4); Section 97 (2) and Section 77 (4) (v)).

(7) Pledge on right of exclusive use

If the right of exclusive use is the subject of pledge, the pledgee may not use the registered trademark in respect of the designated goods or services, unless otherwise provided by contract (Section 34 (1)). The laws for security in subrogation shall be applied to pledges on the right of exclusive use. A pledgee may exercise his pledge with respect to the compensation of such right of exclusive use, or the money or any other items receivable by the owner upon the use of the trademark right; provided, however, he must seize or attach the money or items before the payment or delivery thereof (Section 34 (2); Section 96 of the Patent Law).

(8) Registration of right of exclusive use

Any restriction on establishment, transfer (except for transfers by inheritance or other general succession), change, extinction (except for confusion or extinction of trademark rights) or disposition, or restriction on establishment or transfer (except for transfers by inheritance or other general succession) of a pledge on the right of exclusive use will take effect only with respect to the right of exclusive use or registered pledge (Section 30 (4) and Section (3); Section 98 (1) (ii) and (2), Section 98 (1) (iii) and (2) of the Patent Law). As shown in a precedent, the request for transfer of a right of exclusive use was dismissed on the ground that no registration was found to be made with regard to the establishment of the right (No. 1107, Mito District Court, Hanji, p. 120, Sep. 5, 1983).

Notice of inheritance or other general succession shall be supplied to the Commissioner of the Patent Office without delay in order to announce the details of register of trademarks to the public (Section 30 (4); Section 98 (2)).

2. Right of non-exclusive use

(1) Grant of right of non-exclusive use

(a) Right of non-exclusive use

The owner of a right of non-exclusive use may sublicense or assign a right of non-exclusive use to others within the scope of his trademark right (Section 31 (1)).

Because the system of registration of a trademark was established for the benefit of consumers (as an indication of business reputation or to prevent confusion), essentially, only the owner of the trademark right should be entitled to use the registered trademark.

Internationally, however, grant of a right of use is acknowledged in some way in many countries. The current Law attaches importance to the property nature and transferability at will of a trademark right and has set up a system for the grant of the right to use trademarks. Based on the assumption that any trademark owner would not grant a right to use to a person who might harm the reputation of his business, and the owner would have the right used under due control, the system for grant of the right of use has become a little too unrestricted. ("Chikujō Kaisetsu" (Commentaries on the Trademark Law, p. 1081)).

There was a precedent as to the effectiveness of an agreement concerning grant of such right. In this case, the representative director of a firm under his private management owned the trademark. Although there was no express agreement concerning the grant of a right to use the trademark between the owner and his firm, the court deemed that such agreement had substantially been made (Vol. 4, No. 1, Osaka High Court, Mutaishū, p. 117, Mar. 29, 1972).

(b) Criticism

From a legislative point of view, it is insufficient that the only consumer protection mechanism under the current Law is a trial for cancellation of registration (Toyosaki, p. 444, Miyake, p. 246, and Amino, p. 781).

(c) Prohibition of grant

Any trademark owner may not grant a right of non-exclusive use of a trademark which is a famous mark indicating a State or a local public entity or an agency thereof or a non-profit organization or enterprise working in the public interest (or a mark identical with, or similar to such a mark) (Proviso of Section 31 (1), Section 4 (1) (vi) and (2)) for the same reasons as discussed in the case of a right of exclusive use.

The former Trademark Law prohibited the grant of a right to use a registered trademark by the owner of the trademark right to a third party. In the case of "Nagasaka Sarashina," the question was whether the grant of a right to use the mark, "Azabu Nagasaka Sarashina Honten " that includes as its part the registered trademark, "Nagasaka Sarashina", as its trade name and trade mark. The court found that it was effective in light of the purpose of Section 9 of the former Trademark Law (Section 32 of the current Law) (Vol. 4, No. 1, Osaka High Court, Mutaishū, p. 117, Mar. 29, 1972). However, the high court held as follows: "The grant of a right to use "Azabu Nagasaka Sarashina Honten" is not a grant of right of non-exclusive use. It should be interpreted as a commitment that the holder of the registered mark will not exercise his right to request an injunction, etc. Accordingly, the agreement is found valid even under the

former Law that did not allow the grant of a right to use a trademark.

(2) Right of non-exclusive use

(a) Nature of right of non-exclusive use

Because a right of non-exclusive use takes effect based on a contract, the owner of such right may use the registered trademark for the designated goods or designated services to the extent set out in the contract granting such right (Section 31 (2)). In other words, the scope, term and conditions of such right can be specified in any way by a contract without restriction.

In the case of "Juchheim's," the question was regarding the scope of the grant of a right to use the trademark. The owner of the trademark, "Juchheim's", allowed another person (who has no legal claim to the right) to use the mark, "Juchheim's confecto", without imposing any restrictions at the compromise made before the court. Even if no restrictions were imposed on the manner of indication of a mark, the manner could not be completely unrestricted. The court viewed that there should have been restrictions coming from the basic nature of a trademark, distinctiveness. In the mark of "Juchheim's Confecto", "Juchheim's" was indicated larger than "Confecto." Each component, "Juchheim's" and "Confecto", was interpreted as an indication permitted in the compromise. Namely the manner of indication was within the scope of grant. Objections might be raised to this decision today. (No. 369, Kobe District Court, Hanyu, p. 415, Jan. 25, 1979).

There was a court decision regarding the influence of the cancellation of a licensing agreement of a foreign trademark on a Japanese trademark. A right to use the registered trademark, "Troy Bros", was granted to a Japanese corporation as a trademark similar to the trademark, "Troy", for which a U.S. corporation had a U.S. trademark right. Because the trademark was registered as a Japanese trademark under the name of the U.S. corporation, when the Japanese corporation exercised the rights of the registered trademark after the cancellation of the license agreement, it was held to be an abuse of the right and impermissible (No. 536, Tokyo District Court, Hanyu, p. 398, May 30, 1984). Another case involved to whom a trademark belonged when it was registered in the name of the owner of a right to use, after the termination of a trademark license agreement. The agreement contained a provision addressing the grant of a right to use by the owner of such right, pertaining to the trademark, any trademark similar to it and its variation used by the owner of such right in respect of the goods sold in Japan. "The trademark of the person who granted a right of use" in the agreement means a trademark which the person who granted the right so created as to use it as the trademark specific to his company at present and in the future. "Any trademark similar to it or its variation" meant a trademark of the same kind or similar in the image created by using, in part, the trademark of the person who granted the right to use, or by changing the characters, types and shape of the trademark. Any trademark other than this does not fall in this category if the licensor granted the right of use. The trademark, "Troy Bros", registered in the name of the owner of the right of use in accordance with the license agreement belongs to the licensor. But in this case, the graphic mark of a circled pipe registered in the name of the owner of a right of use under the license agreement was not related to the trademark of the above-mentioned licensor's trademark. It was independently created by the owner of a right of use, and therefore, it is reasonable to regard it as a

trademark of the owner of the right of use that such owner utilized only in Japan after reporting it to the licensor and obtaining his approval. After that, the court judged the trademarks, "SUNFAIR" and "CASTAWAY" as follows: "SUNFAIR" that was registered in the name of the owner of the right of use under the license agreement was presented and licensed by the licensor to the owner of the right of use. Therefore it belongs to the licensor. In contrast, "CASTAWAY" which was registered in the name of the owner of the right of use under the license agreement originated in the mark, "The Outlaw" in English created by the licensor and recommended by him to the owner of a right of use because the registrability of the mark was doubtful. For this reason, the owner of a right to use came up with the word "CASTWAY" and created the trademark to express the same concept. Because the use of it was licensed by the licensor as a variation of the trademark, it was deemed to belong to the licensor (Vol. 17, No. 3, Osaka High Court, Mutaishu, p. 614, Dec. 20, 1985).

The legal nature of a right of non-exclusive use is not a real right (property right? effective against anyone), it is, in contrast, a claim (relative right effective against a specific person) (Vol. 27, No. 3, Supreme Court, Minshu, p. 580, Apr. 20, 1973, etc. Commonly accepted view. "Nature of Patent License" by Yoshihiko Sato views it as a right in rem, Obo Kanreki, Book II, p. 280).

The owner of a trademark right may continue to use his own trademark after granting a right of non-exclusive use to another person. He may grant a right of non-exclusive use of the same trademark to a person other than the first owner of such right, and concurrently, he may grant a right of exclusive use. If that happens and the right of non-exclusive use has not been registered, the trademark may not be used in the scope of the right of exclusive use. Although the owner of a right of non-exclusive use may have an action against the owner of the trademark right for breach of contract, he cannot claim his right of non-exclusive use against the owner of the right of exclusive use. If the non-exclusive right had been registered first, it would have been effective against the right of exclusive use, and the owner of the right of non-exclusive use could have used the trademark continuously (Section 31 (4); Section 99 (1) of the Patent Law).

(b) Exclusive right of non-exclusive use and its exclusivity

A right to non-exclusive use with a special term to enter into a trademark license agreement only with the owner of such right and not to enter into an agreement granting the same right of non-exclusive use with any other person other than the original owner is called, "exclusive right of non-exclusive use." However, if an exclusive agreement has been entered into, there is no system to register an exclusive right as such. Therefore, should any other owner of the trademark appear in breach of the agreement, the owner of the trademark right would merely be blamed for the non-fulfillment of the obligation under an obligatory agreement between the parties concerned.

Practically, this situation is naturally similar to the right of exclusive use. For this reason, some theories acknowledge a right to request exclusion of interference, as well, in connection with a registered exclusive right of non-exclusive use. (Vol. 6, No. 12, Tokyo District Court, Kaminshu, p. 2690, Dec. 24, 1955; Kaneko=Someno, New p. 131, Toyosaki p. 299, Amino p. 787, Yoshifuji p. 568, Orita=Ishikawa p. 342; "Right to Demand Injunctions of Owner of Right of Exclusive Use", Kazuo Morita, No. 8 of

Annual report of the Japan Society of Industrial Property) Some courts deny such right (No. 142, Supreme Court, Quick Report, Hanji, p. 3872, Jan. 20, 1987; No. 157, Osaka High Court, Quick Report, p. 4382, Jun. 20, 1986; No. 1138, Osaka District Court, Hanji, p. 137, Dec. 20, 1984; Mitsubishi p. 233). Some theories acknowledge a right to demand injunctions by an exclusive licensee of non-exclusive right as an exercise in subrogation. (No. 185, Tokyo District Court, Hanyu, p. 209, Aug. 31, 1965; Nakayama p. 751; Mitsubishi "Patent Law" p. 303; Amino acknowledges the above-mentioned subrogation exercise with respect to the right of non-exclusive use. p. 787) A right to demand compensation for damages upon infringement of an exclusive right of non-exclusive use is acknowledged in most of court decisions (Vol. 11, No. 1, Osaka District Court, Mutaishu, p. 92, Feb. 28, 1979; No. 1138, Osaka District Court, Hanji, p. 137, Dec. 20, 1984; Vol. 23, No. 3, Osaka District Court, Chitekishu, p. 850, Dec. 25, 1991; Honma, Jitsumu Horitsu Taikei (Practical Law System) (Patent, Trademarks, Copyright) p. 443, and all other theories affirming a non-exclusive license).

A right to demand an injunction for infringement of a right of non-exclusive use of is generally denied (Vol. 12, No. 11, Tokyo District Court, Kaminshu, p. 2808, Nov. 20, 1961; Yoshinobu Someno, "Licensees' Legal Qualification in Patent Infringement Actions", Study on Corporate Laws-10th Anniversary, p. 215; Tatsunori Shibuya, "Licensee's Obligation of Working under Patent License Agreement and Legal Nature of Agreement", Vol. 85, No. 2 of Hokyō, p. 193). Opinions regarding a right to demand compensation for damages have been divided into affirmative theories<sup>25</sup> and negative theories.<sup>26</sup> The affirmative opinions are slightly stronger.

### (3) Transfer of right of non-exclusive use

A right of non-exclusive use may be transferred only with the consent of the owner of the trademark right, and a right of non-exclusive use that affects a right of exclusive use may be transferred only with both the consent of the owner of the trademark right and the owner of a right of exclusive use. These consents are required so as not to cause unexpected loss to the owner of the trademark right or a right of non-exclusive use. However, in the case of inheritances or other general succession, the consent is not required (Section 31 (3)).

### (4) Joint ownership, pledge, restriction on surrender, and termination

In cases where a right of non-exclusive use is jointly owned, each owner may not transfer his share or establish a pledge on his share, without obtaining the consent of the remaining owners (Section 31 (4); Section 73 (1) of the Patent Law). Each share of the right covers the entire range of use. The size of each share is insignificant except for the cases of distribution of a license or compensation for transference. A major user having a small share utilizes the right more fully than a minor user of a large share of the right. This is the characteristic of intangible property.

The owner of a right of non-exclusive use may establish a pledge on the right of non-exclusive use only with the consent of the trademark right owner. In the case of a right of non-exclusive use where another holds the right of exclusive use, he may establish a

<sup>25</sup> Vol. 17, Daishinin, Minshu, p.1675, Aug. 27, 1938; Suehiro p.77, Amino p.787, Shibuya Ibid.

<sup>26</sup> Tokyo District Court, Nov. 20, 1961, Ibid.; Vol. 16, No. 1, Osaka District Court, Mutaishu, p.271, Apr. 26, 1984; Someno Ibid.

pledge on such right of non-exclusive use only with the consent of both the trademark right owner and the owner of a right of exclusive use (Section 31 (4); and Section 94 (2) of the Patent Law). The owner of a right of non-exclusive use may surrender the right of non-exclusive right only with the consent of a pledgee, if any exists, so as not to harm the pledgee (Section 31 (4); and Section 97 (3) of the Patent Law). For instance, there was a case addressing whether or not a refusal to renew a license contract regarding furnishing a device of towel design and the related trademark license was effective. The court considered that the intent to terminate the contract was announced with a reasonable warning period, the licensor had terminated the contract with valid reason, and the licensee had contracts with other famous brands, and held that the rejection of renewal was not an abuse of the right or a breach of the fairness or equity. Accordingly, the license agreement was terminated when the renewal was rejected. (No. 398, Osaka District Court, Hanyu, p. 154, Oct. 16, 1979).

#### (5) Registration of the right of non-exclusive use

Once a non-exclusive license has been registered, it shall be effective against the owner of the trademark right, a right of exclusive use and anyone subsequently acquiring the right of exclusive use on such a trademark right (Section 31 (4); Section 99 (1) of the Patent Law). The transfer, modification, extinguishment or any restrictions on disposal of a right of non-exclusive use or the grant, transfer, modification, extinguishment or any restrictions on disposal of a pledge relating to a right of non-exclusive use shall not be effective against any third party unless it is registered (Section 31 (4); Section 99 (3) of the Patent Law).

### **IV. Legal Right of Use**

#### 1. Prior user's right

##### (1) Significance

Where, from a time prior to the filing by another person of a trademark application and without any intention of violating the rules of fair competition, a person has been using in Japan the trademark in the application, or a similar trademark in respect of the designated goods or designated services in the application, or in respect of similar goods or services, and, as a result, the trademark has become well known among consumers as indicating the goods or services as being connected with his business at the time of filing of the trademark application, such person shall have a right to use the trademark in respect of said goods or services provided that he does so continuously (Section 32 (1), First clause). Such a right is called the "right to use trademarks by virtue of prior use" or the "prior user's right."

The provision concerning prior use sets out the prior user's legal right to use the trademark. Its purpose is to protect the interest of the user who has been using the unregistered trademark and has accumulated a reputation under the first-to-file system. Strict adherence to the first-to-file system would not allow a prior user of a trademark in conflict to continuously use a trademark. The first-to-file principle stabilizes the legal system and simplifies rights, but it is unreasonable that the interest of a good faith prior user is lost by mere failure to file.

In this situation, the provision concerning prior use is intended to serve as an exception, to adjust and harmonize the registration principle vs. the first-to-use principle, and the first-to-file principle vs. the prior use principle under certain conditions.

Since the former Trademark Law defined the prior user's right, saying he "...may continuously use the trademark", a dispute has existed over whether it should be regarded as a right or a mere factual matter. The current Law defines it as "the right to use a trademark." It is, however, a passive right to continue the use and not an active and exclusive right.

## (2) Requirements

(a) From a time prior to the filing of a trademark application by another person, an identical or similar mark has been in continuous use in Japan for the goods or services identical with or similar to the designated goods or designated services. The phrase, "in Japan", means in the territory where the Trademark Law is enforced.

(b) From a time prior to the filing by another, a person has been using the trademark without any intention of violating the rules of fair competition: The phrase, "without any intention of violating the rules of unfair competition", means "without any intention of illegally obtaining profit by taking advantage of another person's reputation." Intention of violating the rules of unfair competition is defined as "intention to conduct any act identical with or similar to the business operation of another person by means of violating the principles of fairness and equity and competing with the person in business." This definition is in accord with the purpose of the provision. The definition should be wider and more flexible than the definition of the purpose of unfair competition law in general (Vol. 14, No. 5, Supreme Court, Keishu, p. 525, Apr. 6, 1960). For instance, in the case where, from a time prior to the filing of a trademark application by person in Industry B, a person in Industry A has been using a trademark similar to the registered trademark of the person in Industry B, such that it is well-known in Industry A, and as a result, the trademark has become well-known in Industry B, an intention to violate the rules of unfair competition is presumed. However, if Person B who had no ill-intent of unfair competition at the time of filing by Person A comes to have such ill-intent against Person A later, a prior user's right will not be granted to Person B.

