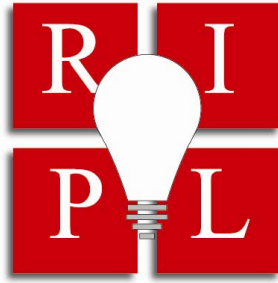


# THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



THE BALANCES OF TWO TRADEMARK RIGHTS: GENERATION SYSTEMS IN JAPAN'S TRADEMARK LAWS

WEIGUANG WU

## ABSTRACT

This article consists of 6 sections. In Section I, the article mainly introduces the basic theory of a trademark right as a private right and its purpose. A trademark right as a private right is purposeful to protect goodwill of trademark users, which is their labor fruits during trademark use in the course of business. A trademark right generated by use is called a right subsisting upon use (RSUU) system, which is mainly adopted in common law countries. A trademark right generated by registration is called a right subsisting upon registration (RSUR) system, which is mainly adopted by civil law countries including Japan. In Japan's judicial practices, goodwill protected by RSUR is broken down into 3 functions, the function of indicating origin and ownership; the quality guarantee function and an advertising function.

In Section II, this article analyzes why the RSUR system, instead of the RSUU system, is adopted in many countries. Because of ambiguous, varied and untouchable goodwill generated in trademark use, RSUU is itself difficult to be grasped and respected by third parties. Therefore, in most civil law countries including Japan, the RSUR system is adopted, by which trademark rights are generated upon registration instead of use in business. The RSUR system is more transparent, stable and predictable than the RSUU system because the content and boundary of rights are statutory, which includes the exclusive right to use and the right to prohibit use, and infringements of RSUR are statutorily categorized. The RSUR system is preferential to efficiency of right protection and implementation.

But in some situations, the efficiency-preferential RSUR system is inconsistent with the purpose of the TMA. These inconsistencies can be categorized into two groups, internal inconsistencies and external inconsistencies. Internal inconsistencies refer to inconsistencies caused by the RSUR system to be resolved by the TMA itself; and external inconsistencies refer to inconsistencies caused by the RSUR system that are to be resolved by laws other than the TMA, such as the UCPA and Civil Code.

The internal inconsistencies mainly include: (1) trademark registration for banking purposes; (2) trademark registration in conflict with prior user's goodwill; and (3) no protection for goodwill of registrants spilled out of registered trademarks. The external inconsistencies mainly include (1) no protection in the TMA for goodwill on unregistered indications; (2) no protection in the TMA for goodwill spilled out of registered defensive trademarks; and (3) abuses of registered trademark rights.

Section III of the article discusses different meanings of well-known/famous trademarks in different contexts and their backup policies. The institutional functions of well-known/famous trademark protection in the TMA are to protect goodwill of trademark users from usurpation by registered trademark right holders. The goodwill worthy of protection in different context is different. Therefore, the meanings of well-known trademarks are different accordingly, which includes regional

well-known, national well-known and international well-known marks. There is no famous trademark concept in the TMA, but famous indications exist in the UCPA,

The article summarizes typical measures to cure internal inconsistencies in Section IV. They are: (1) cancellation of trademark registrations for banking purposes; (2) registration prevention for protection of prior goodwill; (3) registration prevention of agents who maliciously violate trust relationships between principals and agents; (4) preventing usurpation of honest users' goodwill; (5) expanding protection for spilled goodwill by registered defensive trademarks; and (6) adoption of the trademark use doctrine.

Measures to cure external inconsistencies are discussed in Section V. The first external inconsistency is the loophole of goodwill protection in the TMA. In three situations, goodwill is not protected in the TMA. The first is goodwill enshrined on not-registered trademarks; the second is goodwill enshrined on non-registrable indications; and the third is goodwill spilled out of scope of registered trademarks including registered defensive trademarks. The loopholes of goodwill in these three situations are made up by protection of well-known and famous indication protections in the UCPA. The second external inconsistency is abuse of RSUR, (i.e. registered trademark right holders abuse the right for purposes other than goodwill protection), which are considered unfair. In judicial practices, Japanese courts prohibit such abuses of registered trademark rights according to Art. 1 of Civil Code. The relevant cases could be summarized into 4 types, abuse of right with illicit purpose; abuse of right for market exclusion; abuse of right for unfair purpose; and abuse of right in parallel imports. And Section VI is the conclusion.



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THE BALANCES OF TWO TRADEMARK RIGHTS: GENERATION SYSTEMS IN JAPAN'S  
TRADEMARK LAWS

WEIGUANG WU\*

I. INTRODUCTION<sup>1</sup>

*A. Competition and Trademark Rights*

*1. Competition and Trading Ability*

Competitions between human beings are the fundamental driving force for formation and progress of human societies. As Durant said: “[W]ar, or competition, is the father of all things, the potent source of ideas, inventions, institutions and states.”<sup>2</sup> Market economy is an institution to shape, foster and legalize the competition order of trading ability, or so called selling power in Schechter’s words.<sup>3</sup>

Today the trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions. The mark actually sells the goods. And, self-evidently, the more distinctive the mark, the more effective is its selling power.<sup>4</sup>

*2. Goodwill Protection and Trademark Rights*

Since the beginning, trademark rights have been an institutional instrument to regulate competition order targeting goodwill in the market, by which fair competition order ought to be shaped, protected and maintained. Unfair or corruptive competing behaviors shall be prohibited and expelled out of the market.

Historically and logically the protection of trade marks is a part and aspect of protection against unfair competition or of the common law tort of passing-off. The fundamental rule was that no man has the right to offer his goods for sale as the goods of another trader. Using the trade mark with which another trader marked his goods to enable the purchasing public to distinguish them

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<sup>1</sup> This article is sponsored by IIP Researcher Invitation Program 2017/18, located in Tokyo, Japan.

<sup>2</sup> WILL AND ARIEL DURANT, *THE LESSONS OF HISTORY*, Simon and Schuster, 81 (New York ed. 1968).

<sup>3</sup> “The value of the modern trademark lies in its selling power.” Frank Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (Apr. 1927).

<sup>4</sup> *Id.*

from those of others, was one way of committing the tort of unfair competition or passing-off.<sup>5</sup>

Therefore, in history, trademark law and unfair competition law have been closely rooted and intertwined until today. “The Unfair Competition Prevention Law and the Trademark Law are two subparts of a larger legal category that can be called ‘business competition law.’ Business competition law is set in distinct contrast to anti-trust law, and these, together, form the existing economic order.”<sup>6</sup>

But because of different historical backgrounds, common law countries and civil law countries have quite different policies and institutions to accomplish such purposes, the difference can be distinguished as two categories of right generation systems: trademark rights subsisting upon use (hereinafter: **RSUU**) system and trademark rights subsisting upon registration (hereinafter: **RSUR**) system. The Japanese trademark law system is characterized as a good model of the RSUR system. As professor Ono has stated, “the registration system was born out of the objective of fostering and protecting trademarks as an economic policy.”<sup>7</sup>

The significance of this statement cannot be overstated. The Japanese trademark system is designed to first protect and foster business in order to facilitate economic growth, and a by-product of that protection is that the consumer is protected from confusion. The logical conclusion is that protecting the consumer is not the immediate purpose of the trademark law. Businesses are the primary objective of Japanese trademark protection and consumers are protected as a vehicle to this great good.<sup>8</sup>

This article will thoroughly analyze the internal structure of Japan’s trademark law system and its detailed legislative and judicial performance, by which we could find out how the Japanese trademark system realizes its purpose of regulating the competitive order of goodwill by collaboration and coordination of relevant laws; especially with Trademark Law of Japan (hereinafter: the TMA), the Unfair Competition Prevention Act (hereinafter: UCPA) and the Civil Code of Japan (hereinafter: Civil Code).

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<sup>5</sup> S. LADAS, PATENTS, TRADE MARKS AND RELATED RIGHTS, 1543 (Cambridge (Mass.), 1975); see CHRISTOPHER HEATH AND KUNG-CHUNG LIU, THE PROTECTION OF WELL-KNOWN MARKS IN ASIA, Kluwer Law International, 4 (2000).

<sup>6</sup> SHOEN ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, Yuhikaku, Ch. 4, 4 (2d ed., 1999).

<sup>7</sup> Shoen Ono, *the Unfair Competition Prevention Act and the Trademark Law*, 21 PATENT 2, 7 (1968); see KENNETH L. PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, Carolina Academic Press, 36 (2007).