(c) The trademark has become well-known among consumers as indicating the goods or services connected with the prior user's business at the time of filing of the trademark application by another person. "Well-known" at the time of filing means "well-known" in connection with his (the user's) business. The quantity of goods sold or handled by a franchisee will not affect whether a prior user's right will be granted to him. The reputation acquired through the use of a mark by a franchisee belongs only to the franchisor.

"Well-known" in this case is discussed from the point of view whether it is reasonable to take away the profit of a person in good faith. For instance, in the case regarding a newspaper entitled, "Horse Race Fans" which had been issued for about 40 years from the time prior to the filing of the registered trademark, "Horse Race Fans", applied to another designated newspaper and magazines, the court held that the issuer of the



newspaper had a prior user's right to the registered trademark under Section 32 of the Trademark Law, on the ground that the newspaper was well known among persons concerned and fans of the Japan Racing Association in Kansai area (Vol. 7, No. 1, Osaka District Court, Mutaishu, p. 175, Jun. 7, 1975). According to the interpretation of the court, the registered trademark, in this case, need not be as well known as provided in Section 4(1)(x) where the user of the well-known trademark is exclusively entitled to a right to file for trademark application. (The same gist is found in Vol. 25, No. 2, Tokyo High Court, Chitekishu, p. 296, Jul. 22, 1993; the opinion that the registered trademark should be equally well known as the case in Section 4(1)(x) is also strong. See "Chikujo Kaisetsu (Commentaries on the Trademark Law)" p. 1078). According to the majority opinion, "well-known" in Section 4 (1)(x) is defined as covering the area including several prefectures in Japan, such as Kanto area or Kinki area. In one opinion, it may be sufficient to cover an area a little larger than one prefecture. However, it may be insufficient if the area is too small in view of the nationwide effectiveness of trademark. For instance, when trademark registration of "Hamachidori (prover)" was filed for, a person who was not entitled to the trademark had been manufacturing and selling letter pads and envelopes bearing a mark similar to the registered trademark from a time earlier than the filing. However as the quantity of the letter pads and envelopes dealt with was too small, the court found that the mark was not widely accepted by consumers as indicating the goods dealt with by such person and the argument (defense) based on the prior use under Section 32 (1) of the Trademark Law was not acceptable (Vol. 16, No. 3, Osaka District Court, Mutaishu, p. 832, Dec. 20, 1984).

(d) Continuously used with respect to the goods or services

In order to have an effective argument for prior use, the user is required to use the trademark in question continuously with respect to the goods or services. If the use is suspended seasonally or temporarily for any unavoidable social or economic reasons, the condition of continuity is considered to be unfulfilled.

For instance, a person who had been using a character mark in *katakana* with the word "Zelda" (in alphabet) from a time prior to the registration of the same trademark (in designed or pictorial characters of *katakana*), stopped using them temporarily. In this case, this person stopped using the marks, not voluntarily, but because he was warned of the likeliness of trademark infringement by a third party. He was concerned about causing trouble to his customers, etc. by continuing the use. Because he temporarily suspended the use for a reasonable time period for legitimate reasons, the court acknowledged his prior user's right on the ground that his use fell under "a case where the trademark is continuously used in respect of the goods" as required in Section 32 (1). (Vol. 23, No. 3, Tokyo District Court, Chitekishu, p. 838, Dec. 20, 1991; The appeal mentioned above was dismissed by the Tokyo High Court on July 22, 1993.). However, the question remains whether or not, in this case, it can be asserted that the use was suspended for unavoidable social or economic reasons.

The provision concerning the rights of prior users is useful where an application falls under the provision of Section 4 (1)(x) of the Trademark Law, and is therefore not refused, despite the existence of a well-known trademark; it is especially useful where the trademark has been obtained without the intention of violating the rules of fair

competition and where the period of exclusion for requesting a trial for invalidation of trademark registration has lapsed (Section 47). The legislative reasons pertaining to the prior user's right system when it was introduced in 1921 emphasized this point. "At the time of filing for trademark registration (at the time of submission of an amendment under Section 9 (4)).....", the parenthetical phrase cautions that the provision pertaining to the filing date is applicable from the time of submission of an amendment, if any amendment is sought as to the application.

The right of a defendant to argue at a court depends on the whether a prior user has an existing right. It is the opinion of some that the Patent Office may answer this during Hantei proceedings and determine the existence of any restrictions on those rights (Section 28) (Yoshihara revised his opinion in Yoshihara=Takahashi, p. 155). However, in practice, the existence or non-existence of a prior user's right of use is not determined in Hantei.

### (3) Effects

#### (a) Details and scope of prior user's right

Any person who meets the requirements to be considered a prior user may continue to use the trademark even if it violates the prohibitive right of the registered trademark.

Only the use of "the trademark", namely, a trademark identical to the mark that was used prior to the application of the registered trademark is permitted. The scope of the use may not be expanded to goods and services similar to the designated goods and services or a trademark similar to the registered trademark. There is no need to expand the right to the scope of similarity by transforming the trademark of the prior user, which might possibly make the prior user's trademark too close to the registered trademark.

However, the coverage of a prior user's right need not be limited to the narrowly defined scope of identity necessary for registration. It may be expanded to trademarks identical with the registered trademark. The scope of identity may not be expanded to make the trademark similar to the registered trademark ("Prior use of the trademark right", Masanobu Ono, 50 lectures, p. 175).

#### (b) Prior user's right when the user has succeeded to the business

The prior user's right may be assumed by a successor to his business (Section 32 (1), latter clause). Legally, the prior user's right is not assumed by the new owner, instead the right is granted to the new user as a result of the succession. Both the predecessor and successor must meet the requirements of prior use.

In one instance, a corporation took over another business and the right to use a mark identical to the registered trademark, "Fugetsudo", from an individual who had been using the mark from a time prior to the registration of the trademark. The court acknowledged that the corporation also took over the right of prior use granted to the individual and obtained the rights to the above-mentioned trademark in accordance with the latter clause of Section 9 (1) of the former Trademark Law (latter clause of Section 32 (1) of the current Trademark Law) (Vol. 4, No. 2, Tokyo High Court, Mutaishu, p. 494, Jul. 28, 1972). In another instance, the Zelda case, a sole agent was not a business

successor but was allowed to use the principal's prior user's right. In the case of "BATTUE CLOTH," the owner of the rights associated with the registered trademark "BATTUE CLOTH" for the designated goods in Class 21 (Bags, packs and other similar goods) sued for damages on the ground of trademark infringement against a company importing and selling bags from a U.S. manufacturer to which the mark, "BATTUE", was applied. The U.S. manufacturer had a prior user's right to use the mark for bags in Japan pursuant to Section 32 (1). Because the company was the sole importer for the U.S. manufacturer, the manufacturer's right of prior use for that mark included the use of the mark on the bags when selling them through a sole importing agent. Therefore, the court found that the use of the mark by the sole agent in importing from the manufacturer and selling the bags was an act within the scope of the manufacturer's right of prior users. Consequently, the claim for damages by the trademark right owner was dismissed (Vol. 23, No. 3, Tokyo District Court, Chitekishu, p. 794, Dec. 16, 1991; Vol. 25, No. 1, Tokyo High Court, Chitekishu, p. 296, Mar. 31, 1993; the appeal was dismissed).

(c) Right to request a user to mark goods or services with a suitable indication so as to prevent any confusion

The owner of the trademark right or of a right of exclusive use may request the person having a right to use the trademark to mark his goods or services with a suitable indication so as to prevent any confusion between the goods or services connected with the owner's business and those connected with the other person's business (Section 32 (2)). This provision serves not only to protect the owner of the trademark right or the owner of a right of exclusive use but also the interests of consumers by adjusting the relationship between trademark owners. However, the owner of the registered trademark cannot additionally require the prior owner to modify the mark he has been using into one dissimilar to the registered trademark.

In order for a right of prior use under Section 32 (1) to take effect, the person having a right to use the trademark must have been using an identical trademark from a time prior to the registered trademark application, and the prior trademark must have become well-known among consumers as indicating goods or services connected with the trademark application. In a case at the Osaka District Court, the court ruled that neither the user of a trademark nor his predecessor were entitled to a right of prior use with respect to the trademark because the court found that neither had used a trademark identical to the registered trademark from a time prior to the date the trademark application was filed, and the trademark had become well known at the time the application was filed (Vol. 19, No. 3, Osaka District Court, Mutaishu, p. 389, Oct. 14, 1987; Vol. 21, No. 1, Osaka High Court, Mutaishu, p. 88, Mar. 3, 1989).

## 2. Non-voluntary license due to use prior to request for trial for invalidation

### (1) Definition

This is a right to use a trademark that is granted because the trademark was in use prior to the demand for a trial for invalidation of a trademark (announcement of registration). This provision found in a clause of Section 33 (1) of the former Trademark Law is intended to protect the original trademark owner, who had been using a trademark that was registered in spite of its invalidity and was later invalidated at trial, without

knowing of the invalidity. The original owner of a right to use is protected because the Patent Office was also erroneous.

When a person meeting the criteria set out below has been using a registered trademark or one similar in Japan for the designated goods or designated services, or ones similar, prior to a demand for a trial for invalidation, without knowing that the trademark registration falls under any of the paragraphs of the subsection referred to, and the trademark has become well known among consumers as indicating the goods or services as being connected with his business, such person shall have a right to use the trademark in respect of the goods or services provided that he does so continuously.

(i) the original owner of the trademark right, where one of two or more trademark registrations granted for identical or similar trademarks to be used for identical or similar designated goods or services has been invalidated;

(ii) the original owner of the trademark right, where his trademark registration has been invalidated and a trademark registration has been granted to another person for an identical or similar trademark to be used on identical or similar designated goods or services;

(iii) in the cases referred to in the two preceding paragraphs, a person who, at the time of the demand for a trial for invalidation, has a right of exclusive use with respect to the trademark right under the trademark registration that has been invalidated or a right of non-exclusive use which is effective against the trademark right or the right of exclusive use.

A prior user's right is granted in relatively many cases, while the grant of a non-voluntary license due to use prior to request for a trial for invalidation is extremely rare. "Nojigiku" is one such case. The registered trademark, "Nojigiku", applied to the designated goods of former Class 43 (confectionary and other goods classified under this class), became well known not only among local confectioners but also among consumers in the area as indicating the confectioneries manufactured by Shibata Saishodo (owner of the trademark right) due to its corporate efforts, advertisements, promotions and prizes awarded. The owner of the trademark right did not know that another identical trademark had already been registered when the demand for a trial for invalidation was registered and was continuously making efforts to manufacture and sell the confectionery to which the trademark, "Nojigiku", was applied. In view of these circumstances, the court decided that a non-voluntary license due to use prior to a request for a trial for invalidation be granted to the trademark, "Nojigiku" under Section 33. This is an extremely rare case of this kind. (Vol. 4, No. 1, Osaka High Court, Mutaishu, p. 117, Mar. 29, 1982).

In the case where a trademark in conflict is a defensive mark, the provision of non-voluntary license due to use prior to a request for a trial for invalidation is applicable (Section 68 (3); Section 33). The legal characteristics of such a right are almost the same as those of a right of prior use.

(2) Successor of a non-voluntary license acquired due to use prior to a request for a trial

for invalidation

Due to its nature, a non-voluntary license acquired due to use prior to a request for a trial for invalidation may be taken over only by a person who has succeeded to the business concerned (Latter clause of Section 33 (1)).

### (3) Consideration

The owner of the trademark right or of the right of exclusive use shall have a right to a reasonable remuneration as consideration for the right of non-exclusive use under the preceding subsection (Section 33 (2)). No payment of remuneration is required as to prior user's right. Both rights are greatly different in this respect. This is because, unlike the prior user's right, the owner of the right of non-exclusive use is expected to contribute to registration fees and renewal fees with respect to the registered trademark. Also, payments of remuneration have previously been made by the owners of non-exclusive rights, it is regarded as reasonable to continue such payment.

The amount of remuneration is not calculated on the basis of the amount of consideration for a right of non-exclusive use (Amino, p. 738). It is lower than such consideration. Although the amount usually depends on the decision of the court, there is no precedent as to such calculation. The question still remains unresolved.

### (4) Request to mark person's goods or services with suitable indication so as to prevent confusion

The provision of Section 33 (2) of the Trademark Law with respect to the prior user's right is applied *mutatis mutandis*.

### (5) Non-voluntary license due to use prior to a request for a trial for invalidation after retrial

In the case where a trademark is used in good faith after the trademark registration is revoked or invalidated or canceled, without knowledge of the invalidation or cancellation, and then the trademark right is restored through a retrial, Section 33 applies. The effects of the prohibitive right of the trademark right will not be extended to good faith use of the registered trademark after a ruling to revoke or a final and conclusive trial or retrial decision but before the announcement of the demand for a retrial (Section 59). The protection of a well known trademark used in good faith after the lapse of such period (after the above ruling but before the registration of demand for a retrial) is covered under the non-voluntary license due to use prior to a request for a trial for invalidation. However, if the trademark becomes well known during the time the user is not aware of the existence of the registered trademark, no payment of consideration is required (Section 60) as in the case of prior user's right (Section 32). It is not like the case of a non-voluntary license due to use prior to a request for a trial for invalidation (Section 33) in this regard.

## **V. Real Rights Granted By Way of Security**

### 1. Definition

A trademark right is also a property right. In addition to being used for making profit, it can be offered as security. The former Patent Law, Utility Model Law and Design Law included provisions concerning pledges, while there were no provisions for pledges

pertaining to trademark rights, which were regarded as not transferable independent from business operations. (However, the minority opinion acknowledged the establishment of a trademark right). Under the current Trademark Law, the proprietary nature of a trademark right has been strengthened and provisions concerning pledges have been added.

## 2. Pledge

### (1) Characteristics

A pledge may be established on either a trademark right or a granted right of use (a right of exclusive use and non-exclusive use) (Section 34 (1)).

In the case where a trademark right or a right of exclusive or non-exclusive use is the subject of a pledge, the pledgee may not use the registered trademark for the designated goods or services, except as otherwise provided by contract (Section 34 (1)). The pledge has no effects of retention but is entitled to preferential repayment. This is because a pledgee aims to secure its claims but has no need to use the trademark. Accordingly the owner of trademark right may continue to use the registered trademark. A pledge on a trademark right is essentially a right of pledge and is similar to a mortgage in this respect (Toyosaki, p. 450; Amino, p. 790). Although it is similar to mortgage, the rules for real estate pledges are not applicable. At the time of legislation, the legislative council initially intended to change a pledge on patent rights to a mortgage and to change a pledge on trademark rights in the same manner. (Explanatory statement attached to the Report p. 38). However, legislators finally decided not to adopt the mortgage system although the provision of Section 34 is in accordance with the Report.

### (2) Effectiveness

The requirements for establishment of a pledge on a trademark right or a right of exclusive use are ineffective unless they are registered (Section 34 (3); Section 98 (1) (iii) of the Patent Law), and the requirements for establishment of a pledge on a right of non-exclusive use shall not be effective against any third party unless they are registered (Section 34 (4); Section 98 (1) (iii) of the Patent Law). The requirements in each case correspond to the nature of each registration.

The grant, transfer, modification, or extinguishment of a pledge on a trademark right or a right of exclusive use, or a restriction on the disposal thereof shall be of no effect unless it is registered. However, in cases of general succession such as inheritance or merger of a company, the confusion or extinguishment of a pledged claim shall take effect without being registered (Section 34; Section 98 (1) (iii) of the Patent Law). "Restriction on the disposal of a pledge" means a "direct restriction on disposal of a pledge itself" (such as a restriction on sub-pledge) and does not include the cases where disposal of a pledge is necessarily restricted in connection with the seizure or attachment of secured claims. Accordingly, in the case where debts having a pledge of trademark rights have been seized, the court ordered seizure shall be effective, unless the court has not registered the seizure with the Patent Office (Vol. 19, No. 11=12, Nagoya High Court, Kaminshu, p. 843, Dec. 25, 1968.).

A pledge on a trademark right may also be exercised against the payment that may be

received as consideration for the trademark right or the use of the registered trademark that the trademark right owner would be entitled to receive; provided that the pledge shall be seized or attached before the payment or delivery, since it is likely to be confused with other general property of the debtor (Section 34 (2); Section 96 of the Patent Law). It is clearly stipulated that a pledge that is exercisable as a security in subrogation\*\* (Sections 350 & 304 of the Civil Code) extends to the consideration or license fee. (It also extends to compensation for damages. ("Chikujo Kaisetsu (Commentaries on the Patent Law" p. 239), although the amount of remuneration receivable by a non-exclusive licensee is not clearly specified (Section 96 of the Patent Law). However, if a non-exclusive licensee receives a sub-license fee and compensation for damages, there is no reason to treat exclusive and non-exclusive licensees differently. (Manda, Annotated Patent Law, p. 237).

Pledges shall be exercised in accordance with the provisions of the Civil Execution Law (Sections 161 & 167 of the Civil Execution Law).

### 3. Security by way of transfer

Under the former Trademark Law, which did not acknowledge pledges, the transfer of a trademark right by way of security was held effective (No. 3454, Tokyo District Court, Newspaper, August 5, 1995. p. 6). Under the current Law that values the proprietary nature of a trademark right more than the former Law, "security by way of transfer" is naturally taken up as a security rather than a pledge. A pledge cannot be effective against a third party if established on a pending trademark application that is not yet registered. In practice, "transfer by way of security" of trademark rights is used, although there is still a question regarding the lack of good faith in the use of the registered trademark.