<sup>8</sup> *Id.*

## *B. Two Right Generation Systems*

### *1. RSUU System*

Since trademark rights are to protect goodwill of merchants, and goodwill can only be accrued through use of a trademark in the course of business, it is a natural consequence that trademark rights shall be generated only by use as well. This is the common law countries' notion of trademark rights. As the Supreme Court of the United States addressed this issue many years ago: "There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed."<sup>9</sup> That is, what the Supreme Court of the United States has paraphrased, trademark rights protect against "reaping without sowing."<sup>10</sup> Hence, identical or similar trademarks used by different merchants on different goods or in different geographic areas can be subsisted upon separate trademark rights on the condition that they are not interfering with each other. "Under common law, trademark rights extended geographically and substantively only as far as the first user had advanced the user's trade under the mark. Under this old system, a good faith second user could use the mark in a remote geographic market<sup>11</sup> or in a vertically distinct market."<sup>12</sup>

The Lanham Act codified this common law and at the same time made one national system of trademark protection. Section 33(b)(5) of the Lanham Act was enacted to clarify a user's superior rights over subsequent registration. This is exactly opposite to Article 18 of the TMA.<sup>13</sup>

Because right subsisting upon use system ordinarily values the most senior user, when such countries adopt a registration system (which typically grants only presumptive rights), the registration is granted to the most senior user. Under this system, trademark rights do not emanate from registration, but rather, the establishment of said rights is based on actual use, such that registrations in this kind of system provide a prima facie presumption of first use. [the Lanham Act, Section 15]. However, after registration, if a mark is used for a certain amount of time, the system allows a mark to reach a level of incontestability. [the Lanham Act, Section 15].<sup>14</sup>

But one lethal defect of the RSUU system is that the relevant information about use is so varied, ambiguous and unpredictable in the market; especially in a large and uninformative market (historically, civil law countries' markets were less developed than common law countries' markets). It directly causes ambiguity and unpredictability for boundaries and content of trademark rights based on such use.

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<sup>9</sup> United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918).

<sup>10</sup> International News Service v. Associated Press, 248 U.S. 215 (1918).

<sup>11</sup> Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916).

<sup>12</sup> Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959). Kenneth L. Port, *Protection of Famous Trademarks in Japan and the United States*, 15 WISCONSIN INT'L L. J. 2, 265 (1996).

<sup>13</sup> *Id.* at 266.

<sup>14</sup> ONO, *supra* note 6, at Ch. 5, 3.



Therefore, the cost of the right management and protection should be very high if trademark use is the only way to inform the relevant public about the existence and status of trademark rights.

## 2. *RSUR System*

Most civil law countries adopt the RSUR system, in which trademark rights generate by registration in a governmental agency, such as the Japan Patent Office (hereinafter: JPO) in Japan. Japan has adopted the RUSR system since 1884. Under this system, trademarks can be registered without an inquiry as to whether a mark is actually being used or not at the time of filing. The applicant is granted an exclusive right by registration, which is clearly manifested in the TMA at art.18(1).

The theory and practice for these two trademark right generation systems are quite different too. For example, for trademark assignment, in Japan, Art. 24-2(1) of the TMA provides that trademark rights may be assigned on a severed basis. The TMA does not require that the goodwill of the business be assigned with the mark. But in the United States, transfers in gross are invalid. A trademark may only be transferred with goodwill. However, the transferee need only to assign the portion of the goodwill attached to the mark. The transferee need not assign the entire business, personnel, machines, equipment, etc.<sup>15</sup> The reasoning for this rule relates back to the fact that a mark itself is never subject to property ownership in the United States. Therefore, the mark can never be assigned alone because no property right would be assigned without also the business the mark has come to represent.

The main defect of the RSUR system is that the rights are not directly based on goodwill of the registrant, but his first-to-file effort, which may cause disparities between right and the purpose of right. Among others, the main institutional functions of well/famous trademark protections in Japan are to minimize such disparities and maintain consistency between registered trademark rights and the purpose of such rights, that is, the consistency of Art. 1 and Art. 18(1) of the TMA.

### *C. Legal Interests Protected by Trademark Right in Japan*

#### *1. Goodwill*

It is unanimously accepted that goodwill is the legal interest protected both in the TMA and UCPA. “The purpose of this Act is, through the protection of trademarks, to ensure the maintenance of business goodwill of those who use trademarks and thereby to contribute to the development of the industry and to protect the interests of consumers.”<sup>16</sup> A commentary edited by the JPO in 1978 confirmed that there is no

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<sup>15</sup> Irene Calboli, *What If, After All, Trademarks Were “Traded in Gross”?*, 2008 MICHIGAN STATE L. REV. 345 (Aug. 6, 2008).

<sup>16</sup> TRADEMARK LAW OF JAPAN (TMA), art. 1.

difference between the TMA and UCPA with respect to the maintenance of the trademark users' commercial goodwill.<sup>17</sup>

In the Tenichi, the court ruled that trademarks registered under the TMA are intended to indicate the origin of the goods bearing the trademark. The purpose of the TMA is to ensure the maintenance of the accrued goodwill of trademark owners by protecting their marks, thereby contributing to the development of industry and protecting the interests of consumers<sup>18</sup>

## 2. *Three Functions Theory*

In judicial practice, the Japanese judiciaries recognize three distinct functions that trademarks ought to play, which include: the function of indicating origin and ownership; quality guarantee function and advertising function.<sup>19</sup> The three-function theory is actually a judge-made bridge between goodwill protection in the purpose of Art.1 and registered trademark right protection in Art.18 of the TMA.

Japanese courts rely heavily on the functions of trademarks in their analysis of validity of a mark and whether the mark is infringed. This analysis allows Japanese judges to ask one central question: how will the functions of the trademark be affected by the decision? Although there are several places where the statute clearly diverges from Japanese court opinion, the courts paternalistically protects trademark registrants from harm to the functions of their marks even if the statute facially appears to dictate a different outcome. This judicial paternalism is achieved by crafting interesting judicial rules and remedies that exist outside of the TMA.<sup>20</sup>

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<sup>17</sup> HEATH & LIU, *supra* note 5, at 72.

<sup>18</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at 17.

<sup>19</sup> In the *Parker* Case, three functions of trademarks are identified: trademarks should serve as an indication of source, guarantee of quality and protection of the trade mark owner's goodwill. 2 Mutaishu 71 (1971); 2 IIC 325, Osaka District Court (Feb. 27, 1970).

<sup>20</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 7.

## II. RSUR SYSTEM AND ITS INCONSISTENCIES

### A. *RSUR System*

#### 1. *Why the RSUR System is Needed*

##### a. *Dysfunction of RSUU System*

The reason for an adoption of the RSUR system is generally to cure dysfunction of the RSUU system.

One of the preconditions where the public could intentionally respect trademark rights is where the status and boundary of goodwill enclosed by a trademark is transparent, comprehensible and predictable. Because of some dysfunction in market information, especially for large territories with a low level of efficient communication systems, goodwill generated from trademark use is often quite ambiguous. The protection of goodwill based on such speculative conditions is inefficient, unfair and unpredictable both for trademark holders and the public. The touchstone to test content and boundaries of a specific goodwill in an accusation of infringement is the likelihood of confusion standard.<sup>21</sup> But we all know that this standard is so difficult to comprehend and implement that it is one of the most controversial issues in judicial practice.<sup>22</sup>

Because of the dysfunction, most countries in the world adopt a trademark registration system.

One fundamental shortcoming of a use-based system involves reversion of rights. Even though it is good to protect first users, it is extremely difficult to determine who used a mark first when multiple parties are claiming first use. As a result, the stability of trademark adoption and use cannot be assured. This is to say that, if a business is using a particular trademark (even if the use is for significant length of time), there will always be the possibility that someone will appear claiming to have used the mark even earlier. The ability of use-based systems to remedy problems such as these is limited, and therefore, legal systems based on use almost always take advantage of trademark registration systems (and deposit systems) that bring about trademark ownership and presumptive use by registration. Therefore, theoretically, it is necessary to use some sort of a registration system.<sup>23</sup>

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<sup>21</sup> *Minn. Mining & Mfg. Co. v. Rauh Rubber, Inc.*, 130 F.3d 1305, 1308 (8th Cir. 1997), writing that the “likelihood of consumer confusion . . . is the ‘hallmark of any trademark infringement claim’”.

<sup>22</sup> “Even the very nature of the confusion inquiry is ambiguous...Predictably, the diverging viewpoints in this area have produced a muddled body of case law, characterized by such inconsistency among and within the circuits that it has become difficult to predict how a court will deal with a particular case.” Ann Bartow, *Likelihood of Confusion*, 41 SAN DIEGO L. REV. 29 – 30 (2004).

<sup>23</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 5, 4.

*b. Institutional Functions of Trademark Registration System*

Intellectual property as an absolute and exclusive property right needs transparent, stable and clear boundaries; and content for the public to respect and refrain from infringement. Therefore, most intellectual property rights today are statutory.

This is accomplished through successful trademark registration after passing through a strict process of examination, including registerable symbols as statutorily required,<sup>24</sup> statutorily classified goods or services to attach the symbols to,<sup>25</sup> and open publication of all the necessary information concerning the registered mark.<sup>26</sup> Through trademark registration, the unpredictable, varied and non-transparent legal interests such as goodwill, can be transformed into clear-cut, fixed and transparent statutory rights attached to a registered symbol. If we analyze goodwill to be protected as “water”, then a registered trademark is a perceptible, statutorily fixed and distinguishable “bottle” bestowed to the registrant to carry the “water”. Through registration, an intangible, flexible and ambiguous goodwill, the “water”, can be transformed into a tangible, fixed and transparent registered trademark, a “bottle” with the “water”. Therefore, Art. 18(1) of the TMA states that “the trademark right shall arise upon registration of establishment of such right.”

*2. The Merits of RSUR System*

*a. Statutory and Transparent RSUR*

RSUR is statutory and transparent because of registration and publication.<sup>27</sup> The types of symbols that can be selected to register are limited even though the registrable types have increased several times in the history of the TMA.<sup>28</sup> After successful registration, the registered trademark cannot be varied any more or used in goods or services other than the designated goods or services. It is prohibited to make a false indication.<sup>29</sup> It is required that after registration, the registrant shall make efforts to affix to the trademark an indication stating that the trademark is a registered trademark.<sup>30</sup> The scope of trademark rights and the scope of the designated goods or designated services are statutory as well based on promises in the application.<sup>31</sup>

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<sup>24</sup> TMA, art. 3(1)(2), 4(1)(2)(3).

<sup>25</sup> *Id.* at art. 6(1)(2)(3).

<sup>26</sup> *Id.* at art. 12-2(1)(2).

<sup>27</sup> *Id.* at art. 18(3), 27, 75.

<sup>28</sup> TMA, art. 2(1).

<sup>29</sup> *Id.* at art. 74(i)(ii).

<sup>30</sup> *Id.* at art. 73.

<sup>31</sup> *Id.* at art. 27.

*b. Categorized Infringements of RSUR*

Infringements of RSUR are statutorily categorized instead of speculatively determined by assessment of likelihood of confusion.<sup>32</sup> Categorization of infringements means that when deciding whether a specific behavior is an infringement or not, it will be decided by a comparison of these statutory categories.

It is important to recognize that the Japanese Trademark Law provides separate prohibitions for marks that are similar<sup>33</sup> and marks that will cause confusion.<sup>34</sup> It is quite different from common law countries. For example, in the United States there can be no determination of similarity until there is first a finding as to whether the relevant consumer is likely to be confused. The way the question is framed necessarily dictates the answer to the issue of whether a likelihood of confusion exists. That is, in the United States, the test for infringement is a likelihood of confusion. The test for likelihood of confusion is a determination of whether the consumers are likely to be confused. Similarity in the United States is only one element of the test for likelihood of confusion, and an overall finding of confusion is integrally related to the finding of confusion---neither could be done apart from the other.<sup>35</sup>

According to Japanese trademark law,

the trademark owner does not need to specifically show that the defendant's use is a misappropriation of plaintiff's goodwill, because such misappropriation is presumed by the fact of registration. Even though the defendant may prove that the general public does not associate the particular goods with the enterprise the registered trademark belongs to, this does not help unless the defendant can prove that the general public specifically associates his own enterprise with the origin of the goods bearing the particular indication. In other words, to disprove confusion, the defendant must show a better right.<sup>36</sup>

Registered trademark rights and categorized infringements transform ambiguous goodwill protection into statutory protection of RSUR, which obviously increases the efficiency of trademark right recognition and protection.

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<sup>32</sup> TMA, art. 37.

<sup>33</sup> *Id.* at art. 4(1)(xi)

<sup>34</sup> *Id.* at art. 4(1)(xv)

<sup>35</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 115.

<sup>36</sup> CHRISTOPHER HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, Kluwer Law International, 95 (2001).

### 3. Trademark Rights in the TMA

According to Art. 18 of the TMA, after a successful registration, the registrant is bestowed a registered trademark. And according to Art. 27 of the TMA, RSUR is a statutory, lay published, and understandable private right. A “bottle” which is filled with “water” or is ready for “water”, which means (1) the scope of a registered trademark shall be determined based on the trademark stated in the application; (2) the scope of the designated goods or designated services shall be determined based on the statement in the application; (3) in the case of paragraph (1), meanings of the trademark stated in the application shall be interpreted by considering the statement and materials of Art. 5(4) of the TMA. RSUR is comprised of two legal effects, exclusive right to use and right to prohibitive use.

#### a. Exclusive Right to Use

Art. 25 of the TMA provides for the exclusive right to use.

The holder of trademark right shall have an exclusive right to use the registered trademark in connection with the designated goods or designated services; provided, however, that where an exclusive right to use the trademark is established in connection with the trademark right, this provision shall not apply to the extent that the holder of exclusive right to use has an exclusive right to use the registered trademark.<sup>37</sup>

The exclusive right here is a positive right that authorizes the registrant to use the registered trademark in such a way; and to also exclude others from the same use. This kind of use by a third party is called Double Identify infringement. For Double Identify infringement, according to Art. 27 of the TMA, trademark infringement is established statutorily.<sup>38</sup> The likelihood of causing confusion as to the origin, which serves as the main measure for determining boundary of goodwill between trademarks in common law countries, cannot be required here for proof of an infringement.

For example, in *S.T.P. Corp. v. National Shoji K.K. et al.*, the Court held that,

A registered trademark can play its function of indicating the source only when the owner is legally guaranteed a right to use it in exclusion of all other persons and when it is legally used by the owner. If any person is allowed to attach the registered trademark to goods, even to the genuine goods, the foundation of the reliability of the registered trademark will be lost, and it will no longer be able to perform its function as a registered trademark. Therefore, the respondents' contention should be said to be a contention that disregards the provisions of the Trademark Law . . . Even though the product

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<sup>37</sup> TMA, art. 25.

<sup>38</sup> Ikuko Ohnishi, *Trademark Use and Trademark Infringement – A Review of Trademark Use in Japan in Comparison with that in Europe*, 37 ANNUAL REPORT OF THE JAPAN ASSOCIATION OF INDUSTRIAL PROPERTY LAW, 73 – 94 (2014).

involved in the instant case is expected to be repacked and resold by the purchaser, it does not necessarily follow, in the light of the legal nature of a registered trademark, that the owner of the registered trademark, when he sells the product, has permitted a third party to freely attach the registered trademark to small containers when the later repacks the product.<sup>39</sup>

*b. Right to Prohibitive Use*

Art. 37(i) of the TMA provides for the prohibitive right aspect of RSUR. A registrant has the right to prohibit third parties from such use, but also has no right to use their mark in such way by himself or herself. Trademark infringement is established according to this article if a third-party: (A) uses a trademark similar to a registered trademark in connection with goods or services identical with, or similar to, the designated goods or services of the registered trademark; or (B) uses a registered trademark in connection with goods or services similar to the designated goods or services of the registered trademark, without a just cause.<sup>40</sup> Because the prohibitive actions here are deemed as infringements based on similarity of indications and/or goods or services, these actions can be called Similarity Infringements as distinct from Double Identify infringement above.

It is also necessary that such a use by a third party should pass through the test of the trademark use doctrine. Trademark uses listed in Art. 2(3) of the TMA are preconditions for trademark infringement. They also limit the scope of trademark rights, which will be discussed in detail in Section IV.6.

By registration, a registrant has an exclusive right to use the identical registered mark, and has a prohibitive right to prevent others from using identical or similar trademarks on identical or similar goods. The so-called Double Identity infringement and Similarity Infringement give double security to the “bottle”. Double Identity infringement protection alone is so thin for the “bottle” that it is easily circumvented by similar, but not identical, symbol users. Similarity Infringement makes the “bottle” wall thick enough for proper protection of the “water” inside. But how thick of a “bottle” wall is enough? Here is a controversial question in judicial practice, that is, what Similarity is similar enough to be infringement.

In some marginal situations, it is difficult to determine whether the concerned trademarks are similar or not. The Supreme Court in the *KOZO Shushi III* case upheld the lower court’s ruling that despite the use of the registered mark, similarity was insufficient to merit compensation.<sup>41</sup> Because without confusion, similarity is tolerable, except for famous trademarks. And in some situations, even without similarity, confusion could also exist. For example, even though the marks “Tokyo Denon Kabushiki Kaisha” and “Denon” are not similar,<sup>42</sup> since the former is often

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<sup>39</sup> Judgment of the Osaka District Court, August 4, 1976, citing Teruo Doi, *Trademark and Unfair Competition Law of Japan*, 1 DIGEST OF COURT DECISIONS 117 (AIPPI Japan, 1980).

<sup>40</sup> TMA, art. 37(i).

<sup>41</sup> HEATH, *THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN*, at 91.

<sup>42</sup> Japan Columbia KK v. Tokyo Denon KK, 1346 Hanrei Jiho 145 (Tokyo high Court, Jan. 23, 1990).

shortened colloquially to DENON and both are used in the sale of electronic goods, confusion arises in the minds of consumers.<sup>43</sup>

Therefore, the Japan Supreme Court in the *Shozan* case held,

similarity between trademarks should be determined based on whether the trademarks compared are likely to mislead or cause confusion as to the origin of goods if they are used in connection with identical or similar goods. However, for that purpose, the impression, memory, association, etc. which the trademarks used in connection with such goods give to traders by their appearance, concept, pronunciation, etc. should be comprehensively and globally considered, and it is also considered reasonable to make a determination based on the status of specific transactions as long as the actual conditions of transaction of the goods can be made clear.<sup>44</sup>

### *B. The Inconsistencies Caused by the RSUR System*

#### *1. The Cause of Inconsistencies*

##### *a. Inconsistencies Caused in Theory*

Even though the RSUR system is supposed to cure dysfunctions of the RSUU system, it also has its own side effects, as RSUR is inherently in conflict with the private right notion.<sup>45</sup> According to Lock's theory, property rights are bestowed through labor. It is a fundamental justice that a person has his property rights on the fruits of his labor and can expel other's usurpation.<sup>46</sup> What trademark rights protect is not the symbol itself, but the labor fruits of the symbol user, that is, goodwill.