A trademark right cannot be the subject of a mortgage. However, it can be a component constituting a foundation (collection of corporate assets) that is the subject of foundation collateral (The Hypothecation of Factory Property Law), or can be the subject of the enterprise mortgage (The Mortgage of Stock Companies' Property Act).

## **Section 4. Remedies for Infringement on Trademarks**

### **I. Infringement on Trademarks**

#### 1. Kinds of Remedies

The remedies for infringing a trademark or a right of exclusive use consist of both civil and criminal remedies. Civil remedies sought under tort law under the Civil Code seem to be sufficient; however, application of only the Civil Code would be insufficient as remedies, in practice. A trademark right is a peculiar right that covers intangible property and reputation, embodied in a trademark. The Trademark Law has the following four provisions including "deemed" provisions and presumptive provisions: Sections 36 to 39 under "Chapter IV- 2 Infringement," which supplement the Civil Code provisions in order to more firmly protect trademark rights. The Trademark Law provides the following provisions as civil remedies: Right to require the discontinuance of infringement or to require preventive measures (Injunctions - Section 36 (1)),

Presumption of the amount of damages (Section 38), and Measures for Recovery of Reputation (Section 39; Patent Law, Section 106). Other provisions were also written to reinforce these provisions, such as: Request for destruction of the infringing articles (Section 36 (2)), Acts deemed to be infringement (Section 37), Presumption of the amount of damages (Section 38), and Production of Documents for the purposes of presumption of negligence and of calculation of loss, Expert Opinion for Proof of Damage and Award of Reasonable Damages (Section 39; Patent Law, Sections 103, 105, 105-2, 105-3.).

## 2. Uses and Cancellation of Trademark

The definition of trademark right infringement must be derived from the purpose of the Trademark Law. This helps to clarify the substance of trademarks. The objective of the Trademark Law is "to ensure the maintenance of the business reputation of persons using trademarks by protecting trademarks, and thereby to contribute to the development of industry and to protect the interests of consumers" (Section 1). What the trademark right tries to protect is the reputation represented by the trademark. Therefore, trademark right infringement should not be limited only to infringer's acts to affix the registered trademark in an unrestrained manner. (The same opinion is found in Manda, "Study on Unfair Competition Prevention Law", p. 36. According to Manda, the conventional view that regards the illegitimate use of a registered trademark per se as an infringement is questionable. Acts of interfering with the legitimate use of a registered trademark is considered sufficient to constitute an infringement.)

For instance, one person removes another person's trademark from that person's new product of excellent quality, and affixes his own trademark to the product, posing as the manufacturer of the product. The question is whether his act of taking advantage of another person's reputation without consent (reverse passing off) would be regarded as an infringement or not. A similar question is whether eliminating or deleting trademarks from products before distribution constitutes trademark infringement. If trademark infringement were limited only to an infringer's act to affix the registered trademark to any goods, these types of infringement would be overlooked.

As discussed above, there are ways of infringing other than using another's trademark without restriction. The definition of infringement as "any act that harms the functions of a trademark" is gaining popularity. (Amino, p. 796; Monya, 50 lectures, p. 163; Manda, 50 lectures, p. 162; \*\* Nishizawa, "Negative Infringement on Trademarks", Vol. 14, No. 3 Tokkyo Kanri (Patent Control), p. 173; No. 207, Tokyo Koso-Appeal Court, Newspaper No. 207, p. 14, Apr. 15, 1904). Generally, trademark infringement is interpreted as an act that "harms the exclusive use of a registered trademark;" namely, "to use the registered trademark of another person." This only illustrates a typical case of trademark infringement. It is not sufficient to limit the definition of trademark infringement only to the use of a trademark without permission if one is to completely ensure the exclusive use of registered trademark. A close will find that few court opinions limit infringement only to another person's use of a registered trademark.

## 3. Acts Harmful to Trademark Functions



The sole fact that a registered trademark is physically affixed to goods is not sufficient to prove that use of a trademark identical or similar to the registered trademark is an infringement. In order to entitle the trademark right owner to demand the other user to discontinue the use or compensate for damages, the trademark needs to be used in a way that distinguishes one's own goods from those of others. (Vol. 3, No. 2, Osaka District Court, Izuka Branch, Mutaishu, p. 317, Sep. 17, 1971; Vol. 8, No. 1, Osaka District Court, "First Popeye" Mutaishu, p. 102, Feb. 24, 1976; Vol. 8, No. 2, Tokyo District Court, "Tatsumura", Mutaishu, p. 400, Sep. 29, 1976; Vol. 11, No. 2, Tokyo High Court, "Tatsumura/ Koso-Appeal Trial ", Mutaishu, p. 577, Nov. 14, 1979; Vol. 12, No. 2, Tokyo District Court, "TV Animation", Mutaishu, p. 301, Jul. 11, 1980; Vol. 13, No. 1, Tokyo High Court, "TV Animation/ Appeal", Mutaishu, p. 333, Mar. 25, 1981; Vol. 19, No. 2, Tokyo District Court, "Tsuko Tegata (Pass)", Mutaishu, p. 277, Aug. 28, 1987; Vol. 20, No. 3, Tokyo District Court, "POS", Mutaishu, p. 444, Sep. 16, 1988; No. 1526, Tokyo District Court, "UNDER THE SUN", Hanji, p. 141, Sep 26, 1995).

Infringement is defined as an act of impairing the function of a trademark, yet the range of acts to be defined as infringement is not completely defined. A phrase, "infringement of a trademark right" appears in provisions such as Section 36 (Injunctions) and Section 38 (Presumption of amount of damage). However, these provisions only limit the acts regarding which remedies can be sought to those of applying trademarks without consent, and give no clear definition of such acts. Therefore, in order to see a broader range of acts that infringe by impairing the function of a trademark, interpretative efforts may be required. It may be possible to find infringement in dilution of a trademark right, but it will probably be only with respect to the rights to a famous or prominent trademark. A demand to discontinue use of a trademark as a generic name in dictionaries, etc. may be a legislative issue, as seen in overseas countries (Former Chikujō Kaisetsu (Commentaries to Trademark Law), p. 993). If a dictionary publisher mistakes a trademark for a generic name and has failed to correct it in the succeeding revision of the dictionary, knowing the mistake through warnings of several times, it is possible that the act, harmful to the value of a famous trademark, would constitute a tort.

#### 4. Use of Trademark in Sound or Voice

Trademarks may be used by the public, but those uses in sound or voice are not commonly accepted an infringing "use" of a trademark in theory. Radio advertisements, street advertisements, and advertisement broadcasting by sound tracks are examples of acceptable public "use" of marks. In addition, a three-dimensional trademark advertisement, based on the three-dimensional trademark right, which does not contain any two-dimensional portion, is not regarded as the use of the trademark. However, these acts may constitute trademark infringement from the viewpoint that any acts impairing trademark functions should be regarded as infringement (Manda, Fifty Lectures, p. 162).

#### 5. Acts Deemed to be Non-Infringement of Trademark

Acts that are neither direct nor indirect infringement include: financing criminals, sale of copied components of goods not bearing trademarks, manufacturing raw materials, not bearing trademarks, which are to be used for finished goods that are copies of another's goods and are expected to bear trademarks. Some sellers of such illegitimate raw materials are actively doing their business, knowing that the materials will be used

by manufacturers who copy the goods of others. The raw materials producers are accomplices of persons who are playing the key role in an international association of copied goods manufacturers. If not, their acts constitute trademark infringement only in cases where they are deemed to have been jointly involved with trademark infringers in unlawful acts, co-conspiracy, or complicity. There was once a firm that was doing business copying goods involving a listed company, taking advantage of the fact that the judiciary had not yet started to deal with intellectual property law-related crimes. In developing countries, businesses such as these still exist, even in the present. Intellectual property-related crimes are one type of white-collar crimes of today.

## 6. Infringement of Trademarks

Any act within the scope of the right of use (right of exclusive use) of a trademark right is deemed to be an infringement of a trademark right, if done without authorization. (This is obvious from Sections 25, 36(2), and 37 (1) and will be presented in the subsection below.). Such an act is a typical infringement. Any act that is harmful to trademark rights should also be regarded as a trademark infringement. Reverse passing off is one of the examples of such harmful acts. Conversely, any act that falls under the category of a typical trademark infringement should not be regarded as an infringement, unless such an act impairs the value of a trademark right. Parallel importing of genuine goods is one such example. It should be noted, however, that refilling genuine goods would constitute an infringement. (Vol. 25, No. 5, Supreme Court Ruling, Keishu, p. 739, Jul. 20, 1971; Vol. 8, No. 3, Fukuoka High Court, Kakeishu, p. 371, Mar. 4, 1966). Any act, if conducted without authorization, that is within the scope of the prohibitive rights of a trademark right, is deemed to be an infringement.

## 7. Acts Deemed to be Infringement

### (1) Categories

The following acts shall be deemed to be an infringement of a trademark right or of a right of exclusive use (Section 37):

(i) use of a trademark similar to the registered trademark in respect of the designated goods or services, or use of the registered trademark or a trademark similar thereto in respect of goods or services similar to the designated goods or services;

(ii) acts of holding, for the purpose of assignment or delivery, designated goods, or goods which are similar to the designated goods or services and to which or on the packaging of which the registered trademark or a trademark similar thereto has been applied;

(iii) acts of holding or importing articles that are for use by persons to whom the services are provided and to which the registered trademark or one similar thereto has been applied, in the provision of the designated services, or of services similar to the designated services or designated goods, for the purpose of using such articles in the provision of such services;

"Articles that are for use by persons to whom the services are provided in the provision of the designated services" mean, for example, napkins or dishes at a restaurant, or cars of a taxi company.

(iv) acts of assigning or delivering articles that are for use by persons to whom services are provided and to which the registered trademark or a trademark similar thereto has been applied, in the provision of the designated services, or services similar to the designated services or designated goods, for the purpose of assigning or delivering such articles;

(v) acts of holding articles bearing a reproduction of the registered trademark or a trademark similar thereto for the purpose of using such trademark in respect of the designated goods or designated services or of goods or services similar thereto;

(vi) acts of assigning or delivering, or of holding, for the purpose of assignment or delivery, articles bearing a reproduction of the registered trademark or a trademark similar thereto, for the purpose of causing such trademark to be used in respect of the designated goods or designated services or of goods or services similar thereto;

(vii) acts of manufacturing or importing articles bearing a reproduction of the registered trademark or a trademark similar thereto, for the purpose of using such trademark, or causing it to be used, in respect of the designated goods or services or of goods or services similar thereto;

(viii) acts of manufacturing, assigning, delivering or importing, in the course of trade, articles to be used exclusively for manufacturing goods bearing a reproduction of the registered trademark or a similar trademark.

## (2) Definition of indirect infringement

With respect to any act specified under Section 37 (i) to (viii) (Acts deemed to be infringement), there is no need to prove the facts of infringement. This section tries to reinforce the protection of trademark rights that are likely to be infringed, by enumerating the acts likely to impair the reputation of registered trademarks. While the infringement in the essential meaning is called, "direct infringement," the acts enumerated in Section 37 are called, "indirect or deemed infringement." Because the nature of the provision of (i) is slightly different from (ii) and the following items, the whole section will be called "deemed infringement."

Acts of infringement as set out under Section 37 may bring about either civil or criminal remedies. (No. 880, Osaka High Court, Hanji, p. 83, Apr. 28, 1977; No. 1115, Tokyo High Court, Hanji, p. 136, Nov. 7, 1983 and many other precedents; Toyosaki, p. 397, Yoshiwara=Takahashi, p. 188; Opposition opinions, Mitsuichi, p. 425) Because these acts are deemed to be infringements, the infringer is liable under both the criminal law and the civil law. In view of the provision of Section 37 (1), the argument that such acts are punished only under the civil law, but not under the criminal law is incorrect. The conditions for screening infringing acts should not be too broadly applied. Contrary to sentencing, indirect infringers are, legally speaking, in a minor position in crimes, as opposed to infringers who are the principals, or organizers and central figures of the crime in a number of cases.

## (3) Various theories on indirect infringement

(a) Item (i)

① The acts stipulated in Item (i) are said to belong to the scope of prohibitive right. (Chikujo Kaisetsu (Commentaries to Trademark Law), p. 1101; argued that the provision of (i) is different in nature from the remaining items. While the acts set forth in (i) are deemed to be primary infringements, the acts in the other items are preliminary to the acts in (i). The same opinion is found in Amino, p. 803. Toyosaki opposes this viewpoint from a legislative perspective. Another opinion is that Item (1) is a fictitious provision regarding infringement and not a provision regarding a prohibitive right (Kaneko=Someno, p. 783.)). Each remaining item requires objectives related to infringement, while Item (1) does not require any such objective.

② There is no system governing the use of a trademark right. One's trademark right may, in some cases, overlap the prohibitive right of another's trademark right. As a result, the owner of the trademark right might possibly harm another's right. However, the owner of the trademark right is not prevented from using the trademark in the scope of his right of use. A trademark right is not used in the same way a patent right is.

③ Mutual "Kick-Out" or mutual exclusion

The trademark right of one, if used within the scope of the prohibitive right may, in some cases, overlap the scope of the prohibitive right of another's trademark right. The trademark right owner is not prevented from using the trademark in the scope of his own right of use; in the prohibitive scope, however, he is allowed to use such right at will, only to the extent it is not in conflict with the prohibitive right of another's trademark right. The use of the trademark right in the scope of the prohibitive right creates an infringement problem, if it conflicts with the prohibitive right of another's trademark right. However, the same applies to the other person. This situation is commonly called "mutual kick-out" or mutual exclusion.

④ Item (i) is the provision regarding "use of a trademark". "Use" of a trademark is defined as acts of "applying a mark...." in Section 2 (3). Therefore "use" of a trademark, as defined here, is limited only to these acts. Such a definition tends to limit the cases that would be trademark infringement under Section 37. Infringement should be interpreted more broadly as acts that have a harmful effect on trademarks, or impair the function of trademarks. (See "Use of Trademark" and "Effects of Trademark", supra).

Whether or not the act regarded as use of the trademark should be judged objectively, depends on whether the trademark applied to the goods properly functions as a trademark of the goods. The judgment should not depend on the user's subjective intent or his purposes of use (No. 1394, Urawa District Court, Hanji, p. 144, Jan. 28, 1991).

For instance, The courts ruled that the act of applying the marks "Kamon", "Orion" and "Capera," which were identical in appearance, pronunciation and concept to one another, to packaging and advertisement leaflets for fiber board ornamental ceiling materials and frame-shaped wooden brimmed ornamental ceiling materials, constituted an infringement of the trademark right, because each such trademark had the capability to

distinguish the goods of the manufacturer from those of others (No. 992, Nagoya District Court, Hanji, p. 93, Apr. 25, 1980; No. 1022, Koso-Appeal to Nagoya High Court, Hanji, p. 69, Jul. 17, 1981.).

Another case involved a mark consisting of the letters "POPEYE" written across one end of a muffler that was identical in appearance, pronunciation and concept with a registered trademark that combined the letters "POPEYE" with the word "Popeye" in *katakana* and a figure of a sailor. The courts ruled that the use of this identical mark is not only ornamental as a design but also in use as a trademark with the functions of indicating the source of the goods as well as guaranteeing the quality; therefore the act constituted a trademark infringement (Vol. 16, No. 1, Osaka District Court, Mutaishu, p. 138, Feb. 28, 1984; Vol. 17, No. 3, Koso-appeal trial at Osaka High Court, Mutaishu, p. 411, Sep. 26, 1985; Vol. 44, No. 5, Jokoku-appeal trial at Supreme Court, Minshu, p. 876, Jul. 20, 1990).

(b) Item (ii)

① Items (ii) to (viii) provide for preliminary acts of infringement (P. 1101 of the Commentaries (Chikujo Kaisetsu), states that these are preliminary acts next to infringement.) and include subjective conditions. The acts under Item (ii) include acts of holding, for the purpose of assignment or delivery, designated goods or goods which are similar to the designated goods and to which or on the packaging of which the registered trademark or a trademark similar thereto has been applied. (Item (ii) was applied to the case where a person printed another's trademark on boxes of "Haimi" bottles. He refilled the bottles with "Haimi (artificial seasoning)", which he bought from pachinko (pinball) prize, and sold them. Vol. 20, No. 1, Tokyo High Court, Kokeishu, p. 14, Jan. 30, 1967; Vol. 25, No. 5, Supreme Court Ruling, Kokeishu, p. 739, Jul. 20, 1971).

The acts under Item (ii) are different from the acts listed under Item (iii): "acts of assigning, delivering, displaying for the purpose of assignment or delivery, or importing, the goods on which or on the packaging of which a mark has been applied" that constitute direct infringement. "Acts of holding" under Item (ii) are held by the court to be indirect infringement very likely to become an infringement. Such acts under Section 37 (2) are not necessarily conducted in the course of trade. In addition, in the case where a person held, for the purpose of sale, designated goods to which or on the packaging of which the registered trademark had been applied without being duly authorized, the fact that the contents of the packaging were goods manufactured by the person and they were brand-new products did not influence in any way whether the person was found guilty or not under Section 37, Item (ii) and Section 78. Moreover, the court held that, although the packaging was a mere container of goods for protective purposes during transportation without any special ornamental elements, it was considered to be the "packaging of goods" set out in (ii) (Supreme Court Ruling, Jul. 20, 1971, *Ibid*).