Apart from those countries which require prior use of a mark as a prerequisite of registration, it was not well understood that the principle of avoiding confusion in trade had to supersede any rights acquired by registration, in other words, that trade mark protection was only part of the broader concept of protection against unfair competition.<sup>47</sup>

Trademark law protects the "functional relationship which exists between trademarks and goods, and is not meant to protect the drawing (the lettering or design)

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<sup>43</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 115.

<sup>44</sup> Minshu, 22 S. Ct. 2, 399 (Feb. 27, 1968); See Ohnishi, *supra* note 38, at 73 – 94. This translation was prepared by the Institute of Intellectual Property on October 5, 2015.

<sup>45</sup> AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS), WORLD TRADE ORGANIZATION (WTO), Preamble (e) (Recognizing that intellectual property rights are private rights).

<sup>46</sup> About the basic theory and justice for intellectual property, many arguments occur in academic scholars.

<sup>47</sup> HEATH & LIU, *supra* note 5, at 4.



separately.”<sup>48</sup> Theoretically, the RSUR system is inconsistent with the notion of private rights because the RSUR system believes that rights are generated by registration instead of labor in trademark use, at least superficially.

### *b. Inconsistencies Caused in Laws*

The purpose of the TMA is “through the protection of trademarks, to ensure the maintenance of goodwill of persons who use trademarks and thereby to contribute to the development of the industry and to protect the interests of consumers.”<sup>49</sup> But the RSUR system sometimes can damage goodwill and cause inconsistencies with such purpose. One Japanese commentator even concluded that making a trademark property without requiring use is “contrary to the concept of property guarantees envisioned in Art. 29 of the Constitution.”<sup>50</sup> The reason is that if a trademark amounts to property, then it is “inviolable” according to Art. 29 of the Constitution.<sup>51</sup> However, if another party can usurp that property right by merely filing a trademark registration, the guarantee to property contemplated in Art. 29 of the Constitution seems to be undermined. These inconsistencies in laws will cause controversies about boundaries of right and obligation, and damage predictability of laws themselves.

In summary, the trademark registration system is supposed to cure the faults of the RSUR system. But to pursue such a goal, a side effect is that this system inherently has inconsistencies with the purpose of trademark law internally and externally. The internal inconsistencies mean the inconsistencies occur and exist in the TMA itself, and need to be resolved by its internal adjustments. External inconsistencies mean the inconsistencies occur and exist outside the TMA, and need to be resolved by other relevant laws, especially by UCPA and Civil Code.

## *2. The Internal Inconsistencies*

### *a. Registration for Banking Purpose*

The purpose of trademark registration is for the protection of goodwill accrued in trademark use. If registration of trademarks is for trademark banking purposes, it is betraying the purpose of the TMA because no goodwill accrues or will accrue during such registration. Expressing this in an analogical way, the “bottle” acquired in registration is for the purpose of carrying the registrant’s “water” instead for stocking up or for selling empty “bottles”. If this kind of registration is in large volume, it will deteriorate registration facilities for proper registration. Potential proper registrants would be forced to buy their intended trademarks from these squatters, which will

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<sup>48</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 5, 4.

<sup>49</sup> TMA, art. 1.

<sup>50</sup> Hidetoshi Mitsuishi, *Problems with the Move to Amend the Trademark Law*, 73 NBL 40 (1974); see PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 144.

<sup>51</sup> J.P. CONST. art. 29, “The right to own or to hold property is inviolable.”

further stimulate such trademark squatting.<sup>52</sup> Therefore, rampant trademark registration for banking purposes is inconsistent with the purpose of the TMA.

*b. Registration Conflicted with Prior Users' Goodwill*

The purpose of the RSUR is to protect goodwill of the registrant, which accrues by use of a trademark. Therefore, the "bottle" should be clean for the registrant's own "water". But it sometimes happens that a registered trademark has already been used by a third party with its goodwill attached before its registration. Because of RSUR, if the registrant could prevent the prior user from using the trademark with its goodwill, the consequence is that the later registrant can usurp the prior user's labor fruits. The consequence causes controversies. If the registrant has privilege, it is easy for that registrant to grasp the third party's labor fruit by way of governmental power. But if the prior user always has privilege, it would deteriorate the reliability and trustworthiness of the whole registration system. This inconsistency needs to be cured in the TMA.

*c. Goodwill Spilled Out of Registered Trademarks*

After registration, the registered trademark symbol, content and boundary of the right, are fixed and stable. But goodwill inside it still varies in scope and extent, and is not always perfectly confined in the "bottle". If a registrant's business success is beyond original expectation, and goodwill is possibly out of the scope of the registered trademark, that is, the "water" spilled out of the "bottle", then how are we to protect the spilled goodwill?

It is an inconsistency between rigid registered trademarks and timely varied goodwill, (if it is not resolved) that will ruin the purpose of the TMA and deteriorate the function of trademarks too.

*3. The External Inconsistences*

*a. No Protection in the TMA for Goodwill on Unregistered Indications*

For the purpose of predictability, stability, easy comprehension of registered trademarks, and control cost of an administrative agency during trademark application examination; the categories of symbols allowed to apply for registration of trademarks are statutorily limited, even though they have been extended several times in history.<sup>53</sup> For example, service marks were not allowed registration in the TMA for

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<sup>52</sup> This problem has been occurring seriously in China in recent decades. Sophie Brown, *Brand wars: Battling China's trademark 'squatters'*, CNN, (July 18, 2014), <http://edition.cnn.com/2014/07/17/world/asia/china-trademark-squatters-penfolds/index.html>.

<sup>53</sup> TMA, art. 3, 4.

quite a long time in history, and smell is still un-registrable today.<sup>54</sup> But these un-registrable symbols may have function of indication and can accrue goodwill in the course of business, which are also not covered by the TMA. This is an external inconsistency which should be cured beyond the TMA.

*b. No Protection in the TMA for Goodwill Spilled Out of Registered Trademarks*

The protection of the TMA for goodwill is only limited to the boundary of registered trademarks. And in its expansion, registered defensive trademarks if they are indeed registered. But if a registrant's business is so successful that its goodwill has spilled out of the boundary of its registered trademark and/or registered defensive trademark, no further protection is available in the TMA. This inconsistency is external and cured by UCPA instead of the TMA.

*c. Abuse of Registered Trademark Rights*

The purpose of a registered trademark right is to protect a registrant's goodwill from unfair exploitation by any third parties. But if a registrant utilizes the registered trademark rights as instruments to illicitly interfere with the freedom of other third parties, like the operating of a business, or by making any unfair competition such as market extortion or exclusion, these kinds of trademark right uses are a betrayal of the purpose of the TMA. These external inconsistencies are cured by laws other than the TMA, especially by abuse of right provisions in Civil Code.

The following analysis will explain in detail how the Japanese legal system is used to cure these internal and external inconsistencies while keeping a good balance between the RSUU and RSUR systems through coordination and collaboration of the TMA, UCPA and Civil Code. We will find out that well-known/famous trademark protection, among others, have specific institutional functions for such balance.

### III. WELL-KNOWN/FAMOUS TRADEMARKS AND THEIR INSTITUTIONAL FUNCTIONS

#### *A. Well-known and Famous Trademarks*

##### *1. Well-known Trademarks*

It should be noted that in the TMA, there is no famous trademark concept except in Art. 4(1)(vi). The word "a famous mark" indicating a State, local government,

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<sup>54</sup> It took 40 years between the time when the idea of service marks was first discussed to the time that they were introduced into Japanese Intellectual Property Law. The primary reason is because the Unfair Competition Prevention Law protected service marks. ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 2, 9.

agency, etc. appears here.<sup>55</sup> But the phrase “well-known trademark” appears frequently in the TMA.

The concept and definition of a well-known trademark is very abstract, ambiguous and uncertain worldwide. As St. Augustine said, “If no one asks me, I know what it is. But if I wish to explain it to him that asks me, I do not know.”<sup>56</sup> Many similar concepts are generated and used confusingly in different contexts, such as famous trademarks, notorious marks, exceptionally well-known trademarks, highly reputed marks, highly renowned marks, marks of repute, and marks with a (high) reputation.<sup>57</sup> Not only are there too many titles for well-known or famous trademarks, but also the essence of well-known and famous trademarks are difficult to describe and understand.

For example, German legislation has tried to differentiate well-known trademarks and famous trademarks by detail indications via the so-called German approach:<sup>58</sup>

The credibility of the German approach is questionable because there is no tool to test it. Furthermore, terminological confusion over the well-known/famous marks is evidenced, and the efficacy of the distinction between a well-known and a famous mark is in doubt, as the term ‘famous mark’ is not employed in the relevant international, EU or Japanese laws.<sup>59</sup>

The ambiguity of well-known or famous trademarks is actually a reflection of ambiguous goodwill itself. Even though these are confusing concepts, well-known trademarks in the TMA could be defined into three types: regional well-known trademarks, national well-known trademarks, and foreign well-known trademarks. We will see in the next section that these distinctive categories make sense because they refer to different legal status and institutional functions. In different contexts, the phrase of well-known trademarks has different meanings.

## 2. Famous Trademark

Art. 2(1)(ii) of the UCPA is about protection of famous trademarks and indications. The legal interest of famous marks or indications of goodwill accrued on these trademarks or indications, cannot be protected by the TMA, but need to be recognized and protected by the UCPA. It is a policy of cooperation between the TMA and UCPA. Indication has to be famous nationwide in Japan, but with some exceptions. For example, if some product is used only in northern Japan and people would not think of

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<sup>55</sup> TMA, art. 4(1)

Notwithstanding the preceding Article, no trademark shall be registered if the trademark: (vi) is identical with, or similar to, a famous mark indicating the State, a local government, an agency thereof, a non-profit organization undertaking a business for public interest, or a non-profit enterprise undertaking a business for public interest.

<sup>56</sup> HIROKO ONISHI, *WELL-KNOWN TRADE MARKS: A COMPARATIVE STUDY OF JAPAN AND THE EU*, Routledge, 7 (2015).

<sup>57</sup> *Id.* at 8.

<sup>58</sup> *Id.* at 9, citing Tatham, *WIPO Resolution on Well-known Marks: A Small Step or a Giant Leap?*, 2 *INTELLECTUAL PROPERTY QUARTERLY* at 128 (2000).

<sup>59</sup> *Id.* at 10.

using it in southern parts of Japan, one could still consider an indication used on that product as famous, depending upon the characteristics of the product and of the purchaser. There are also others who feel that even though an indication is not famous nationwide, as long as the defendant is using the same or similar indications where it is famous, this should suffice for this element.<sup>60</sup>

Shoen Ono describes the requirement that the indication be famous in the following terms: “To be famous, an indication must achieve an exacting standard. To the court, it must appear to be a striking or remarkable indication. Therefore . . . it would be desirable to have a clear protocol to determine when an indication is striking or remarkable to a court.”<sup>61</sup> Given the status of dilution cases in Japan though, this seems very far off indeed. In the *Levi’s Case*, the court found that a mere 18.3% of respondents capable of correctly identifying the stitching on the rear pockets of Levi’s jeans was adequate enough to establish that the mark was famous.<sup>62</sup> Therefore, it is rather a policy issue than a legal issue in how famous of an indication is famous enough for protection by UCPA.

### *B. Well-known/Famous Trade Mark’s Institutional Functions*

#### *1. Well-known Trade Mark’s Institutional Functions*

The concept of a well-known trade mark in Japan’s trademark law system has special legal meaning and institutional functions for balancing the defects of the RSUR system. They include: (1) protection of regional well-known goodwill from usurpation by registered trademark right holders (Art. 32 of the TMA); (2) protection of national well-known goodwill from usurpation by registered trademark right holders (Art. 4(1)(x) and Art. 4(1)(xix) of the TMA); (3) protection of foreign well-known goodwill from usurpation by registered trademark right holders (Art. 4(1)(xix) of the TMA); and (4) protection of goodwill attached to indications not protected by registered trademarks (Art. 2(1)(i) of UCPA).

For example, In *K.K. Anrope et. al. v. K.K. An*,<sup>63</sup> because the plaintiff’s mark “An” is not considered as well-known by the court, this means either that there is no goodwill, or not enough goodwill worthy of protection spills out of the registered trademark. The plaintiff could not prevent defendant from using “AN” in its trade name, which is beyond the scope of right of prohibitive use of registered trademarks. Therefore, whether “An” is well-known or not is a critical argument in this case.

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<sup>60</sup> Kenneth L. Port, *Trademark Dilution in Japan*, WILLIAM MITCHELL LEGAL STUDIES RESEARCH PAPER No. 30, 15 (Nov. 2005).

<sup>61</sup> See Port, *Trademark Dilution in Japan*, at 14, citing SHOEN ONO, NEW COMMENTARY ON THE UNFAIR COMPETITION PREVENTION ACT, 288 (2000).

<sup>62</sup> *Levis Strauss & co. v. KKEdwin Mfg.*, 1032 Hanrei Times 281 (Tokyo District Court, Dec. 6, 2000).

<sup>63</sup> *K.K. Anrope et. al. v. K.K. An*, Judgment of the Tokyo District Court (Jan. 28, 1976).

## *2. Famous Trademarks' Institutional Functions*

In UCPA, the extent of knowledge of indications is categorized into two types: well-known and famous. Their legal statuses are also different. The institutional function of famous indications is similar to well-known indications, which is to protect goodwill, especially tremendous goodwill, not effectively protected by registered trademarks. Different from well-known indications, the goodwill in famous indications is so obvious and glamorous that the public should be cautious to respect it intentionally. Therefore, confusion as a parameter in deciding the boundary of goodwill in well-known trademark infringements shall not be required here. In Art. 2(1)(ii) of UCPA, if an indication is famous, the act of using the indication alone is considered unfair competition. No proof of confusion is required here. This will be discussed in detail in Section V.1(4) about anti-dilution. The main institutional function of famous indications is to expand the scope of protection, the background of which is the ideology of dilution originated in the USA. This has been accepted worldwide and transferred into Japanese trademark laws too. Therefore, regardless of whether these identifications are registered or not, once they are considered as famous by the judiciary, they will be protected more than common indications.

## IV. MEASURES TO CURE INTERNAL INCONSISTENCIES

### *A. Cancellation of Trademark Registration For Banking Purpose*

#### *1. Trademark Registration for Banking Purpose*

Trademark banking occurs when one entity registers a large number of trademarks to sell instead of to use in business. Trademark registration for banking purposes is unfair because it not only misuses and wastes public resources such as increasing working load of the JPO, but it also increases the market entrance threshold and harms business freedom of those potential trademark users. For RSUU system countries, registration itself does not automatically bestow rights for trademark registration applicants. Such a side effect of trademark registration is not obvious in these countries.

Compared with RSUU system countries, in Japan the volume of registered trademarks is comparatively high,<sup>64</sup> and the proportion of use among these registered trademarks is comparatively low. Historically,

[B]etween the years of 1972 and 1973, the number of trademark applications reached about 200,000 and the degree of accumulation of unprocessed applications increased dramatically. In Japan, "by 1993, only 34.7% of all registered trademarks were actually being used; 31.4% of all registered

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<sup>64</sup> The registration volume fluctuates between 103,435 and 98,085 from the year of 2006 to 2015. In 2015, the number of trademark registration in Japan is 98,000, the no. 5 behind SAIC of China, USPTO, KIPO and EUIPO, JPO STATUS REPORT at 32 (2016).

marks had been and would continue to be deadwoods marks in the future; 15.3% of all registered trademarks had been used in the past but were not in use as of the date of study; and, 18.1% of all registered trademarks were not currently in use but their owners had specific plans to use the mark in the future. Accordingly, two-thirds of all registered marks in Japan were one form of deadwood or another.<sup>65</sup> This led to a delay in the examination of filed applications, the process often taking many years from the time the applicant decided to use the mark as a trademark in developing goods, to the time of the actual registration of the mark. Consequently, the delay decreased the merit of registration marks, the fundamental role of which is to endure stable use of a mark.<sup>66</sup>

The amendment of the TMA in 1976 tried to resolve this issue to strengthen the registrant's duty to use his trademark, by setting out a requirement for the applicant to record his business in the application; by assigning the burden of proving non-use in a cancellation proceeding for non-use, and by examining the usage of a registered trademark at the time of its renewal.<sup>67</sup> And the main purpose of abolishment of the associate mark system in the amendment of the TMA in 1996, was also an effort to tackle the problem of unused trademarks.<sup>68</sup>

Until today, trademark registration for banking purposes was still in high caution by the JPO. For example, on May 17, 2016, the JPO issued an unusual announcement titled, "Caution: to those whose own trademarks have been filed by others". The JPO advised that "certain entities" have been filing large numbers of trademark applications for trademarks owned by others and encouraged brand owners not to give up or refrain from filing their own rightful trademark applications.<sup>69</sup>

## *2. Cancellation Based on Lack of Use*

### *a. Conditions for Cancellation*

Registration of trademarks should be for the purpose of enshrining the registrant's goodwill in business as it has accrued or will soon accrue. This is embodied in Art. 3(1) of the TMA, "any trademark to be used in connection with goods or services pertaining to the business of an applicant may be registered." The "use" here not only means actual use, but also means intentional use.<sup>70</sup> But it is very complicated and time-consuming to find out at the time registrants hand in the documents for such registration whether an application of trademark registration is for use, or for banking purposes. Time is evident to discover the illicit purpose registrants have. The cancelation of registration for a continuous three years of non-use is a common legal

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<sup>65</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 147.

<sup>66</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 2, 9.

<sup>67</sup> *Id.*

<sup>68</sup> *Id.* at 10.

<sup>69</sup> JTA BULLETIN, <http://jta.tokyo/english/documents/> (last visited Sept. 7, 2017).

<sup>70</sup> JAPAN PATENT OFFICE, EXAMINATION GUIDELINES FOR TRADEMARKS, [https://www.jpo.go.jp/tetuzuki\\_e/t\\_tokkyo\\_e/tt1302-002.htm#tmp\\_header](https://www.jpo.go.jp/tetuzuki_e/t_tokkyo_e/tt1302-002.htm#tmp_header) (last visited Sept. 7, 2017).

measure to resolve such an issue.<sup>71</sup> If a registrant does not use a mark for over three years, the presumption is that there is no goodwill associated with that trademark worth protecting. According to Art. 50(1) of the TMA, any person may file a request for a trial for rescission of such trademark registration in connection with the relevant designated goods or services. It means that preventing trademark banking is not only for protection of some specific person's interest, but also for public interest.