② Displaying

With respect to the definition of "distributing" under the former Law, it was commonly accepted that "displaying" was included in "distributing." However, there was disagreement involving what constituted acts of "holding." Item (ii) regards all these

basic acts as infringement. The acts of holding under this item form a part of "acts of selling" together with displaying, and may possibly be embraced in the concept of selling. Therefore such acts of holding cannot necessarily be regarded as preliminary acts of infringement. In the above- mentioned "Haimi" case, the court concluded that when the person affixed the registered mark to the packaging, that act constituted the principal trademark infringement, by applying Item (ii) (Tokyo High Court, Jan. 30, 1967; Supreme Court, Jul. 20, 1971, op.cit.).

### ③ Holding

Acts of holding by consumers for their own use without such objectives as assignment or delivery are not addressed in this item. Holding for the purposes of assignment or delivery is sufficient to constitute infringement, if not in the course of trade. A person who held a cardboard box containing copies of trademarks was found guilty, if they were not held in connection with his business,. (Supreme Court, Jul. 20, 1971, op.cit.).

### (c) Item (iii)

① Items (iii) and (iv) have been newly added in connection with the introduction of service marks. Acts under (iii) include holding or importing articles which are for use by persons to whom services are provided and to which the registered trademark or a trademark similar thereto has been applied, in the provision of the designated services, or of services similar to the designated services, or designated goods, for the purpose of using such articles in the provision of such services.

② Item (iii) is not a provision regarding acts of using a registered trademark or a trademark similar thereto in respect of the designated services per se. It addresses acts of holding or importing articles, which are for use by persons for whom the services are provided. It also addresses acts of holding or importing such articles to which the registered trademark or a trademark similar thereto has been applied for the purpose of using such articles in the provision of the designated services to such persons. While acts of importing are included in the definition of use with respect to goods, such acts are not included in the definition of use with respect to services because of the nature of services. However, as far as infringement is concerned, acts of importing articles to which service trademarks are applied for the purpose of using such articles in the provision of the designated services are regarded as the preliminary acts before providing services and are classified in the acts of indirect infringement.

### (d) Item (iv)

Acts under Item (iv) include assigning or delivering articles, which are for use by persons to whom the services are provided and to which the registered trademark or a trademark similar thereto has been applied, in the provision of the designated services or services similar to the designated services or designated goods for the purpose of causing such articles to be used in the provision of such services, or acts of holding or importing such articles for the purpose of assigning or delivering them.

These are acts of holding or importing the articles to which registered trademarks or similar trademarks are applied for the purposes of assignment, etc. This item does not address such acts as holding articles for own use without purposes of assignment and delivery. However, only if the articles are assigned or delivered (if not in the normal

course of trade) for the purpose of causing such articles to be used, and similar acts of assignment, meet the requirements set forth in this item.

(e) Item (v)

Acts under Item (v) include holding articles bearing a reproduction of the registered trademark or a trademark similar thereto for the purpose of using such trademark in respect of the designated goods or designated services or of goods or services similar thereto. In other words, these are acts of holding "articles bearing a reproduction of infringing trademark" in order to use the infringing trademark. Acts of holding articles bearing a reproduction of an infringing trademark fall under Item (vi) (not under (v)). However, the requirement of this item is satisfied if the articles are held for the purpose of using such articles (if not in the normal course of trade).

If Items (ii) and (v) are compared, Item (ii) addresses acts of holding "for the purpose of assignment or delivery" "trademark infringing goods or their packaging", which are regarded to be preliminary acts occurring immediately before the sale of infringing articles (Chikujo Kaisetsu (Commentaries to Trademark Law), p. 1101). While the subject of the acts under Item (ii) are goods (finished goods), the subject of the acts under Item (v) is "a reproduction of the infringing trademark." "Packaging of infringing goods" is provided for in Item (ii), and "packaging" bearing an infringing trademark is addressed in Item (v). "A reproduction" of the registered trademark or a trademark similar thereto is not "the designated goods or goods similar thereto to which the registered trademark, etc. are applied." Item (v) refers to any article bearing a reproduction of the infringing trademark (which is a component constituting the trademark infringement), including half-finished goods, labels, flyers, and any and all parts and materials bearing the trademark (Amino, p. 804).

(f) Item (vi)

Acts under Item (vi) include assigning or delivering, or holding, for the purpose of assignment or delivery, articles bearing a reproduction of an infringing trademark for the purpose of causing the registered trademark or a trademark similar thereto to be used by others in respect of the designated goods or of goods similar thereto.

Acts of holding the infringing trademark for the purpose of one's own use fall under (v) and not under this item. The requirement of this item is satisfied if the articles are assigned for the purpose of causing such trademarks to be used (if not in the course of trade).

(g) Item (vii)

The acts under Item (vii) include manufacturing or importing articles bearing a reproduction of the registered trademark or a trademark similar thereto for the purpose of using such trademark, or causing it to be used, in respect of the designated goods or designated services or of goods or services similar thereto. Manufacturing or importing for the purpose of one's own use is also included in these acts. The requirement of this item is satisfied if the articles are manufactured or imported (if not in the course of trade). If a person, without knowledge of the circumstances, manufactures or imports such articles by the consignment of another person, only the person who consigned the infringement falls under this item.

Acts of holding such articles so manufactured or imported for the purpose of using them for himself fall under Item (v), and holding such articles for the purpose of causing them to be used fall under Item (vi).

In connection with the question of whether the importation provided for in Item (vii) constitutes an infringement or not, another question is raised as to whether importation by a third party of genuine (original) goods bearing a mark identical or similar to the trademark of the trademark owner in Japan; namely, the so-called parallel importation/sale of genuine goods should be regarded as an infringement.

There should be no concern that the importation and sale of genuine goods would mislead or confuse consumers regarding the source or quality of the goods. The functions of a trademark are not harmed, and the reputation or other business interest of the trademark owner is not impaired at all. Additionally, these acts have positive implications, such as promoting fair and free competition within the country, bringing advantages to consumers, promoting international trade and stimulating the development of the industry. In this sense, such importation brings results that suit the purposes of the Trademark Law. The essential purpose of trademark protection is not only to protect the trademark owner's interest but also, ultimately, the public interest. In view of the highly public or social nature of trademark protection, these acts have been found practically to be legitimate. In a number of court decisions given after the Parker incident (Vol. 2, No. 1, Osaka District Court, Mutaishu, p. 71, Feb. 27, 1970), such importation was adjudged to be non-infringement (Vol. 16, No. 3, Tokyo District Court, Mutaishu, p. 760, Dec. 7, 1984; Vol. 22, No. 3, Tokyo District Court, Mutaishu, p. 873, Dec. 26, 1990; Vol. 10, No. 1, Tokyo District Court, Mutaishu, p. 216, May 31, 1978 and many other precedents).

In order for the argument regarding the "parallel importation of genuine products" to be effective, either the trademark right owner using the registered trademark in Japan is required to be the same person as the trademark right owner of the identical or similar registered trademark in a foreign country that is applied to the imported goods concerned, or there must be a special relationship generally regarded as equal to this. Such relationship means, namely, a close legal or economic relationship between the trademark right owner in Japan and the owner in a foreign country; e.g., mutual grant of a right of exclusive use. Should there be no legal or economic relationship between the trademark owner in a foreign country and the one in Japan (such as a case where a third party imports genuine goods), the importation of goods that have originated in the trademark right owner in the foreign country would be prohibited and the importation would constitute trademark right infringement (Tokyo District Court, May. 31, 1978, *op.cit.*; Vol. 5, No. 2, Tokyo District Court, Mutaishu, p. 261, Aug. 31, 1983). The issues of parallel importation of genuine goods will be discussed further in the next section.

#### (h) Item (viii)

The acts under Item (viii) include manufacturing, assigning, delivering or importing articles to be used exclusively for manufacturing goods bearing a reproduction of the registered trademark or a similar trademark. These are acts of manufacturing paper



molds and rolls for printing trademarks, and metal molds, etc. for articles bearing trademarks. As these are, technically, preliminary even to preliminary acts, it may be too broad to consider these acts as infringements. However, in order to ensure perfect protection of trademark rights, the protection to this extent was regarded necessary (Chikujo Kaisetsu (Commentaries to Trademark Law), p. 1103). In the case of a trademark infringement by intent, among others, persons who conduct such acts as set forth in this item are most influential in the infringement. There are many vicious confirmed criminals who engage in these acts.

"In the course of trade" means an economic act conducted repeatedly and continuously. It is not necessarily conducted for the purpose of making profit. If the person conducts the act with the intent to repeat or continue the act, it is regarded to be an act "in the course of trade" even if the act is actually conducted only once.

## **II. Parallel Import of Genuine Goods**

### **1. History and Development**

Although goods are distributed across borders, the protection of trademark rights does not extend beyond the territory of each country (See Paris Convention, Article 6-3; Principle of independence of trademark rights). Imported goods with trademarks are required to pass, in addition, screening under the legal system of another country.

This is the problem of balancing the interests between trademark right owner, importer and consumer. This is a problem related to the harmonization with public interests such as protection of trademark rights, promotion of merchandise distribution and fair pricing of merchandise. Yet the problems faced vary depending on the nature of each type of merchandise and with domestic trademark rights. These conditions complicate this issue.

The issue of parallel importation of genuine goods represents the importance of the economic effects of trademarks. It also deals with the issue of the territorial nature of trademark rights. It also raises a question of inherent limitations of trademark rights and thus concerns the essence of trademark infringement. Therefore, one section will be taken for this significant problem that has many facets.

#### **(1) Parallel importation in Japan (prior to the Parker Incident)**

As our trade is liberalized, increasing numbers of people have attempted parallel importation of goods bearing famous foreign trademarks due to the price differences existing between Japan and abroad. In the initial cases focusing on this issue, the goods involved were not copied goods but genuine goods imported through a route other than the sole agent.

Domestic trademark rights are, as a matter of form, independent from foreign trademark rights. When a right of exclusive use without restrictive conditions is established, even a trademark right owner is not allowed to use the trademark without license. Upon application by the owner of a right of exclusive use, a ruling for a provisional

disposition to forbid assignment was given against the importation of genuine fountain pens from the Far East Representative of Parker, Inc. in Hong Kong (Tokyo District Court, June 1, 1964; Tokyo District Court, Dec. 22, 1964, *In re Nescafe Incident*; No. 178, Tokyo District Court, Hanyu, May 29, 1965, p. 199). No dispute was raised under the Trademark Law with respect to this case, and import restrictions were imposed at the customs in accordance with Article 21 of the Customs Tariff Law (Some problems in this issue are detailed in "Study of International Trademark Law - Parallel Importation", "Study of International Trademark Law - Comparative Law II. - Intellectual Property" and a series of other books by Saburo Kuwata).

## (2) Parallel importation in overseas countries

For details of examination from a comparative law perspective, please see the books and documents cited for reference. The titles of well-known cases are as listed below. Theories adopted in the rulings and conclusions vary depending on the case.

### (a) Rulings forbidding parallel importation

"Bourgeoisie", U.S.A. (1923); "Lux", Switzerland, (1952); "EMI", Switzerland, (1959); "Columbia", Switzerland, (1963); "OMO", Holland, (1979); "Maya", First Instance, Germany; "Mamiya", U.S.A., (1982); "Osawa", U.S.A., (1984); "Selkou", U.S.A., (1985); "Second Hague", Germany, (1988); "Silhouette", EU, (1998)

### (b) Rulings permitting parallel importation

"Gelan", U.S.A. (No. 46, Kaigai Shoji Homu, p. 26); "Mepps", Canada, (Kimura, Vol. 1, Annual Report of Industrial Property Law Society, p. 158, op.cit.); "Levlon", U.K., (1979); "Saba", (1959); "Philips", (1960); "Levlon", Germany, (1964); "Maya", Second Instance Trial, Appeal Trial (1964, Important ruling regarding balancing interests); "Chinzano", (1971, Action under the Unfair Competition Prevention Law was admitted.); "Grundihl", Holland, (1956); "Agfa", Austria, (1970).

At one time, Europe had an influence on the situation in Japan. In Europe, however, the circumstances have begun to change. ("New development of Parallel Importation Problem under the Trademark Law in EU" by Mitsuhiro Kamiya, NBL No. 564, p. 69; "Changing Legal Principles concerning Parallel Importation under the Trademark Law in Europe" I & II by Katsuya Tamai, NBL, No. 651, P. 6, No. 562, p. 40 f.).

## 2. Various Theories

The territoriality of a trademark right is its most basic principle. Importation without license of goods bearing a legitimate trademark in a foreign country constitutes infringement on the domestic trademark right. However, there is an exception to this principle.

### (1) Method of approach and territoriality theory

First, exceptions can be made as to domestic laws and international conventions. The abuse of rights argument is permitted as one of those exceptions. This issue can be

approached from the Trademark Law, Competition Law and Anti-trust Law, but generally it is taken up as an issue related to the Trademark Law. Second, opinions on this issue are divided. One opinion holds that parallel importation is the problem of territoriality, while the minority opinion disagrees. According to the minority opinion, the territoriality concerns trademarks that are held by different owners; yet, in the case of parallel importation, the trademark is held by the same person, and for this reason, it is not related to the issue of territoriality. However, the issue of parallel importation is generally viewed as an issue of territoriality. Third, is the issue of international application of the "Exhaustion Theory or Principle." Recently, the Supreme Court's decision approved the Exhaustion Theory domestically under the Patent Law and denied its international application in the BBS Patent case (Vol. 51, No. 6, Supreme Court, Minshu, p. 2299, Jul. 1, 1997).

## (2) Balancing interests

The interests of the following parties should be balanced: (i) owners of a trademark right; (ii) importer; (iii) owner of domestic rights; and (iv) consumers. In addition, (v) promotion of trade; and (vi) free competition should also be considered. The specific conditions of the problem are diverse.

① The owners of multiple trademark rights are divided into the following types: (a) different owners; (b) the same owner; or (c) persons legally or economically connected. The relationships of owners in the last case include parent/subsidiary firms, konzern (concerns), affiliated companies, agents, licensor/licensee and fictitious licensor/licensee.

② The nature of goods can be roughly divided into different goods and the same goods. The opinion that attaches importance to manufacturing is not generally accepted.

## 3. Ruling on Parker case

An important ruling, which proved to be a turning point of this issue, was granted on Feb. 27, 1970 (Vol. 2, No. 1, Osaka District Court, Mutaishu, p. 70). The court acknowledged that the trademark was a world famous trademark and the quality was identical. It then ruled that we needed to go back to examine the essentials of trademark protection in order to decide to what extent the principle of territoriality should be applied. "The Trademark Law intends to protect the good will of the trademark right owner that has been built up by the use of the trademark by protecting the functions of the trademark, which are to distinguish own goods from the goods of others and to maintain the order of distribution. The Law also intends to enable consumers to recognize that the source of goods is not identical, and lead them to not mistake their selection when purchasing goods and to obtain the goods of a certain quality that they want and to protect the interest of consumers." The court also stated that "trademark protection is aimed at the protection of functions of a trademark.... It is a matter of course that the scope of protection necessarily is subject to social restrictions. The scope to which the territoriality is applicable must be reasonably decided in light of the spirit of trademark protection and by paying close attention to infringement of the functions of trademarks."

According to the ruling, in order to deem the act in question an infringement, the act in

question needs to have been conducted by a person who is not entitled formally to do it, and the act must also be substantially illegitimate. After examining how parallel importation affects the interest of related parties, the court concluded as follows: "The act of the plaintiff (parallel importer) does not contradict the purport of the trademark system.... Although the plaintiff is not entitled to use the registered trademark formally, his act of importing and distributing the genuine Parker products is substantially legitimate in view of the essential meaning of trademark protection. To conclude, his act does not constitute infringement." (Ono, *Intangible Property Law*, Bibliography p. 393 - p. 398; For this ruling at the Koso-appeal trial, see No. 3092, Osaka High Court, *Patent News*, p. 1, Aug. 6, 1971).

#### 4. After the Ruling on Parker case

##### (1) Notification of Ministry of Finance

Since the ruling on the Parker case, the Duties Bureau of the Ministry of Finance has changed the treatment of this type of issue. (No. 1443, *Zokan*, Aug. 25, 1972). The Fair Trade Commission specified that "an unreasonable impediment to parallel importation" (*Reinforcement of Surveillance and Regulation of Import Agents*" (I), Nov. 22, 1972) would be regarded as an unfair manner of trade.

According to the notification newly issued by the Customs and Tariff Bureau of the Ministry of Finance, "in the case where goods bearing a mark that is identical to the original trademark specified in an application for parallel importation of genuine goods to which the original trademark applies are imported by a person other than such applicant, the act of importation shall not be regarded as infringement, if such goods are distributed with the mark legitimately affixed and are acknowledged as genuine goods. In this case, the range of genuine goods acknowledged to be imported by parallel importation and regarded as not infringing the trademark right shall be the goods distributed, so long as the person who affixed the trademark and distributed the goods is the same person as the trademark right owner in Japan (or such a special relationship exists between them by which they are regarded as the same person). This excludes cases where the goods having the source or quality indicated or guaranteed by the trademark affixed to them are different from that of the original trademark or where the use of the trademark on the goods is regarded independent from that of the original trademark." This notification is based on the same standard as the ruling on *Aidale Standard*, a case heard in a EU court, which is regarded to be the most authoritative decision concerning the cases of this kind. This standard is accepted both domestically and internationally.

The liberalization of parallel importation appears not to be related to the importation of copied goods, but this has made the importation of copied goods easier. Because there is no interconnection between parallel importation and the importation of copy goods, preventive measures must be taken with respect to evils accompanying such parallel importation.