The TMA was amended in 1975 to allow marks no one intended to ever use, to be expunged. The amendment also shifted the burden of proof to the registrant. To make it easier for the movant to prevail, that burden has an extremely low threshold. But registrants often receive notice of the claim of non-use months before the date the motion for an administrative appeal is filed. Therefore, registrants have an abundant amount of time to make use of the mark to avoid cancellation. Even token use was enough to protect the mark from cancellation notwithstanding the fact that the TMA clearly requires "continuous use" to avoid cancellation.<sup>72</sup>

This situation changed significantly with the enactment of the 1996 amendments. After April 1, 1997, any use made by a registrant of a trademark subject to a cancellation petition, due to non-use, in the three-month period prior to the registration of the claim, would be deemed insufficient use in order to avoid cancellation for non-use.<sup>73</sup>

#### *b. Trademark Use Preventing Cancellation*

For preventing such cancellation, registrants need to show that the registered trademark is in use. "The use or intention of use of the trademark will be ascertained through the fact that the applicant is conducting, or planning to start business connected with the designated goods or designated services."<sup>74</sup> The concept of trademark has varied with new developments of technology such as the Internet. In the *Orix Case* in 2007, a trial for cancellation of a registered trademark not in use, the court held that,

[I]t is found that the plaintiff displayed 'Orihara & Orix' in the upper left space of the top page of the website (header) as a sign to head a lineup of the plaintiff's products for online sales on the website . . . In this case, it is construed that if a trader or user sees the website, they will understand that the trademark used by the plaintiff is affixed as a sign to distinguish their goods from those of goods of others with respect to said toilets, portable toilet vehicles, and toilet tanks . . . the act . . . is a trademark use.<sup>75</sup>

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<sup>71</sup> TMA, art. 50.

<sup>72</sup> *Id.* at art. 50(1).

<sup>73</sup> *Id.* at art. 50(3).

<sup>74</sup> JTA BULLETIN, *supra* note 69.

<sup>75</sup> Hideaki Togawa, *Trademark Use on the Internet – Trademark Use and Right Infringement*, ANNUAL OF THE JAPAN ASSOCIATION OF INDUSTRIAL PROPERTY LAW 37, 113 – 142 (2014); *see Orix*, IPHC (Oct. 30, 2007).



And in the *Clubhouse* case of 2010, the judgment found that the title of e-mail newsletters can be a sign to distinguish one's own goods and products from those of others, for the goods and services posted on the linked web pages and the titles of e-mail newsletters can be treated as "trademark use."<sup>76</sup>

But using trademarks on the Internet accessible by Japanese consumers does not necessarily mean trademark use. For example, in the *PAPAJOHNS* case of 2005, the IPHC found that the defendant was advertising pizza on webpages and recruiting franchisees, and that if a user inputs 'papajohns' on the search engines in Japan, it can be accessed. However, the court concluded as following: since these webpages were created on a server in the U.S. and the content is displayed in English, it was not found to be "subject to Japanese users." In other words, these webpages were accessible from Japan and searchable by Japanese search engines, however, these conditions are natural since they were webpages on the Internet and therefore cannot be used as grounds for the use of a trademark in Japan.<sup>77</sup>

### *B. Registration Prevention for Protection of Prior Goodwill*

First-to-file registration may be in conflict with prior user's goodwill, which is an internal inconsistency. The TMA has adopted several measures to resolve this inconsistency in the RSUR system. Well-known trademark protection is a remarkable one among them.

#### *1. Prior User's Well-known Marks Not Registrable*

##### *a. the Extent of Well-Known*

As we have discussed before, the purpose of trademark registration is to get a qualified "bottle" to enclose goodwill of an applicant, which has been accrued before the application or is intended to accrue in the near future by using the registered trademark. But if the trademark has been used by a third party and has become well-known before the application, and if the applicant is allowed to register, the RSUR will interfere with the prior user's freedom to use its goodwill. In this situation, protection of prior user's goodwill has priority.

Art. 4(1)(x) of the TMA provides that "the examiner shall reject trademarks which are well known by consumers as marks indicating the goods or services of another—or trademarks that are similar thereto--- and are used on goods or services similar to those of the other party." That is, if one entity's mark becomes well known by consumers, that prior user may be able to use that fact to prevent another from registering the same or similar marks for use on the same or similar products.<sup>78</sup>

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<sup>76</sup> *Id.* See *Clubhouse*, IPHC (Apr. 14, 2010).

<sup>77</sup> *Id.* See *PAPAJOHNS*, IPHC (Dec. 20, 2005).

<sup>78</sup> TMA, art. 4(1)(viii).

The requirement of well-known here should be nationally, not regionally, because the effect of trademark registration is nationwide. It means a prior nationally well-known trademark can prevent the later registration of an identical or similar trademark. In 1983, the *Daewoo Coffee* case, in a comparable provision of Art. 4(1)(x) of the TMA, the court required nation-wide recognition in order to prevent registration that would cause confusion with a well-known indication.<sup>79</sup> The court held that even though the mark had been used for 23 years and was recognized as a trademark by at least 30% of its target market, the mark “DCC” as used on coffee and coffee-related products was not “well-known” for purposes of Art. 4(1)(x).<sup>80</sup>

This standard for being “well-known” therefore is a high standard to meet and is not easily done by regional sellers of products that are mass-consumed by the general population.<sup>81</sup> The key question in this situation is how well-known the third party’s goodwill is as to whether it is worthy of protection and can prevent the later registration? Obviously, it is a policy on how to adjust weight between goodwill protection of a prior user and the trustworthiness of the RSUR system for a later applicant.

For registering a prior user’s well-known trademark on non-identical or non-similar goods or services, if such registration is done with illicit intents, it is also prohibited according to TMA Art. 4(1)(xix).<sup>82</sup> The JPO has provided some guidelines,

For example, trademarks presented below fall under the provision of this paragraph. (a) A trademark of which the registration is sought to, taking advantage of a well-known foreign trademark or a trademark similar thereto being not registered in Japan, force its purchase, prevent a market entry by the owner of that foreign trademark or force the owner of that foreign trademark to conclude an agent contract. (b) A trademark identical with or similar to a trademark well known throughout Japan, for which an application is filed with an intention to dilute the distinctiveness of the well-known trademark to indicate the source of goods or impair the reputation, etc. of the trademark owner, however the trademark of that application per se is not liable to cause confusion over the source of goods.<sup>83</sup>

*b. Some Exceptions the for Nationally Well-known Standard*

The scope of territory and the amount of population of well-known marks are obvious parameters to measure goodwill. But because of the complexity accepted in the market, this one-size-fits-all measure is risky and unfair in some cases. Therefore, in

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<sup>79</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 90.

<sup>80</sup> UCC v. DCC, 499 HENREI TIMES 211 (Hiroshima District Court, Sep. 30, 1982).

<sup>81</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 112.

<sup>82</sup> TMA, art. 4(1) Notwithstanding the preceding Article, no trademark may be registered if the trademark: (xix) is identical with, or similar to, a trademark which is well known among consumers in Japan or abroad as that indicating goods or services pertaining to a business of another person, if the trademark is used for unfair purposes (referring to gaining unfair profits, causing damage to the other persons, or any other unfair purpose, the same applies hereinafter) (except those provided for in each of the preceding items).

<sup>83</sup> JAPAN PATENT OFFICE, EXAMINATION GUIDELINES FOR TRADEMARKS, part 17, art. 4(1)(xix).

some cases, even though goodwill is not well-known nationwide and popular among the public, it is still well known enough to prevent the later registration as long as the labor or contribution in the goodwill is highly substantial and fair protection is necessary.

For instance, courts occasionally overcome that specific requirement if the mark becomes well-known to professionals in the field where the relevant goods or services are offered, even if those goods or services were never offered for sale in Japan. Therefore, even though the magazine *Computerworld* was never offered for sale in Japan, the fact that it had become famous in the minds of computer professionals in Japan made the mark “well known” for purposes of Art. 4(1)(x) of the TMA.<sup>84</sup>

Trademark which is well known among consumers ‘as prescribed in this paragraph includes not only a trademark which is widely recognized among end consumers but also a trademark which is well known among trader in the industry and also includes not only a trademark which is known throughout the country but also a trademark which is widely recognized in a certain area.’<sup>85</sup>

### *c. Cancellation of Registered Trademarks*

If an applicant finally passes through the examination of the JPO and is dubbed with a registered trademark right, the well-known trademark user whose trademark has been registered by the applicant still has an opportunity to require the JPO to cancel the registration and return the trademark back to him.

According to Art. 43(2) (i) of the TMA, any person may file with the Commissioner of the JPO an opposition to registration within two months from the date of publication of the bulletin containing the trademark; as long as the registered trademark is identical with, or similar to, a trademark which is well known among consumers as indicating goods or services in connection with the applicant’s business. Such a trademark must be used in connection with such goods or services or goods or services similar thereto.

An invalidation trial of a trademark registration can be filed by an interested person within five years of the date of registration if the trademark registration has been made in violation of Art. 4(1) of the TMA. That includes the protection for well-known trademarks of the interested person.<sup>86</sup> Different from Art. 43(2)(i) of the TMA, in this situation, only an interested person is allowed to file the invalidation trial and it must be within five years. This means the invalidation trial here is mainly for protection of a concerned person’s interest instead of the public interest. After 5 years, it is presumed that the registered trademark rights holder has accumulated enough goodwill.