##### (2) Precedents after the Ruling on Parker Incident

#### (a) Mercury Incident

In contrast to Parker case which was regarding a typical parallel importation of genuine goods, the Mercury case was found to be an infringement on trademark right.

The plaintiff entered into an agency agreement with a subsidiary of Mercury, Inc. and has imported and sold Mercury's goods. The plaintiff obtained a divisional assignment of a right to "MERCURY" trademark registered by a third party. The aforementioned subsidiary granted to the defendant, without prior consultation, the right to sell the goods in Japan but refused to supply goods to the plaintiff. Given these circumstances, the court stated that the problem of trademark right infringement arose if the owner of the trademark right in a foreign country owned the trademark right also in Japan, or he had granted a right of exclusive use to the owner of the trademark right in Japan, or he had legal (sole agency), economic or other close relationship with the owner of the trademark right in Japan. Without any such relationship, if there was a person who owned the trademark right of the mark identical to the trademark in a foreign country, the owner of the trademark right in Japan was allowed, based on the trademark right in Japan, to suspend the importation of goods shipped from the trademark right owner in the foreign country, or to regard the importation as infringement of the trademark right even if the goods to be imported were genuine products (Vol. 5, No. 2, Tokyo District Court, Mutaishu, p. 261, Aug. 31, 1973).

#### (b) Ramy Incident

A person, against whom an action for injunction was filed imported from a wholesaler in Hong Kong silver frames, which he then plated with gold in Japan. His skill, however, was inferior. The court stated as follows: "Parallel importation is approved only in the case where neither the distinctiveness regarding origin nor quality guarantee function of the trademark is impaired when the goods are distributed, and accordingly, where there is no possibility of substantial infringement of the trademark right. The defendant is not obeying the company in Hong Kong. Rather he gives instructions to the company regarding the packaging and shape of the glass frames. Moreover, the goods manufactured by the defendant are partially included in the goods sold..." Therefore, the court accepted the application for the injunction for the reasons that the source of the goods was completely identical, the structure was identical and the quality was identical. (Fukui Jibuo Branch, Hanreishu, Mar. 29, 1974, not yet contained\*; Shunichiro Nakano, Ono Kanreki Kinen, Precedents under Unfair Competition Prevention Law, p. 635).

#### (c) Technos Incident

In the Technos case, the court ruled that the following three conditions were insufficient to show that Technos was not infringing: "(i) Technos Inc. owns the trademark right in Switzerland; (ii) The goods are genuine products; and (iii) The plaintiff assembles imported movements and finishes the products, to which the trademark is affixed." The court found that it was also necessary to prove that the owner of the trademark right (plaintiff) had a special relationship with the trademark right owner in Switzerland (Technos), by which those two persons were regarded to be the same person. Such relationship meant that the plaintiff acquired the trademark right with the approval of

Technos, or the plaintiff was assigned the trademark right from Technos. If the plaintiff acquired the trademark right independently before Technos acquired its trademark right in Switzerland or the trademark became well known in Switzerland, the plaintiff was entitled to suspend another person's importation (Vol. 10, No. 1, Tokyo District Court, Mutaishu, p. 216, May. 31, 1978).

(d) Technos/Koso-Appeal Trial

At the Koso-appeal trial of Technos case, the court denied that the case was classifiable under the parallel importation of genuine goods. The main bodies of the watches were not manufactured by Technos. A subsidiary manufactured them for Korean markets and for the purpose of re-exporting. Therefore, Technos did not allow Kanryu Bussan to apply the trademark, "TECHNOS" to the products (Vol. 13, No. 2, Tokyo High Court, Mutaishu, p. 969, Dec. 22, 1971).

(e) Lacoste Incident

Lacoste is a French corporation, which is recognized worldwide as the source of goods bearing a series of trademarks consisting of a figure of crocodile and the letters of LACOSTE. The firm grants a license to manufacture goods of various qualities and forms under the trademarks recognizable as identical to the aforementioned series of trademarks to licensees in some countries through a Swiss corporation under its control through equity participation. Lacoste imposes strict controls on the quality of the goods manufactured by these corporations. Lacoste and its Japanese licensee requested an injunction against the U.S. licensed goods manufactured by a licensee in the U.S.A. Such goods bore the LACOSTE mark which was similar to the registered trademark of goods imported in parallel from Izott Inc. in the U.S.A. The court held as follows: The U.S. licensed goods are also Lacoste's products, the trademark of which is managed by a Swiss corporation under the control of Lacoste. They are the goods of the same origin, and the difference in quality and form is within the scope permitted as the goods indicating the world famous firm as their origin. Therefore the U.S. licensed goods do not impair the quality guarantee function of the trademark, nor the reputation of the trademark owner and interest of consumers. The court acknowledged the defendant's argument that it imported genuine goods, and concluded that the act of selling the goods by the defendant may not be prohibited because the defendant's act is not substantially illegal for the aforementioned reasons (Vol. 16, No. 3, Tokyo District Court, Mutaishu, p. 760, Dec. 7, 1984).

(f) BBS Trademark Incident

In the BBS Trademark case, the goods imported are genuine products of BBS, West Germany, which manufactures and sells aluminum wheels and spoilers. The plaintiff registered the trademark independently from BBS. Later the plaintiff granted a license to use the trademark right to the sole agent, Japan BBS, and became an agent for the West Japan Region with respect to spoilers. In this case, the court ruled as follows: "BBS West Germany and Japan are affiliated companies in view of their mutual equity participation and sharing of officers. These two firms and the plaintiff have a special relationship by which they are regarded as a single enterprise through contractual

relationship concerning supply of products and administration of the trademark, or other economic close ties. The court concluded that the plaintiff/trademark right owner should not exercise the prohibitive right of the trademark against the defendants' importation (No. 1277, Nagoya District Court, Hanji, p. 146, Mar. 25, 1984).

(g) Dancer v. Perception Incident

The owner of the trademark right was importing and selling canoes from Perception, Inc., U.S.A. Later, the owner was able to register the trademarks "Dancer" and "Perception." After that, the owner applied to the court for a preliminary injunction to prohibit Perception U.K from importing canoes. The Perception U.K. insisted that it had acquired a license from Perception U.S., however there was no evidence of such. It argued the invalidity of the trademark registration because the mark was copied, and also insisted on its own prior use. These arguments were insufficient and the injunction against its parallel importation was allowed. This case, however, still contains some controversial issues (Vol. 25, Osaka District Court, Torikeshishu, p. 604, Jan. 22, 1990).

(h) Robinson Incident

In this case, an applicant company to which the owner of the domestic trademark right granted a right of non-exclusive use had a business alliance with the sole agent in Japan. The court held that the relationship among the foreign distributor, applicant and the domestic trademark right owner was not close enough to be legally or economically regarded as a single unit or organization (Vol. 22, No. 3, Osaka District Court, Mutaishu, p. 651, Oct. 9, 1990).

(i) GUESS Incident

The acts by a third party of importing and selling genuine products (apparel) which a trademark right owner manufactured and sold in a foreign country (U.S.A.) were not against the purposes provided for in the Trademark Law, Section 1; namely, maintaining the business reputation of persons using trademarks and protecting the interests of consumers. Such acts do not impair the functions of the trademark to indicate the origin and guarantee the quality of the goods, which the Law protects in order to achieve the aforementioned purposes. For these reasons, the court concluded, with respect to the request for destruction of jeans bearing the trademarks, that the acts in question were not substantially found illegal and do not constitute infringement (Vol. 22, No. 3, Tokyo District Court, Mutaishu, p. 873, Dec. 26, 1990).

(j) Crocodile Incident

Although acknowledging that parallel importation of genuine products generally lacks the necessary illegitimacy to be regarded as trademark right infringement, the court stated as follows: "In the case where a Japanese corporation was assigned a trademark owned by a Hong Kong corporation, and has formed its own good will with respect to the registered trademark independently of the Hong Kong corporation through its advertising and publicity efforts, the importation of goods bearing the trademark licensed by the Hong Kong corporation and legitimately applied in Malaysia is not

permitted. Moreover, if the two groups of goods are recognized to be not identical in terms of design, raw materials, and the source indicated or quality guaranteed by the respective trademarks, the goods bearing the trademark licensed in Hong Kong and legitimately applied in Malaysia are not regarded to be genuine goods of the aforementioned Japanese corporation, the owner of the trademark right in Japan. The parallel import of the aforementioned goods is not permissible for these reasons (No. 1591, Osaka District Court, Hanji, p. 99, May 30, 1996).

## 5. Summary

### (1) Range where parallel importation is permissible

The only case that is not regarded as trademark right infringement, is:

① where the person who has distributed goods legitimately bearing the mark and the owner of the trademark right is the same person or have any special relationship by which both persons are regarded as the same person.

In the case of ①, if:

② the source indicated or the quality guaranteed by the trademark of products imported in parallel is not identical, or in other cases where the use of the mark on the products so imported are regarded independent of the domestic products,

③ parallel importation would not be permitted.

### (2) Nature of the problem

The quality of goods discussed here is the quality in relation to the trademark infringement problem. The topic of the discussion does not concern the equivalence of the quality. The issue should be judged from the viewpoint of whether the prohibition of importation is substantially beneficial for the protection of a trademark right. The special relationship by which both persons are recognized as the same person in ① of the above paragraph means their contractual or economic ties or alliance with regard to the control of trademarks in a broad sense. The purpose of "prohibition of importation in the case where the source indicated or the quality guaranteed by the trademark of goods imported in parallel is not identical" is to prevent confusion or mistake of the public.

### (3) Relationship with the trademark right owner

It makes no difference whether the person requesting the injunction is a trademark right owner (Technos) or the owner of the right of exclusive use. It goes without saying that genuine products do not include goods of a pure third party. The typical goods of this kind are ① copied goods; and ② genuine (or original) goods illegally distributed by a contractor of the trademark right owner or the owner of the right of exclusive use. If the quality of the illegally distributed goods is identical to the original goods, it makes no difference. The products are genuine but they are, legally speaking, copied goods. Because the trademark has not been legitimately affixed, the act is regarded as trademark right infringement. Rather in the case where a parallel importer imported and sold copies of famous champagne bottles bearing internationally famous trademarks, the



importer was found liable for damages due to the lack of care, a standard to which a parallel importer is normally responsible (Vol. 2,5 No. 2, Osaka District Court, Chitekishu, p. 261, Jul. 2, 1993, "Moe et Chandone").

Furthermore, the following acts are prohibited: ③ to register without permission a famous trademark in any country where the registered mark has not yet been registered; and ④ to import in parallel trademarked products identical with the original products and hold them out to be genuine products, when the importer and the exporter are independent. The following case is an example. The importer and the exporter who were manufacturing and selling the same trademark products in the respective countries lost their relationship during World War II. Their capital or management relationship was not restored, and they continued to be independent after the war. Currently, they are using the same trademarks for their respective products of different quality manufactured independently.

The most typical cases where parallel importation is permitted is where the trademark owner or the owner of a right of exclusive use within the country ① manufactures and imports the products under the same trademark in a business he conducts out of the country; and ② manufactures and exports the goods from the country and then re-imports the same goods. (This is a problem of parallel import of the goods with trademarks. It does not concern the import of patented goods. See the ruling by the Supreme Court in BBS patent case.)

A legal entity or natural person who is regarded as the same person with the person domestically granted a right are: ① the parent company or a subsidiary (e.g. Agfa case, supra.); ② a person who belongs to the same konzern (Levlon case); and ③ a trademark licensee (Licensee Parker case). A fictitious trademark licensee should rather be the same person. Licensees consist of (a) licensees of the person who has a right; and (b) licensees of the person regarded to be the same as the person who has a right. There is no difference between them. ④ A sole agent is also regarded as one in the same with the person entitled.

There are many scenarios with respect to goods: goods are manufactured (a) outside the country; (b) in the country; (c) both inside and outside of the country. These factors would affect the difference in the source and the quality of goods.

#### (4) Quality being identical

The second problem related to parallel import of genuine products is identifying the quality. In order to obtain a permission of parallel importation, both groups of goods are required to be identical in quality; the group of goods imported in parallel are required to live up to the expectations of consumers. Opinions may be divided as to whether differences in flavor and taste are related to this issue of identical quality. Whether the quality difference is negligible or not depends on whether it makes any difference for consumers in the articles they purchase. If the former is the case, parallel import would be permitted and if the latter is the case, it would not be permitted.

#### (5) Refilling

Generally, the Supreme Court and other courts take a strict stance on the issue of refilling, which tends to accompany parallel importation (No. 2063, Tokyo Koso-appeal

Court, Aug. 9, 1922, Newspaper, p. 17; "Basic Problems in International Property Transactions", Teruo Doi, p. 177). In the ruling at the Supreme Court on "Haimi" (Vol. 25, No. 5, Supreme Court Ruling, Keishu, p. 739, Jul. 20, 1971) and in other previous cases, "Van Hoten" (Vol. 8, No. 3, Fukuoka High Court, Kakeishu, p. 371, Mar. 4, 1966), "STP" (Vol. 8, No. 2, Osaka District Court, Mutaishu, p. 324, Aug. 4, 1976), and "Magamp K" (No. 1522, Osaka District Court, Hanji, p. 139, Feb. 24, 1994), refilling and rewrapping were found to be trademark infringement on the ground that only the owner of the trademark right is allowed to conduct these acts.

### III. Civil Law Remedies

The civil law remedies for infringement of trademark rights or a right of exclusive use consist of a right to request injunctive relief and for damages (and to request for recovery measures of reputation).

#### 1. Injunctive relief

##### (1) Person entitled to request for injunction

The owner of a trademark right and the right of exclusive use may require injunctions (Section 36).

The owner of a right of non-exclusive use may not require injunctive relief. A majority of precedents and opinions do not authorize owners of a right of non-exclusive use to require an injunction on the ground that a right of non-exclusive use is a claim. (See Vol. 27, No. 3, Supreme Court, Minshu, p. 580, Apr. 20, 1983; Vol. 12, No. 11, Tokyo District Court, Kaminshu, p. 2808, Nov. 20, 1961, etc.; Yoshinobu Someno, "Qualification for Legal Actions of Licensors under a Patent Licensing Agreement", Corporate Law Studies, 10th Anniversary, p. 215; Tatsunori Shibuya, "Licensor's Obligation under a Patent License Agreement and Legal Nature of Agreement", Vol. 85, No. 2, Hokyo, p. 193 and many other treatises.) Yoshihiko Sato views that a right of non-exclusive use is a real right (a right in rem, a right effective against anyone). However, opinions are divided as to this issue. Some acknowledge a right to require injunctions of the owner of a right of non-exclusive use on the grounds of a right to require exclusion of interference based on infringement of claims or tort law. Others would affirm such right on the ground that the owner of a right of non-exclusive use may exercise a right in subrogation of the owner of a trademark right. (No. 185, Tokyo District Court, Hanyu, Aug. 31, 1965, p. 209; Patent Law, Mitsuishi, p. 303; Amino, p. 787). The affirmative opinions are further divided into those authorizing injunctions to owners of a right of non-exclusive use in general and those authorizing to only exclusive registered owners of a right of non-exclusive use. (Vol. 6, No. 12, Tokyo District Court, Kaminshu, p. 2690, Dec. 24, 1955; Kaneko=Someno, (New) p. 131; Toyosaki, p. 299; Yoshifuji, p. 568; Orita=Ishikawa, p. 342; Kazuo Morikawa, "Right to Require Injunctions of a Right of Non-Exclusive Use." No. 8, Annual Report of Industrial Property Law Society, p. 59; No. 142, 3872, Supreme Court, Quick Report, Osaka District Court, Dec. 20, 1984; No. 157, 4382, Osaka High Court, Quick Report, Jun. 20, 1986; No. 1138, Osaka District Court, Hanji, p. 137; Patent Law, Mitsuishi, p. 303; Amino, p. 787). See Chapter VII, Section III, 2, "Right of Non-exclusive Use", Supra. for further information about treatises and precedents.

### (2) Right to require the refraining

The owner of a trademark right or of a right of exclusive use may require a person who is infringing or is likely to infringe the trademark right or right of exclusive use to discontinue or refrain from such infringement (Section 36 (1)). Unlike a right to demand compensation for damages, it does not matter whether such infringement is by intention or negligence.

One of the conditions for a request for the refraining, "likelihood of infringement", may be illustrated in the following two examples: (a) A person who once infringed a trademark right has suspended the infringing act and currently is using another trademark in respect of the goods. However, if he is likely to infringe again in the future unless ordered to discontinue the infringing act or to destroy the infringing articles, the owner of a trademark right shall not lose a right to require an injunction against infringement (No. 1022, Nagoya High Court, Hanji, Jul. 17, 1981, p. 69). (b) A hair brush and a case of the hair brush that can be also used as a cloth brush are respectively placed on the left side and right side on a cardboard paper for wrapping, and a photo of a lady using the hair brush is attached on the hair brush case. These articles are covered with a transparent cover made of hard vinyl chloride. The letters for "etiquette" (in *katakana*) are used for explanation of the uses of the hair brush case on the cardboard paper or in a catalogue of the goods. If the letters are not being used in the goods for explaining the uses of the case at present, there is a possibility for the letters being used in the goods again in the future. For this reason, the owner of a right of a trademark consisting of the letters for "ETIQUETTE BRUSH" in *katakana* and ETIQUETT BRUSH, written in two lines horizontally, may require an injunction as preventive measures against the use of the aforementioned character mark (Vol. 14, No. 1, Osaka District Court, Mutaishu, p. 90, Feb. 27, 1982).