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<sup>84</sup> CW Comm. Inc., v. Dempa Newspaper Co., 1430 Hanrei Jiho 116 (Tokyo high Court, Feb. 26, 1992) (the sale of the magazine *Computerworld* outside of Japan and its resultant fame inside Japan found sufficient even though the magazine itself was never offered for sale in Japan).

<sup>85</sup> JAPAN PATENT OFFICE, EXAMINATION GUIDELINES FOR TRADEMARKS, Ch. III, Part 3, art. 4(1)(ii), (iii) and (v) (State Coat of Arms and Other Emblems); Part 9, art. 4(1)(x) (Well-Known Trademark of Another Person).

<sup>86</sup> TMA, art. 46.

## 2. Application Prevention of Foreign Well-known Marks

### a. Special Issues for Foreign Well-known Marks

The application of trademark registration, which is identical or similar to foreign well-known trademarks, is considered unfair because it is an exploitation of the well-known trademark holder's goodwill and labor fruit, the only difference is that they are foreigners and out of the sovereign protection of the country in which the application is filed.

RSUR system is prone to encourage squatting foreign well-known trademarks as an ambush to extort potential international importers in the globalization era. Application of foreign famous marks by domestic applicants has caused much trouble for the Japanese legal society as well as other countries that adopt RSUR systems, such as China.<sup>87</sup> Obviously, usurpation of a foreigner's goodwill is a kind of national selfishness and trade protectionism, encouraging trademark registration speculations and distorting international business.

Scholar Heath summarized the reasons for this phenomenon. They are threefold: (1) the theory of "universal trademarks" has proven fallacious, as even the well-intentioned German Supreme Court had to acknowledge after 30 years; (2) inertia, inactivity or insolence have prevented many trade mark owners from actively pursuing new markets abroad; and (3) many countries saw no particular reason for granting protection against trade mark applications by domestic applicants, as this would have meant protecting foreign enterprises against domestic ones, a view that only confirmed the widespread view that intellectual property rights only meant reinforcing the hegemony of industrialized countries.<sup>88</sup>

### b. Japan's Policy and Methods in the TMA

Until April 1, 1997, the JPO started to refuse third party applications if the trademark in application "is identical with or similar to a trademark which is well known among consumers in Japan or abroad as that indicating goods or services pertaining to a business of another person, if such trademark is used for unfair purposes."<sup>89</sup> According to the JPO's opinion, "trademarks 'well known among consumers . . . abroad' as stipulated in this paragraph need to be well known in the countries they originate from but not necessarily need to be well known in multiple countries outside those countries. Nor do they in Japan."<sup>90</sup> What are the unfair purposes in TMA Art. 4(1)(xix)? Examination Guidelines of the JPO provide some examples.

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<sup>87</sup> The cause and situation of trademark squatting issues in China; see Daniel C. K. Chow, *Trademark Squatting and the Limits of the Famous Marks Doctrine in China*, (May 30, 2014). GEORGE WASHINGTON INT'L L. REV., forthcoming.

<sup>88</sup> HEATH, *THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN*, at 157.

<sup>89</sup> TMA, art. 4(1)xix.

<sup>90</sup> JAPAN PATENT OFFICE, EXAMINATION GUIDELINES FOR TRADEMARKS, Part 17, art. 4(1)(xix) (Trademark Identical with or Similar to Another Person's Well-Known Trademark which is Used by the Applicant for an Unfair Intention).

For example, trademarks presented below fall under the provision of this paragraph. (a) A trademark of which the registration is sought to, taking advantage of a well-known foreign trademark or a trademark similar thereto being not registered in Japan, force its purchase, prevent a market entry by the owner of that foreign trademark or force the owner of that foreign trademark to conclude an agent contract.<sup>91</sup>

According to the Paris Convention,<sup>92</sup> trademark rights are sovereignly independent and protectable only in national territory. This principle raises a question the defendant asked in the *Hilton* case: under what legal basis do Japanese courts have authority to prevent the registration of Japanese nationals for protection of a foreign trademark right? In the *Hilton* case, the Tokyo High Court concluded that the trademark, “HILTON,” amounted to a “personal right” of Hilton International and therefore was protectable in Japan in addition to its protection simply as a trademark.<sup>93</sup> The personal right theory of the *Hilton* case adopted by the Tokyo High Court has taken goodwill as a labor fruit - naturally protected as a personal right in Civil Code, which is not necessarily bestowed by registration as administrative management. Following the national treatment principle in civilized countries, personal rights of foreigners are automatically protectable in Japan.

### *C. Application Prevention of Agents*

#### *1. Betrayal of Trust Between Principal and Agent*

Misappropriation of agents is another inconsistency of the RSUR system, especially in transnational principal-agent relationships. In practice, it quite often happens that licensees apply for registration of a trademark of a foreign licensor as a foreigner in a licensee’s country without permission or authorization of the licensor. Later, the registered trademark would be used by the registrant to manipulate the market and restrain importation of the licensor’s goods. Many non-Japanese corporations have had the experience of terminating a Japanese distributor and entering another distribution agreement with a third party in Japan, only to have that third party sued for trademark infringement because the original distributor had filed trademark registrations for the relevant trademarks and considered itself the “owner” of those trademarks in Japan.<sup>94</sup>

In this relationship, to be well-known or famous for the concerned trademarks is not needed as a precondition for misappropriation. Manifestation of intent to usurp a principal’s goodwill is comparatively clear because of the relationships between a principal and agent. Therefore, it is not necessary to require “well-known” as a signal

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<sup>91</sup> *Id.* at Part 17, art. 4(1)(xix), annotation 1.

<sup>92</sup> WIPO, PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY, art. 6 “(3) A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.”

<sup>93</sup> *Tanaka v. JNR Settlement Corp.*, 1338 Hanrei Jiho 144 (Tokyo High Court, Nov. 9, 1989).

<sup>94</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 81.

to existence of such legal interest. "On the other hand, it should not qualify as an act of misappropriation if, when a trademark is not famous or well-known, registration by the agent or representative is effected for completely different goods or services which could not lead to any likelihood of confusion or even association."<sup>95</sup>

## 2. Japan's Judiciary Practice

The right of claim for cancellation is granted under Art. 53(2) of the TMA. Cancellation can also be requested in cases where the agent or representative has ceased to act less than a year before the application. According to Art. 53(3) of the TMA, cancellation has to be requested within five years from the date of registration.

In the *Casite* case,<sup>96</sup> the Japanese court defined the term "agent or representative" very narrowly.<sup>97</sup> Most of the Japanese academics seem to favor a broader view on who should qualify as an agent or representative. It should be sufficient that import and sales were actually carried out. In the *Troy* case, the Osaka High Court affirmed the District Court's ruling that KK Troy must assign to Troy of California trademarks "KK Troy" as the licensee had registered in Japan and further ordered KK Troy to discontinue use of such marks in Japan because the trademark rights had previously vested in Troy of California, not KK Troy.<sup>98</sup> Therefore, even though the first-to-file principle has rather harsh consequences in most instances, Japanese judges have at times created remedies necessary to protect foreign trademark owners from being surreptitiously blindsided by a Japanese domestic licensee. This is accomplished by establishing the doctrine of trademark rights vesting, a judicially created doctrine that does not appear in the statute.<sup>99</sup>

Similar to protection of trustworthiness between principals and agents, in the event a director of a corporation registers the corporation's trademarks in the director's name, the Sendai District Court has held that the corporation can sue the director for assignment of those trademarks. The court there held that:

because the defendant did not register the mark for its own purpose to be used as applied to the defendant's own business but rather registered the EMPEROR trademark for the benefit of the plaintiff's corporation, the trademark right is really property of the plaintiff. Therefore, grounds exist for the plaintiff to sue to recover the registration from the defendant—whose name appears in the registration as the actual right holder.<sup>100</sup>

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<sup>95</sup> LADAS, *supra* note 5, at 1265; HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 153.

<sup>96</sup> Tokyo High Court, (Dec. 22, 1983).

<sup>97</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 154.

<sup>98</sup> Troy of California Int'l, Ltd. v. K.K. Troy, 1184 Hanrei Jiho 114 (Osaka high Court, Dec. 20, 1985).

<sup>99</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 84.

<sup>100</sup> *Id.*

#### *D. Preventing Usurpation of Honest Users' Goodwill*

An ideal scenario is that the registrant accrues its goodwill by using a trademark in business and RSUR as the right to protect the goodwill attached to the mark. However, in reality, a registrant often takes the exclusive right of a registered trademark as an instrument to expel honest users from using the trademarks on which their goodwill attaches. If these behaviors are allowed, RSUR will be a puppet of the registrant in exploiting labor fruits of honest users. It is a betrayal of consistency between the RSUR system and its purpose. Therefore, in the TMA, some measures are adopted to prevent such unfair consequences. Well-known trademarks once more play their institutional functions in this situation.

##### *1. Prior Use Alone as Grounds of Priority*

According to Japanese judicial practice, a regionally well-known trademark used prior to the application of registration is not significant enough to destruct the application of trademarks. Because well-known regionally means the goodwill accumulated only in a regional area, the legal effect of trademark registration is nationwide. Therefore, if regionally well-known trademarks could prevent latter honest registration, the prior user will utilize a comparatively small legal interest to preoccupy the whole area. This consequence would ruin the authority and trustworthiness of the registration system. But if the prior user is prohibited from continuously using his trademark because of the later registration of the third party, this would also be unfair because goodwill accrued by the prior user through his labor is occupied by the later registrant.