If any trademark has begun to be used as a generic name of the goods, the trademark will not be effective against the use of the mark by a third party (Section 26 (1) (ii)). However, a trademark does not become a generic name at once. There are various steps of weakening of the effects of the trademark over a long period. Courts in many countries ruled that a trademark included in a dictionary, etc. as a generic name was not necessarily be regarded as a trademark. However it is reasonable to expressly enact legislation in order to authorize a trademark owner to make a request for correction, in the case where a famous registered trademark has been erroneously used. If any publishing company or a broadcasting station is continuously using the trademark after being informed of the facts, the court may rule such companies' acts of intentional use as torts depending upon the situation so as to prevent the famous trademark from becoming a generic name.

### (3) Request for destruction

The owner of a trademark right or of a right of exclusive use who is acting under the preceding subsection may demand the destruction of the articles by which the act of infringement was committed, the removal of the facilities used for the act of infringement, or other measures necessary to prevent the infringement (Section 36 (2)). Although the request for an injunction is usually made according to the procedure for a request for omission, the right to make the request was provided for in Section 36 (2) in order to substantially ensure the effectiveness of the protection.

The phrase, "articles by which the act of infringement was committed", means articles absolutely necessary for the act of infringement. It has the same meaning as the "articles by which the crime was committed" under the Criminal Law, Section 19 (1) (i).

On the other hand, "articles by which the act of infringement was committed" also includes any acts similar to an offering of security (or guarantee) to people who do not want to destroy articles or remove facilities. An order of delivery of infringing articles as an act necessary for destruction, etc. should also be included. With respect to the demand for destruction, the scope of destruction was judged as follows: In the case of the demand for destruction of bags, packs, and package boxes thereof, bearing marks similar to the registered trademark, "CARTIER", in respect of the designated goods classified under the former Class 21, "Bags and packs, etc.", the court held as follows: It cannot help saying that the demand for destruction of the infringing articles is too strict. It may be reasonable to authorize the demand to the extent of removal or elimination of each of the aforementioned mark, since it would be technically possible to eliminate only the marks from the articles by painting them over or re-dyeing them (Vol. 14, No. 1, Osaka District Court, Mutaishu, p. 90, Feb. 26, 1982). The court ordered the infringer to eliminate the trademarks from the articles, since it was found an excessively heavy obligation to destroy the infringing articles. However, the obligation to eliminate the marks may be heavier than the destruction of the articles, considering the value of the articles to be destroyed and cost of labor for eliminating the trademarks. It may be more appropriate to destroy the articles in many cases.

The owner of the registered trademark, "Robinson", in respect of the designated goods, "Vehicles; apparatus for locomotion by land, air, or water", made a demand against a firm that imported and sold Robinson R22Beta type helicopter from a U.S. manufacturer, Robinson Helicopter Co. to destroy advertisement literature such as brochures, price lists, or transaction documents, in which the marks of "ROBINSON" and "ROBINSON (in *katakana*)" are used. A demand for destruction should be limited to the extent necessary and sufficient for effecting the demand. Since it was technically possible to eliminate the marks, "ROBINSON" and "ROBINSON (in *katakana*)", from advertisements in magazines and on bodies of container trucks by painting over these letters, the destruction of advertisements and container trucks may be too strict. On the above grounds, the court found it appropriate to acknowledge the demand to the extent of eliminating the letters, "ROBINSON" or "ROBINSON (in *katakana*)", from the marks affixed to the advertisements or container trucks (Vol. 22, No. 3, Osaka District Court, Mutaishu, p. 651, Sep. 1, 1998).

## 2. Right to Demand for Compensation for Damages

### (1) Definition of presumption of damages

(a) A person who has intentionally or negligently infringed another person's right is obliged to compensate for damages caused to the other person (Civil Code, Section 709). This is a principle under the Tort Law in the Civil Code. Infringement of a trademark right (property right) makes the demand for compensation of damage possible, without any provision to the effect in the Trademark Law. The scope of the claimable damage is

any and all damages caused by the infringement, including "active damage" (decrease in sales, cost for investigating infringement, expenses such as attorney fees, etc.) and "passive damage" (presumptive loss of profits, such as estimated increase in sales that should have been gained). The scope extends to the damage caused to credibility or reputation.

It is, however, extremely difficult to prove negligence, amount of damages and causal relationship of trademark right infringement, as in other intellectual property infringement cases. It is impossible to make the trademark system substantially effective without reducing the burden of proof by applying a presumptive rule, etc. The current Law has presumptive provisions in order to reinforce the protection of trademark right owners. These are supplementary provisions to the Civil Code. However, they are still insufficient. With the support of interpretations given in precedents and theories, remedies covering all of the intangible properties must be made substantially effective.

(b) Right to demand compensation for damages based on a right of non-exclusive use  
The legal nature of a right of non-exclusive use is a claim (effective against a specified person) rather than a real right (right in rem, effective against anyone). (Supreme Court, Apr. 20, 1973, *Supra.* and other commonly held theories. The treatise by Sato views the right as a real right, *op.cit.*). Because it is a claim, if another person who has been licensed to use the trademark in breach of the contract appears, only the owner of the trademark right is blamed for the failure to perform the obligation. The right of non-exclusive use is not effective against the other person. However, under the former Trademark Law, the right to demand compensation was claimable against a third party who used the trademark without permission on the basis of a natural rights theory. (The so-called "claim infringement theory" originated in an infringement problem of a patent license (Vol. 17, *Daishinin, Minshu*, p. 1675, Aug. 27, 1938; There were some opinions denying this theory)

A request for injunction based on a right of non-exclusive use is generally denied, but there are strong opinions regarding a right to demand compensation for damages (Affirmative opinions: Toyosaki, p. 299; Amino, p. 787; Treatise by Shibuya, *op.cit.*, p. 193. Negative opinions: Treatise by Someno, *op.cit.* p. 215). On the other hand, a right to demand compensation for damages based on a exclusive right of non-exclusive use is usually accepted, since an exclusive right as such is close to a right of exclusive use in practice (Vol. 11, No. 1, Osaka District Court, *Mutaishu*, p. 92, Feb. 28, 1982; No. 142, Supreme Court, *Quick Report*, p. 142, Jan. 20, 1987; No. 157, Osaka High Court, *Quick Report*, 4382, Jun. 20, 1986; No. 1138, Osaka District Court, *Hanji*, p. 137, Dec. 20, 1984. *Practical Law System (Patent, trademark, copyright)* p. 443. These opinions naturally acknowledge the right to demand compensation based on a right of non-exclusive use. See Section 3 of this Chapter for the precedents and treatises related to this subsection.)

## (2) Presumption of negligence

It is necessary to prove whether the act of infringement was intentional or a result of negligence. The Patent Law has a provision of presumption of negligence (Patent Law, Section 103). This provision is applied *mutatis mutandis* to trademark infringement

(Section 39). Except for the case of manufacturing copied goods, it is often difficult to prove that the infringement of a trademark right (or a right of non-exclusive right) is intentional or negligent, even if the act was conducted by an evil unfair competitor. The presumptive provision is set up for this reason. The trademark gazette is widely distributed and the registered trademark is officially announced in the trademark register, etc. The user of the trademark is operating a business (Unless under special circumstances, legislation is made on the assumption that a person operating a business is careful about registered trademarks). Therefore, a person who has infringed a trademark right or a right of exclusive use of another person shall be presumed to have been negligent (Section 39; Patent Law, Section 103). Since infringers are obliged to prove that they were not negligent in order to be released from liability for compensation of damages, their use of registered trademark should not necessarily be regarded as infringement. There must be sufficient reasons to believe so. In many cases, the proof of not being negligent does not hold up. The proof of negligence does not prevent a request for compensation of damages due to the presence of this presumptive provision.

The infringer's negligence may not be defended by the defense or argument that the infringer believed in the expert's (lawyer or a patent lawyer) opinion denying the infringement. In Germany, testimony by more than one authorized expert is required.

### (3) Presumption of amount of damage

#### (a) Calculation of amount of damage by means of assigned profits

In the case where the owner of a trademark right or a right of exclusive use claims compensation for damage caused to him by the infringement of a person who has intentionally or negligently infringed the trademark right or right of exclusive use, the amount of damage shall be calculated as follows: If the person assigns the goods by which the act of infringement was committed, the number of articles transferred (hereinafter referred to as the "number of assigned articles") shall be multiplied by the amount of profit per unit that the trademark right owner or the owner of exclusive use could have normally sold, absent the infringement. If there are any circumstances that prevent the owner of the trademark right or a right of exclusive use from selling part or the whole of the number of assigned articles, a sum equivalent to the number of assigned articles subject to that condition shall be deducted (Section 38 (1)).

#### ① Purport

Trademark infringement is a tort. It is therefore possible to demand compensation for damage in accordance with the principles of Tort Law. However, there are many problems regarding a request for compensation for damage caused by the infringement of intellectual or intangible property. Some things that make such requests practically difficult include the causal relationship between infringing act and damage, and making a decision on the amount of material or immaterial damage. Accordingly, the provisions regarding presumption of the profits gained by the infringer (Section 38 (2); the former Law, Section 38 (1)), and regarding presumption of the amount of damage equal to the money the owner of a trademark right or a right of exclusive use would be entitled to receive for the use of the trademark (Section 38 (3); the former Law, Section 38 (2))

were inserted in order to make the request easier. Yet these attempts were not sufficient. Under Civil Proceedings, strict arguments and proofs were required regarding a request for compensation for damages. It was pointed out that the amount of damages admitted for compensation in the intellectual property infringement actions in Japan was lower than that of the U.S.A. and European countries. Where a request for compensation is made, neither an adequate coverage of damages nor effective restraints against infringers can be expected. In other words, it looks as though there might be more to gain by infringing.

In the trend towards further reinforcement of intellectual property protection in the United States and other overseas countries, the review of the damage compensation system for intellectual property infringement was urged also in Japan. The Council on Industrial Property Right issued a reply, under the heading, "Reply 1 regarding Revision of Patent Law, etc. Review of the Damage Compensation System - Strong Protection of Intellectual Property." However, the proposal for an amendment to respond to the suggestions made in the Reply mostly disappeared during the process of adjustment between the legal principle of the reply and that of the current damage compensation system. Only one provision was made on the basis of the suggestion. "The amount of damage to be compensated by an infringer shall be estimated as the amount of damage suffered by the owner of a trademark right or an owner of a right of exclusive use within a limit not exceeding the working capacity of such person entitled" was added as the first subsection. This subsection has been thus set up for the purpose of strengthening the damage compensation system.

② The word, "estimate", is not used in the original text of this provision. The phrase, "...shall be the amount of damage suffered by the owner of a trademark or the owner of a right of exclusive use" is used to strengthen fictitious effects, not allowing any counterevidence.

To illustrate the calculation of damages according to this provision, the owner of a trademark right, for example, who was making profit of 1,000 yen per article under the trademark suffered a decrease in sales of 30,000 articles, because an infringer sold 100,000 of the same articles, estimating the profit of 400 yen per article using the aforementioned trademark without permission.

According to the compensation for damages under Section 709 of the Civil Code, the causal relationship between the decrease in sales and the sale of infringing articles must be proved. Also the amount of damage can be estimated, according to Section 38 (2) (Section 38 (1) prior to revision) at 12,000,000 yen by multiplying the profit per article, 400 yen, gained by the sale of infringing articles by the number of articles, 30,000. Since this is estimation, however, if it can be proven (although difficult) that the ratio of contribution in 400 yen of the trademark is extremely small and the strong sales capability of the infringer greatly contributed, the amount of damage would be smaller.

On the other hand, according to the provision after revision, the profit per article, 1,000 yen (profit per unit), multiplied by 100,000 (number of assigned articles) sold by the infringer; i.e., 100,000,000 yen may be the damages for compensation. If the sales price has to be lowered and the profit per article has decreased by 500 yen, the price per

article claimable is still 1,000 yen (As "profit per unit that the owner of the trademark right or the owner of the right of exclusive use could have sold in the absence of the infringement" is claimable, the profit that may be used in the calculation is not 500 yen, but 1,000 yen.). Therefore, the sum of 100,000,000 yen obtained by multiplying 1,000 yen by 100,000, would be claimable as the amount of damage.

However, if the number of articles that the owner of the trademark can sell is no more than 10,000, the amount of damage would be 10,000,000 yen, calculated by multiplying 1,000 yen by 10,000 (100,000 minus 90,000, i.e., the number of assigned articles subject to the condition of the case) or obtained by deducting 90,000,000 yen, a sum equivalent to number of assigned articles subject to the condition of the case, from 100,000,000 yen.

#### (b) Presumption of amount of damage (Profit)

##### ① Purport (presumption)

In the case where the owner of a trademark right or of a right of exclusive use claims compensation for damage caused to him by the infringement of a person who has intentionally or negligently infringed the trademark right or right of exclusive use, the profits gained by the infringer through the infringement, if any, shall be presumed to be the amount of damage suffered by the owner (Section 38 (2)).

According to the general principle of the burden of proof, the person requesting compensation for damages is liable to prove the amount of damage. It is almost impossible, however, to strictly prove what degree of damage has been caused to the trademark right owner by the infringing act. If there has been a certain effect, it is difficult to prove that the effect was caused by the infringing act, especially in the circumstances where there are plenty of business competitors. It is even more difficult to evidence the amount of damage caused. The sales or profit of the owner of the trademark right may have changed even in the absence of such infringement. The calculation of the amount of damage should not require precise or strict evidence, but should require evidence from the perspective of reasonable implementation of remedies. However, if the requirement of evidence is relaxed, it is still difficult to give proof because of the nature of infringement on intangible property. The provision regarding presumption has been inserted in the Trademark Law for the above-mentioned reasons.

##### ② Calculation of profit

It is relatively easier to prove the amount of profit gained by an infringer than to prove the amount of damage on the part of the person making the request for compensation. The provision stipulates that, if the person making the request is able to prove the amount of profit gained by the infringer by the infringing act, the amount shall be presumed to be the amount of profit that the requesting person should have gained absent having been infringed. The protection of the rights of the owner of the trademark right has thus been simplified (Section 38 (2)). Accordingly, it is not necessary to prove the most difficult causal relationship in this case. Opinions with respect to the "amount of profits" (the profits gained by the infringer) set forth in Section 38 (2) of the Trademark Law are divided into the following two groups: (a) Gross profit, which is the difference between sales and purchases; and (b) Net income after deducting general and administrative expenses.



According to the first opinion, "the amount of profits" set forth in the provision means the so-called gross profit (operating profit) calculated by multiplying the profit ratio gained by selling the articles bearing trademarks similar to the registered trademark by the total number of these articles sold. This amount does not include the profits gained by the operating efforts of the infringer and other factors, independent of the use of such trademarks (Vol. 13, No. 1, Osaka High Court, Mutaishu, p. 71, Feb. 19, 1981). On the other hand, the second opinion upholds that "the amount of profits" means the balance after deducting from sales all the expenses required for gaining the sales, such as purchases, advertisement expense, personnel expense, rent expenses for stores and exhibition halls, etc. (Vol. 20, No. 1, Tokyo District Court, Mutaishu, p. 209, Apr. 27, 1988). Although the latter opinion was generally accepted, (Vol. 5, No. 2, Tokyo District Court, Mutaishu, p. 261, Aug. 31, 1973; No. 1022, Nagoya High Court, Hanji, p. 69, Jul. 17, 1981; Vol. 20, No. 1, Tokyo District Court, Mutaishu, p. 209, Apr. 27, 1988; and many other precedents), the former opinion is gaining strength recently. In the latter opinion, the legislative intent to simplify the evidencing process is less significant and the calculation is difficult. Therefore, the court, using the "net income" theory, held that, if the requesting person proved the amount of gross profit, it was reasonable to regard such amount of gross profit as the amount of damage suffered by the requesting person, unless the infringer claimed or proved any factor to reduce the amount (No. 1137, Osaka District Court, Hanji, p. 132, Dec. 20, 1984). The court held that it was sufficient for calculation of damage to roughly calculate the general profit ratio of the goods at least regarding the general and administrative expense. If the infringer did not disclose the profit ratio or claim it below the actual figure, the sales gained by the infringer multiplied by the profit ratio of the requesting person was regarded to be the amount of profit gained by the infringer. It is reasonable to consider that various ideas as such were utilized in practice. (No. 215, Tokyo District Court, Hanyu, p. 263, Sep. 13, 1967).

In the case below, the court held as follows: In applying this provision, if the net income gained by the infringer is available, the net income shall be regarded as the amount of damages. In such a case, if the requesting person successfully evidenced the amount of gross profit, it is reasonable to regard such amount of gross profit as the amount of damage in accordance with the Trademark Law, Section 38 (1) ((2) in the current Law), unless the infringer claims or proves any factor to reduce the amount. Because the value of the hair brush case related to the infringing act is one fourth of all the articles sold by the defendant, the amount of damage suffered by the trademark right owner accounts for one fourth of the amount of gross profit related to the articles sold (Vol. 17, No. 2, Osaka District Court, Mutaishu, p. 311, Jun. 28, 1985).

The case described below is an example of calculation of amount of damage based on the presumptive provision, Section 38 (2) of the Trademark Law (The precedent cited below is based on the former Section 38 (1); hereinafter the same) With respect to the trademark right infringement of the registered trademark, "Piovitan", similar to the registered trademark, "Pirovitan", the profit per bottle of the lactic acid beverage sold, bearing the aforementioned mark multiplied by the number of bottles distributed was deemed to be the amount of damages (Vol. 8, No. 1, Osaka District Court, Mutaishu, p. 161, Apr. 30, 1976). Of the amount of profit gained by the sale of the articles bearing

the similar mark, the amount equivalent to 20% of such profit was presumed to be the amount of damage, for the reason that the 20% was deemed to represent a reasonable causal relationship with the use of the mark (Vol. 14, No. 3, Tokyo District Court, Mutaishu, p. 732, Oct. 22, 1982; Vol. 19, No. 3, Tokyo High Court, Koso-Appeal Trial, Mutaishu, p. 371, Sep. 29, 1987). Of the amount of profit gained by the sale of the articles bearing the similar mark, the court found it difficult to calculate the portion of profit that had a causal relationship with the use of such a mark. For this reason, in accordance with the Trademark Law, Section 38 (2), the amount of sales of the articles bearing the mark multiplied by the rate of the license fee of the registered trademark was deemed to be the amount of damage caused by the trademark right infringement.

Section 38 (2) only presumes the amount of damage sustained by the requesting person. It does not presume that the person making a request for compensation actually suffered the amount of damage equivalent to the amount of profits gained by the infringer due to the infringement. Accordingly, the amount of damage could not be presumed in the manner provided in the subsection (2), if the requesting person was not using the registered trademark (Vol. 10, No. 1, Tokyo District Court, Mutaishu, p. 102, Mar. 27, 1978; Vol. 13, No. 1, Osaka High Court, Mutaishu, p. 71, Feb. 19, 1981). If the requesting person was not using the trademark, it could not have contributed to the sales. The right of the trademark right not in use, in principle, is not effective for requesting compensation for damages (Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mar. 11, 1997; Vol. 13, No. 1).

### ③ Presumption and disproof

Because the above discussion is based on presumptions, if the infringer offers counter-evidence, he is able to reduce the amount of damages. If the customer-attracting ability of the trademark used by the infringer when combined with the registered trademark is strong, the total amount of profits gained by an infringer cannot be presumed to be the amount of damage sustained by the requesting person, and the request for compensation for damages is authorized within a limit of the amount equivalent to a license fee (No. 152, Tokyo District Court, Hanyu, p. 177, Sep. 21, 1963). Section 38 (2) merely estimates the amount of damage the requesting person suffered in his business due to the trademark right infringement, and it does not presume the fact that the requesting person actually sustained damage in his business due to the infringement. In order to apply the provision of this sub-section, it is necessary to assert and prove that the requesting person was using the registered trademark in the course of trade, and sustained the damage caused to his business by the act of infringement on his trademark right (Vol. 10, No. 1, Tokyo District Court, Mutaishu, p. 102, Mar. 27, 1978; No. 992, Nagoya District Court, Hanji, p. 93, Apr. 25, 1980; Vol. 18, No. 2, Nagano District Court, Mutaishu, p. 239, Jun. 26, 1986).

The "damage" sustained by the requesting person as presumed in Section (2) of the Trademark Law is interpreted to be the amount equivalent to the loss of profit in respect of property when the requesting person is gaining profit by actually using the registered trademark. The provision, therefore, is not applicable in the calculation of the amount of damage by infringement, unless the trademark right owner is using the registered trademark (Vol. 13, No. 1, Osaka District Court, Mutaishu, p. 82, Sep. 14, 1979; Vol. 13, No. 1, Osaka High Court, Koso-Appeal Trial, Mutaishu, p. 71, Feb. 19, 1981; Vol. 16,

No. 3, Osaka District Court, Mutaishu, p. 832, Dec. 20, 1984). In the case where the owner of the trademark right grants a license to use the trademark but does not operate a business, this provision is not applicable (In the case of a patent, this may be viewed as counter-evidence. No. 136, Tokyo District Court, Hanyu, p. 116, Sep. 22, 1962; Vol. 10, No. 1, Tokyo District Court, Mutaishu, p. 102, Mar. 27, 1978), and the license fee-based calculation provided for in the next sub-section (Section 38 (3)) would be applied.

In the case where a trademark right owner was not using the registered trademark, it is not only difficult to conclude that the owner actually suffered losses in business by the use of the identical trademark by the infringer but also that the infringement led consumers to confusion, and as a result, the infringer gained profits in business. The presumption of Section 38 (2), therefore, is not applicable. However, some courts have held that the whole provision of sub-section (2) could be applied as a basis. (Vol. 13, No. 1, Osaka District Court, Mutaishu, p. 82, Sep. 14, 1979; Vol. 13, No. 1, Osaka High Court, Koso-Appeal Trial, p. 71, Feb. 19, 1981; Vol. 16, No. 3, Osaka District Court, Mutaishu, p. 832, Dec. 20, 1984; No. 992, Nagoya District Court, Hanji, p. 93, Apr. 25, 1980.) For instance, if the trademark right owner had never used the registered trademark after registration, and it was not only difficult to prove that the owner actually had suffered losses from his business but also that the infringement led consumers to confusion, and as a result, the infringer gained profits on business, the presumption of Section 38 (2) would not be found applicable. The court authorized the trademark right owner to demand compensation in an amount of damages equivalent to the amount of a license fee for to the registered trademark, in accordance with Section 38 (2) (No. 1022, Nagoya District Court, Hanji, p. 93, Apr. 25, 1980). In the Koso-appeal trial of this case, (No. 1022, Nagoya High Court, Koso-Appeal Trial, Hanji, p. 69, Jul. 17, 1981) the court used the following logic in reaching its decision. The trademark right owner suffered the infringement while using the registered trademark. Since it is undeniable that there is a possibility of causing mistake or confusion with the articles manufactured and sold by the infringer, the trademark right owner should be presumed to have suffered damage in his business caused by the infringement. The amount of damage should be calculated in accordance with Section 38 (2).

On the other hand, the Supreme Court ruled as follows: If the trademark right owner operates his business at a distant location, using the registered trademark, his trademark is not contributing to the sales of the infringer. Sub-section (2) is not applicable beyond the limit of a tort, and the owner is not entitled to demand the compensation for the damages. Because the demand for compensation for damages is not allowed in the case where the owner uses the registered trademark at a distant location, the trademark of the owner who was not using the registered trademark could never have contributed to the sales of the infringer. It, therefore, must be concluded that the demand for compensation for damages based on the right to the trademark not in use should not be allowed in principle (Vol. 51, No. 3, Supreme Court, Minshu, p. 1055, Mar. 11, 1997). In the author's opinion, "trademarks not in use" should be defined as those that have not been used for the preceding three years or more, and deemed to be suitable for cancellation. (However, the treatment of this issue will not change until it is overruled at the Supreme Court.)

(b) Examples of calculation of amount of damage in accordance with Section 38 (2)

As examples of calculating the amount of damage in accordance with Section 38(2), the lower court (Vol. 14, No. 3, Tokyo District Court, Mutaishu, p. 732, Oct. 22, 1982) held that an amount equivalent to 20% of the total profit gained by the sale of the articles bearing similar trademarks was a reasonable result of the use of the mark; the 20% figure was regarded as the amount of damage caused by infringement of the registered trademark right in accordance with Section 38 (2). Yet, the court of the Koso-appeal trial found it difficult to calculate the amount of profit as a reasonable result of the use of the mark. It concluded that sales of the articles bearing the similar trademarks multiplied by 2% (rate of license fee of the registered trademark) was deemed to be the amount of damage caused by the infringement of the right to the registered trademark in accordance with Section 38 (3) (Vol. 19, No. 3, Tokyo High Court, Mutaishu, p. 371, Sep. 29, 1987). Another court viewed that the amount equivalent to 10% of the total sales (that equals to the license fee of the trademark) gained by the sale of the articles bearing similar trademarks was the amount normally receivable for the use of the registered trademark, and deemed the aforementioned 10% amount to be the amount of damage caused by the trademark right infringement (Vol. 20, No. 1, Tokyo District Court, Mutaishu, p. 209, Apr. 27, 1988).

(4) Section 38 (3) (former (2))

(a) The owner of a trademark right or of a right of exclusive use may claim, from a person who has intentionally or negligently infringed the trademark right or the right of exclusive use, an amount of money that he would be entitled to receive for the use of the registered trademark, as the amount of damage suffered by him (Section 38 (3)).

Section 38 (3) has been provided with sub-sections (1) and (2), because it is not easy to prove the amount of damages. Sub-section (2) is a provision of legal presumption, but it only estimates the amount of damage. It does not presume the occurrence of damage. The purport of the sub-section (3) is that when a trademark right or a right of non-exclusive use has been intentionally or negligently infringed, an amount equivalent to the value of a license fee for the trademark may be claimed as the minimum amount of damages. It is not a normal type of demand for compensation for loss of the profit that should have been gained and is generally called a trademark license fee. There are two types of license fees: a license fee for the exclusive use of a trademark right and a license fee for the non-exclusive use of a trademark right. The license fee addressed in this section should be decided on the basis of the license fee for non-exclusive use. This principle will not be changed even after the 1998 revision. In such a case, however, the value of the license fee will vary depending on the circumstances, such as whether other rights of use exist, whether the application has been filed in advance, or whether the dispute has been resolved by licensing after infringement occurred. Prior to the 1998 revision, an amount of money normally receivable for the use of the trademark was deemed to be the minimum amount of damage. The word, "normally", was deleted later. Previously, a "normal" license fee receivable for the use of the trademark was deemed to be the amount of damage; not a license fee estimated on the basis of the infringer's profit. At that time, the legislature thought that the process of proving damages was made easier by adding this provision. In practice, however, since the amount of each license fee varied greatly, depending on the case, it was not easy to prove the amount in this manner. In some respects it was easier to prove the licensing fee based on the sub-section (2) (formerly (1)). Through the accumulation of court decisions, the amount of

damages has been reaching a reasonable level. Some disputes will occur, in the beginning, over the interpretation of the provisions that are currently being revised, but the rate of damages will gradually come to a reasonable level.

The amount of the license fee referred to in this sub-section is the minimum claimable amount, and it does not prevent the person entitled from making a demand for compensation for damages by proving that he has suffered more damage as stipulated in the former clause of the sub-section (4). However, once the amount of license fee is received as compensation for damages pursuant to the provision of (3), the person may not demand any further compensation, even if he proves that he suffered damages exceeding the initially compensated amount.

#### (5) Reduction of Amount (Section 38 (4))

There are only a few cases that involved disputes over the reduction of the amount of damages that actually granted the reduction, taking into consideration the degree of negligence in accordance with Section 38 (4). However, one ruling awarded damages within a limit not exceeding 30 % of the profit gained by the infringer through the infringement. In this case, the court judged the degree of negligence to be considerably low, for the reasons that the owner of the trademark did not raise any objection with respect to the use of a mark similar to the registered trademark for the preceding 20 years and the infringer was not aware of the infringement (No. 536, Osaka District Court, Hanyu, p. 425, Feb. 28, 1984). On the contrary, another ruling did not approve the reduction pursuant to the same section. In this case, the amount of damages was as small as 101,250 yen. The court, therefore, did not approve further reduction of the damages since it found this amount not too severe to the infringer (Vol. 16, No. 3, Osaka District Court, Mutaishu, p. 832, Dec. 20, 1984). The court stated that the latter clause of Section 38 (4) was a provision that the court may use to reduce damages at its discretion in cases where, for instance, a person's act of using an identical or similar trademark in good faith without knowing the existence of the registered trademark was found infringement, and the person was liable to compensate a huge amount of damages. In such a case, the amount of damages was judged too severe to the person (Vol. 16, No. 3, Osaka District Court, Mutaishu, p. 832, Dec. 2, 1984).

#### (a) Examples of intangible damages

There was a dispute over whether compensation for intangible damage should be awarded in addition to damage to property. In this case, handbags bearing marks similar to the trademark of Chanel were distributed. The materials and sewing of these handbags manufactured and sold by a foreign distributor were inferior in quality and were sold at a low price. Considering that the original handbags bearing the registered trademark maintained a reputation as a first-class and famous brand, if the copied goods similar in shape and bearing a mark very closely resembling the registered trademark were sold at a low price, the reputation of the original handbags would be degraded, and the original manufacturer would obviously suffer intangible damage. Such damage was adjudged to have been caused under the special circumstances and could not be remedied withonly the damages in respect of its business. The court ordered the payment of 300,000 yen as damages due to the impairment of reputation in addition to the 234,000 yen awarded for the profit gained by the infringer through the infringement (No. 1159, Yokohama District Court, Hanji, p. 147, Mar. 22, 1980).

In another case, the demand for compensation for intangible damage was denied. The owner of the trademark right demanded the compensation for damages since he suffered intangible loss and damage caused by another's use of a mark similar to his. However, the infringement actually lasted less than two months and the similar mark was not frequently used. Since the quality of goods to which the similar mark was affixed was not deemed to be inferior, the court concluded that the trademark right owner was not regarded to have suffered intangible damage in addition to damage to his property (Vol. 3, No. 1, Osaka District Court, Mutaishu, p. 80, Mar. 3, 1971).

(b) Calculation statement

Sanctions are not typically imposed unless documents are intentionally lost or destroyed (No. 225, Osaka District Court, Hanyu, p. 209, May 20, 1968), or in cases where documents have not been prepared. Apart from the question of whether a right to request production of accounting statements (in accordance with the general business administration practices) can be granted under the current Law, the question must be considered for the purpose of legislation, in order to make the demand for compensation for damages by a trademark right owner substantially effective (Such a right is authorized in the precedents under the common law in Germany).

Section 105 of the Patent Law regarding a request for an order to produce documents is applied *mutatis mutandis* to the current Trademark Law (Section 39). The 1999 revision of the Patent Law includes a provision regarding an order to produce documents to decide whether there is a good reason to demand damages in Section 105 (2), and applies *mutatis mutandis* the provision to the inspection procedure (Trademark Law, Section 39; Patent Law, Section 105 (3)).

(c) Expert opinion for proof of damage

The expert opinion system was established under the 1999 revision of the Law, as a measure for expanding remedies for infringement, with the legislative purpose of facilitating the calculation of damages.

In litigation relating to the infringement of a patent right or exclusive license, where the court orders, upon the request of a party, expert opinion to be given with respect to matters necessary for the proof of the damages caused by the infringement, the other party shall explain to the expert the matters necessary for the expert opinion to be given (Section 39; Patent Law, Section 105 (2)). This provision is a step towards the legislation of a request for a statement of accounting. Establishment of an appropriate expert system, expert theory and practices is urged in the future.

(d) Award of reasonable damages

In order to expand remedies for infringement and to realize a substantial compensation awarded by the court, the 1999 revision of the Law was provided to aid the court in awarding a reasonable amount of damages for the case where the calculation of damages is difficult. A provision regarding the award of reasonable amount of damages was also provided in the new Civil Procedure Law. However, assuming that such provision would be more useful in relation to industrial property right litigation, the provision was specifically set up in the 1999 revision of the Trademark Law and Patent

Law.

In the case where it is recognized that the damage was caused in litigation relating to the infringement of a patent right or exclusive license, the court may award the reasonable amount of damages, based entirely on the oral argument and a review of the evidence, when it is extremely difficult to prove facts necessary for the proof of damages (Section 39; Patent Law, Section 105 - 3).

The effects of this provision mean that now, a demand for compensation for damages in trademark infringement litigations will not be dismissed on the grounds that the proof of the amount of damages is not clear even though damage has obviously occurred (as in a dilution case regarding a well-known trademark). The provision concerns the award of damages in cases where such calculation is difficult. Therefore, such a demand could be dismissed for because damage was not recognized or no proof of damages was given, although the proof would be possible from the nature of relevant facts.

### 3. Request for Recovery of Reputation

#### (1) Definition

Upon request of the owner of a trademark right or the owner of a right of exclusive use, the court may, in lieu of damages or in addition thereto, order a person who has injured the business reputation of the owner of a trademark right or the owner of a right of exclusive use by infringing the trademark right or the right of exclusive use, whether intentionally or negligently, to take measures necessary for the recovery of the business reputation (Section 39; Patent Law, Section 106).

#### (2) Content

In trademark infringement, both monetary compensation and recovery of business reputation must be attempted. The request for measures for recovery of reputation is a variation of a demand for compensation for damages. An act to injure the business reputation includes the act of selling articles inferior in quality, as a result of which the reputation of the articles associated with the owner of a trademark right or the owner of a right of exclusive use is impaired. This is a typical example but the examples are not limited to this case. If the infringement is not serious, or reputation has already been recovered, a request for a public apology is not allowed.

#### (3) Recovery measures

As "measures necessary for the recovery of business reputation", it is common for courts to order a public apology in a newspaper or business magazine by specifying the text, the newspaper or magazine to place it, form, size of the type, number of issues in which to place it, etc. (According to the ruling of Series 16, Daishinin, Minroku, Nov. 2, 1968, p. 745, it is not necessary to specify the size of the type, but it is necessary to specify the size of the paper in relation to the stamp for the legal costs.). In some rare cases the apology statement is distributed to customers. In this case, the court orders an express apology, and no provisional execution is declared; the express apology is a substitute (Law of Civil Execution).

#### (4) Compensation for unfair profits gained by the infringer

The compensation for unfair profits gained by the infringer has not been examined sufficiently. Unfair profits as originally defined and the definition of unfair profits after the request for compensation for damages has been cancelled due to prescription need to be examined separately. The "Okeya Kiomaru" case is an example of the trademark owner's request for unfair profits gained by the infringer. The owner of a trademark consisting of "OKEYA" (in Chinese characters) written horizontally and "KIOMARU" written vertically, used for designated children's medicine, made a request for compensation for unfair profits, against a person who was selling children's medicine bearing a mark consisting of "OKEYA the TENTH" and "KIOMARU" both written vertically. The suit was also brought against a person who licensed the use of the trademark and gained the license fee. These persons used a mark analogous to the registered trademark in respect of goods identical or similar to the designated goods without any legal right until the trademark of the trademark right owner was extinguished by surrender. The amount of damages requested for compensation included the amount of profits deemed to have been gained on the sale plus an amount equivalent to a license fee. Because it is reasonable to consider profits from trademark infringement as directly related to the equivalent losses suffered by the trademark owner, the infringers were adjudged liable to the trademark owner for compensation of an amount equivalent to their unfair profits (Vol. 19, No. 3, Osaka District Court, Mutaishu, p. 389, Oct. 14, 1987; Vol. 21, No. 1, Osaka High Court, Mutaishu, p. 88, Mar. 3, 1989).

The practical business administration theory is in practice in Germany, but not by Japanese courts. This issue will be a topic of further discussion in relation to the request for information disclosure in the future.

#### **IV. Criminal Law Remedies (Penal Provisions)**

##### **1. Criminal Law Remedies**

###### **(1) Protection of interest**

Any person who has infringed a trademark right shall be punished under the criminal law (Section 78). Both private and public interests are protected against the offense of trademark infringement.

The offenses of infringement of patent rights, utility model rights and design rights are indictable upon a complaint, because such offenses infringe only private interests. (Although infringement on rights of creation such as patent rights and copyrights were once regarded as offenses indictable upon a complaint, this is no longer the case after the 1998 revision of the Law. Importation of infringing articles in breach of Section 109 of the Customs Law is an offense indictable upon a complaint.) In contrast, trademark right infringement not only infringes the reputation and property right of the owner of the trademark right, but also leads consumers to confusion and mistake regarding the source of the goods. Because it violates the order of distribution and, as a result, harms the public interest of consumers and traders, it has long been regarded as an offense indictable without a complaint. Accordingly, a complaint is merely the beginning of an investigation and is not a requirement for the indictment, by which the interest of the person infringed and general public can be defended. Whether or not the complaint is



effective does not influence whether the alleged infringer is found guilty.

## (2) Territorial effects

Offenses of trademark right infringement are only actionable with respect to acts of infringement committed within the country. Acts of use of trademarks include importation. Importation, however, is "an international transaction that brings in articles manufactured in a foreign country to Japanese markets; therefore, articles stored in bonded areas (bonded warehouse or bonded factory) should not be regarded as imported goods (Yoshifuji, p. 434. The exception is with respect to production, a bonded warehouse is interpreted as "inside the country"). This is based on the interpretation of importation in normal transactions. Because only articles that clear customs are regarded as imported articles, the Trademark Law is not applicable to goods in bond. There is no "attempted offense" under the Trademark Law. According to the "customer clearance theory," there is a possibility that copied products bearing a famous trademark of Japan, disguised as a legitimate transaction are carried into the country, bypassing customs. Under this theory it is unreasonable to just overlook such practice. Importation of prohibited or contraband goods must be, as with narcotics or stimulant drugs, interpreted in accordance with the "territorial waters" theory or "unloading" theory, not with the "customs clearance" theory.

Bonded warehouses, which are interpreted as "outside the country" under the Customs Law, were regarded as "inside the country" in the court decision of the Federal Supreme Court of Switzerland (Vol. 18, No. 1, Court Decisions IIC (International Industrial Property Right Magazine), Nov. 2, 1984). The Japanese government explained that goods that merely pass the territorial sea are not interpreted as imported. They are regarded as imported when unloaded. (Minutes of Meeting, the 126th Commerce and Industry Committee, House of Councilors).

## 2. Offense of Trademark Infringement

### (1) Constituent features

Any person who has infringed a trademark right or right of exclusive use shall be punished by imprisonment with labor not exceeding five years or to a fine not exceeding 5,000,000 yen. (Section 78) Compare the Design Law, which stipulates, in Section 69, punishment for trademark right infringement to be imprisonment with labor not exceeding three years or to a fine not exceeding 3,000,000 yen. The Copyright Law, in Sections 119 to 122, stipulates, against copyright infringement, imprisonment with labor not exceeding three years or to a fine not exceeding 3,000,000 yen; for infringement on personal profit, a fine not exceeding 3,000,000 yen; for use of false name about author's name and for infringement on the right of foreign original commercial recordings, imprisonment with labor not exceeding one year or to a fine not exceeding 1,000,000 yen; and for breach of an obligation to indicate source, to a fine not exceeding 3,000,000 yen. The Unfair Competition Prevention Law, Section 5, stipulates against acts of unfair competition, imprisonment with labor not exceeding three years or to a fine not exceeding 3,000,000 yen, and the Customs Law stipulates for importing goods infringing industrial property right without license, imprisonment with labor not exceeding five years or to a fine not exceeding 5,000,000 yen.

In the case where a person holds, with the purpose of selling, designated goods on the packaging of which he has affixed the registered trademark of another without authorization, then the fact that the contents of the packaging were goods manufactured by the person and they were brand-new products does not influence in any way whether the person is found guilty or not under Section 37, Item (ii) and Section 78 (Vol. 44, No. 5, Supreme Court, Minshu, p. 876, Jul. 20, 1990).

A criminal court decided that the assembling of parts to which the trademark in question was affixed into a finished product was regarded to be trademark right infringement. In this case, the act of affixing the trademark to a CPU (Central Processing Unit) attached to the main circuit board built into a pachinko (pinball) slot machine (finished product) became the subject of the dispute. The court stated as follows: "The Trademark Law is intended to protect the functions of the trademark such as indicating the source and distinguishing the designated goods from other goods so as to protect the interests of the trademark right owner, his business partners and consumers. In view of this, when a product bearing a trademark is assembled as one part of a finished product, whether it is necessary to protect the trademark or not depends on whether the trademark affixed to the part is seen to function as the trademark of the part, even after it is assembled into the finished product. The following points must be taken into consideration in making this determination: (i) the part maintains the same shape or appearance as its original state, (ii) the trademark is still recognizable as the trademark of the part; and (iii) the part and the trademark are noticeable by business partners or consumers in the process of distribution of the finished products. The court concluded that the act of affixing a trademark to CPU was trademark right infringement on the following grounds: ① The CPU maintained the same shape and appearance as its original state after being affixed to the finished product; ② The trademark affixed to the CPU was recognizable as a trademark for CPU's; ③ The trademark affixed to the CPU was likely to be noticed by business partners and consumers during the process of distribution (the main body of the pachinko slot machine and the main circuit board were separately delivered to the pinball hall and assembled, alternatively, the main circuit board was sold to the pinball hall as a spare part and replaced with the main circuit which had problems). This was an exceptional decision that acknowledged trademark right infringement of the trademark affixed to a part in view of the actual circumstances of the transactions, even though the trademark was not noticeable from the appearances of the finished product (No. 931, Osaka District Court, Hanyu, p. 298, Feb. 13, 1996).

## (2) Intention

In some cases, civil law remedies are insufficient for trademark infringement, and criminal sanctions are also required. Mere negligence is insufficient to impose criminal sanctions. Intent is necessary. (Penal Code, Section 38 (1)) In order to prove intent to infringe a trademark right, it must be proved that the person used the trademark, knowing that it is the registered trademark of another person (Series 13, No. 1194, Daishinin, Keiroku, p. 1194, Oct. 25, 1907). The intention of infringement (Series. 17, Daishinin, Keiroku, p. 1083, Jun. 6, 1911) is to gain unfair profits by deceptive acts (Vol. 15, Daishinin, Keishu, p. 812, Jun. 18, 1936). It is not necessary to have the intent to degrade the reputation or value of goods, or cause confusion or mistake (No. 3, Tokyo High Court, Kokeishu, p. 104, Apr. 21, 1958). Intent is indispensable, but it does not have to be willful negligence (Tokyo District Court, Not yet included in Hanreishu, Jun.

20, 1973). The court viewed that if a person did not correctly understand the definition of similarity of a trademark, he would be regarded as having a criminal intent as far as he knew the existence of the trademark right (No. 7, Fukuoka High Court, Kokeishu, p. 606, May 6, 1954).

### (3) Indirect infringement

#### (a) Offense of deemed infringement

Trademark infringements include not only the acts of infringement set forth in Section 36, but also the acts deemed infringement set forth in Sections 37 and 67. (Vol. 25, No. 5, Supreme Court Decision, Keishu, p. 739, Jul. 20, 1971; Vol. 20, No. 1, Tokyo High Court, Kokeishu, p. 14, Jan. 30, 1967; No. 880, Osaka High Court, Hanji, p. 83, Apr. 28, 1977; Vol. 336, No. 3, Tokyo High Court, Kokeishu, p. 289, Nov. 7, 1983 and many other precedents; Nakayama, 50 Lectures, p. 18, Yoshiwara-Takahashi, p. 309; Opposition, Mitsuishi, p. 425). Both direct infringement and indirect infringement are in breach of Trademark Law, Section 78 (No. 1042, Tokyo District Court, Hanji, p. 155, Aug. 3, 1981; Tokyo High Court, Koso-Appeal Trial, Nov. 7, 1983, *Ibid.*).

The acts set forth in Section 37 (viii) are required to be conducted in the course of trade to constitute infringement; the remaining acts do not have that requirement (Supreme Court decision, Jul. 20, 1971, *Ibid.*).

From a criminological point of view, the acts set out in Section 37 (viii) are acts preliminary to preliminary acts of trademark right infringement (Sotaro Ishikawa "Problems in Crime and Punishment related to Intellectual Property Right Infringement", Patent Study No. 4, p. 25). The acts of manufacturing and selling metal fittings and metal molds for manufacturing illegitimate copied goods are in breach of (viii). The indirect infringer's influence on an infringement case may be great in some cases. The classification of indirect infringement and a fact-finding investigation are indispensable for future legislation to be enacted for the purpose of preventing crimes. The court viewed that a person who held a cardboard box containing goods with a copied trademark did not have to do business (Supreme Court Ruling, Jul. 20, 1971, *Ibid.*). Refilling is also adjudged infringement (Vo. 8, No. 3, Fukuoka High Court, Kakeishu, p. 371, Mar. 4, 1966, "Harshey").

#### (b) Similarity

The effects of Section 37 (1) extend to the use of similar goods and similar trademarks. "Similarity of goods" means, according to the interpretation of the precedent indicated below, goods that are likely to be confused if a trademark identical or similar to the registered mark is applied to them (Vol. 15, No. 6, Supreme Court, Minshu, p. 1730, Jun. 27, 1961; Vol. 18, No. 5, Supreme Court, Minshu, p. 774, Jun. 16, 1964). Two trademarks that are analogous in appearance, sound, pronunciation and concept are regarded as similar in principle. These are, however, merely practical standards. The overall observation of the trademark is important. When judging the likeliness of confusion as to the source of goods, a court may take general trading conditions (Vol. 22, No. 2, Supreme Court, Minshu, p. 399, Feb. 27, 1968), and the prominence of the mark (Vol. 21, Daishinin, Minshu, p. 651, Jun. 10, 1942) into consideration. The main elements of the trademark are construed by means of observation at different locations and times (Series 15, Daishinin, Minroku, p. 212, Mar. 12, 1909) for the purpose of

judging similarity (Series 14, Daishinin, Keiroku, p. 772, Sep. 22, 1908).

### 3. Other Offenses

#### (1) Offense of fraud

Any person who has obtained a trademark or defensive mark registration or has renewed the term of a trademark right or right based on a defensive mark registration, a ruling on an opposition to a trademark registration or a trial decision, by means of a fraudulent act shall be punished by imprisonment with labor not exceeding three years or to a fine not exceeding 3,000,000 yen (Section 79).

#### (2) Offense of false marking

Any person infringing Section 74 shall be punished by imprisonment with labor not exceeding three years or to a fine not exceeding 3,000,000 yen (Section 80). The details of constituent features are provided in Section 74 (See Section 74 that addresses the prohibition of false marking).

#### (3) Offense of perjury

A witness, expert or interpreter who, having taken an oath under this Law, has made a false statement or has given a false expert opinion or has interpreted falsely before the Patent Office or a court commissioned thereby shall be punished by imprisonment with labor for a term of not less than three months and not more than ten years (Section 81 (1)).

Where a person committing an offense such as perjury has made a voluntary confession before a ruling or a decision on an opposition to the trademark registration has become final and conclusive, his sentence may be reduced or suppressed (Section 81 (2)).

### 4. Dual liability

Where an officer representing a legal entity or a representative, employee, or any other servant of a legal entity or of a natural person has committed an offense of infringement, fraud, or false marking, the legal entity shall, in addition to the offender, be liable to the following fines: As to infringement under Section 78, a fine up to 150 million yen; as to fraud under Section 79 or false marking under Section 80, a fine up to 100 million yen. The natural person shall be liable to the fine prescribed respectively in Section 78, 79 or 80 (Section 82).

Offenses involving industrial property rights have a color of economic offenses. The imposition of dual liability on both natural persons and corporations, aimed primarily at prevention, is characteristic of the provisions to control the offenses of this type. These provisions are effective against large-scale companies. However, because the amount of damages involved in illegal goods offenses is not large enough to jeopardize the operation of the business dealing with such illegal goods, there are almost no preventive effects. The penalties are merely considered one of the circumstances in the judgment of a sentence if the offense is recommitted. "At the time of the 1996 revision of the Trademark Law, a decision was made to introduce the dual liability against trademark right infringement in order to strengthen the effect of a deterrent against brand copying offenses that have become increasingly organizational and frequent in recent years." The fine against a legal entity was raised sharply from "up to 5 million yen" to "up to

150 million yen." In the revision in 1999, the fine was raised to 100 million yen with respect to Sections 79 and 80.

As transitory measures, however, after the introduction of the dual liability against legal entities, penal provisions regarding the acts committed prior to the enforcement of these revisions shall be applied in accordance with the previous regulations (Supplementary Provisions to the revised Trademark Law, Section 20).

#### 5. Administrative Penalties

Section 83 of the Trademark Law provides for administrative penalties to be imposed on false statements made before the Patent Office or a court commissioned thereby; Section 84 provides for penalties on failure to appear before the court despite summons; and Section 85 provides for penalties on failure to comply with the order to produce or show documents or other evidence. Although these penalties are set forth in the penal provisions, they are administrative penalties and are not punishment. These procedures follow the provisions of Section 206 or 208 of the Voluntary Matters Proceedings Act.

#### 6. Number of Offenses and Relationship with Other Crimes

As far as trademark infringement is concerned, the number of repeated infringement offenses does not correspond to the number of registered trademark right owners involved. The offenses are collectively regarded as a single offense for each trademark concerned. (The number of offenses would vary if any jointly owned trademark is included.) If several registered trademarks are involved in one label, several offenses would exist, and these offenses would conceptually or imaginatively compete with each other (Vol. 9, No. 2, Supreme Court, Keishu, p. 2245, Oct. 18, 1955; Vol. 20, No. 5, Supreme Court, Keishu, p. 429, Jun. 10, 1966; Vol. 5, No. 4, Tokyo High Court, Kokeishu, p. 461, Mar. 4, 1952; Ishikawa, Vol. 4, "Annotated Special Penal Code, "Trademark Law", p. 63).

Trademarks that have not been applied for registration will also be protected subject to certain conditions, if they are well known trademarks to which the Unfair Competition Prevention Law is applicable. The designation of goods to be registered is required for filing of applications. To illustrate, in one case, a famous trademark for whiskey was registered in respect of liquor as designated goods, but not registered in respect of a glass mirror. In a case where the trademark or the graphic mark for the whiskey was used for a mirror without consent, the trademark needed to be protected under the Unfair Competition Prevention Law (Vol. 14, No. 1, Osaka District Court, Mutaishu, p. 58, Feb. 26, 1982, "Application of Famous Imported Whisky Trademark to Another Item"; See Ono, Vol. 4, Annotated Special Penal Code, "Unfair Competition Prevention Law, p. 12 with respect to offenses under the Unfair Competition Prevention Law).

Breach of the Unfair Competition Prevention Law often serves as supplementary grounds for a prosecution that is brought for breach of the Trademark Law. Breach of the Trademark Law has conceptually competitive relationship with that of the Unfair Competition Prevention Law (No. 546, Osaka High Court, Hanji, p. 85, Dec. 13, 1968; No. 880, Osaka High Court, Hanji, p. 83, Apr. 28, 1977 and many other precedents). For instance, a trademark identical or similar to the registered well-known trademark of the manufacturing company of an original computer game was used on a copy of the

computer game with the intention of unfair competition. This act that infringed the trademark right of the company and caused confusion with the designated goods of the company was found guilty as breach of the Trademark Law (offense of infringement under Section 78) as well as breach of the Unfair Competition Law. In this way, the offense of breaching the Trademark Law is conceptually competitive with that of the Unfair Competition Law (No. 1258, Tokyo District Court, Hanji, p. 143, Oct. 22, 1987). Breach of the Trademark Law and fraud are similarly regarded as connected crimes (Vol. 12, Daishinin, Keishu, p. 126, Feb. 15, 1933, "Counterfeit Diastase Incident"). Infringement under the Trademark Law and documentary forgery were also regarded as connected crimes (Vol. 6, Daishinin, Keishu, p. 195, May. 20, 1927, "Ozeki (refined sake) Label Incident").