Therefore, Art. 32(1) of the TMA provides that prior users of marks that have become well known can continue to use the mark on or in connection with those same goods or services. However, a registrant can demand that the prior user/non-registrant take appropriate steps to ensure that confusion will not occur in the marketplace.<sup>101</sup>

##### *2. Cancellation of Registered Trademarks for Misuse*

Even though during the process of registration, the JPO examiners could refuse the application if it is obviously in bad faith,<sup>102</sup> sometimes, the application can also successfully go to the end of the process in some tricky ways. If this consequence happens, it is an inconsistency, because the purpose of an application is not for the proper purpose of enshrining its own goodwill. Therefore, Art. 51(1) of the TMA provides that any party can move for the cancellation of a registered trademark if the registrant purposely uses the mark to cause confusion as to the source of a third party's goods or services.

For example, in the *Trappistines* case, the trademark "Trappistines" on cookies caused confusion as to the source. By establishing a business in the same location as the owner of a similar mark for use on similar goods, and through intentional use,

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<sup>101</sup> TMA, art. 32(2).

<sup>102</sup> *Id.* at art. 4(1)(xv),(xvi).

caused consumers to believe that both parties' goods emanated from the same source. The Tokyo High Court ordered the registration for Trappistines cancelled.<sup>103</sup>

### *E. Expanding Protection for Well-known Registered Trademarks*

In the course of business, it quite often happens that goodwill of a registrant has spilled out of the "bottle" when business is so successful that goodwill is beyond the registrant's initial prediction. In such a situation, both Double Identity infringement and Similarity infringement based on original registered trademarks are not broad enough to cover this spilled goodwill. The "Defensive mark system" is a remedy for such inconsistencies in the TMA.

#### *1. Defensive Trademark Registration*

In 1960, Japan introduced "defensive marks" based on the British trademark system in order to enhance the protection of well-known trademarks. Art. 64 of the TMA sets out the requirements for registration of a defensive mark, which may be outlined as follows: (1) registered trademark A is well-known with respect to the designated goods/services provided by the trademark owner and designated in the registration; (2) If a third party were to use trademark A with respect to goods/services, B, which are different from and not similar to the goods/services designated in the trademark A registration, there is a risk that consumers would be confused about the origin of the goods/services, B; (3) The application for a defensive mark is filed by the owner of trademark A, is directed to trademark A and designates the goods/services, B.

The defensive mark registration system is a typical legislative measure to give a well-known registered trademark the opportunity to expand the scope of initial registration, that is, to expand the "bottle" for large goodwill. Under the defensive mark registration system, well-known marks can be registered as defensive marks to cover goods or services other than those listed in the original registration. These additional goods or services need not be similar to the original goods or services. Registrants need not have any use regarding the concerned trademark for these additional goods or services. Any intent to use the concerned trademark on these additional goods or services is not required either. The requirement is only that the mark shall be well-known by consumers and that there shall be an apprehension of confusion if the mark is used on these additional goods or services by a third party. After registration of a defensive trademark, the prohibitive right of the registrant for his registered trademark is legally expanded to new designated goods or services.<sup>104</sup>

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<sup>103</sup> Showa Confectioneries KK v. Trappistines Monastery, 1580 Hanrei Jiho 131 (Tokyo High Court, July 18, 1996). PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 154.

<sup>104</sup> TMA, art. 67.



## *2. Limited Help of Registered Defensive Trademarks*

Given the strict requirements to prove a mark is well-known, only a few marks have been registered as defensive marks.<sup>105</sup> For example, in an early case, the Tokyo High Court affirmed an Examiner's rejection of a defensive mark application to register the trademark MERCEDES-BENZ by the famous mobile company, who sought to prevent the mark's use or registration by another on string, rope or netting.<sup>106</sup> In practice, the value of defensive mark registration is not only the extra trademark protection provided by it, but it also often lies in providing a means for easily proving the fame of a registered mark in a trademark invalidation trial or a lawsuit alleging infringement, etc. The mere fact that the mark has been registered as a defensive mark means that the JPO has officially determined that the mark is well-known, and regardless of the goods/services with which a third party uses the mark, it is easy to prove that the mark is being used to compete unfairly or is infringing under UCPA.

In at least three situations, goodwill of a user will not be fully protected by the TMA because there is no "bottle". Here, goodwill accrued in use is: (1) beyond the scope of registered trademark protection and the trademark rights holder has not yet registered defensive marks; (2) beyond the scope of defensive marks even if the trademark rights holder has registered it successfully; and (3) enshrined on non-registrable indications, because "a trademark right is formed upon registration of establishment of the right."<sup>107</sup> In these three situations, the TMA has no provisions for such spilled goodwill protection, and UCPA fills in the loopholes left by the RSUR system, which will be discussed in Section V.1.(2) and(3).

### *F. Trademark Use Doctrine*

#### *1. the Institutional Function of the Trademark Use Doctrine in Trademark Infringement*

##### *a. the Institutional Function of the Trademark Use Doctrine*

In Japanese trademark law, there is no fair use doctrine as adopted in the USA, but there are trademark use and non-trademark use distinctions. Art. 2(3) of the TMA lists seven different ways in which a trademark could be "used" within the meaning of the statute. One institutional function of the trademark use doctrine is to restrain RSUR by exempting some uses of trademarks from accusation of trademark infringement on the ground that such kind of use is not trademark use. This is the precondition for establishment of trademark infringement. The "bottle" should only protect goodwill inside, but sometimes a registered trademark rights holder excludes

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<sup>105</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 46.

<sup>106</sup> Daimler Benz Aktiengesellschaft v. Fink, 1326 HANREI JIHO 145 (Tokyo High Ct., July 27, 1989).

<sup>107</sup> TMA, art. 18(1).

others from using only the “bottle” without concerning goodwill. This exclusion is beyond the scope of RSUR.

In RSUU system countries, such perplexities are rare because likelihood of confusion is measured based on goodwill instead of the “bottle” itself and the fair use doctrine is a double prevention as well. But in the RSUR system such as in Japan, according to Art. 37(i) of the TMA, use of a registered trademark itself could be treated as an infringement. Therefore, the so-called trademark use doctrine functions as an umbrella to protect some uses from threat of infringement accusations. “The doctrine of ‘use as a trademark’, which is limited to use as a source-identifier, is based on the argument that only uses of a sign that indicate the source of goods or services are capable of causing confusion about their commercial origin.”<sup>108</sup> “An action of a potential infringer has to qualify as ‘use’ (Art. 2(3) of the TMA) and has to constitute an act of actionable infringement (Art. 37 of the TMA).”<sup>109</sup> For just that reason, the Urawa District Court held that “use” does not automatically occur when a mark is applied to a product. Rather, such application must also serve to identify and distinguish goods. Therefore, if a shop owner places this mark on a sign advertising the shop, this would constitute “use” under Art. 2 because the mark would be satisfying the function of identifying the goods the shop owner sells. However, passing out leaflets on which only the name of the shop is printed would not constitute “use” under the statute because such conduct would only describe the name of the shop.<sup>110</sup>

#### *b. Trademark Use in Trademark Infringement*

Japanese courts are very concerned about trademarks playing the role of a trademark before they are willing to certify their “use”. Unless it is a mark playing the role of a trademark and fulfilling at least one of the functions a mark is supposed to satisfy, the court will not recognize the mark as anything worth protecting. In the *Continuation School but Family Tutor* case, the court found that consumers identified the source of the defendant’s services based not on the phrase “continuation school but family tutor” but on other marks affixed to each advertisement; such as those indicating the name of the defendant’s cram schools or abbreviation thereof. In conclusion, the court held that the use of the defendant’s marks could not be regarded as genuine use of a trademark (trademark use) and thereby dismissed all of the plaintiff’s claims.<sup>111</sup>

There is no volume requirement for the definition of use. In other words, there is no minimum sales volume necessary to constitute use within the definition of the statute. Although courts do not require a minimum volume of use before they recognize use as a trademark, at least one of the functions of trademarks has to be satisfied, namely, the source identifying function, the quality function, or the advertising function. Unless the owner of the trademark also clearly establishes that at least one

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<sup>108</sup> Ohnishi, *supra* note 38, at 87.

<sup>109</sup> Martin Husovec, *Trademark Use Doctrine in the European Union and Japan*, MARQUETTE INTELL. PROP. L. REV., forthcoming.

<sup>110</sup> *Love Eyeglassed Japan v. Iwao Shoki*, 1394 Hanrei Jiho 144 (Urawa D.C. Jan. 28, 1991). PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 90.

<sup>111</sup> 2008 (Wa) 34852, (Tokyo D.C. Nov. 25, 2010).

of these functions is satisfied, courts will find that use in a trademark sense has not occurred.<sup>112</sup>

If a retailer affixes its own trademark on all of the goods it sells in addition to the marks of the actual manufacturer of those articles, it would constitute use under Art. 2 of the TMA because such conduct would satisfy the quality guarantee function.<sup>113</sup> Likewise, purchasing beverage products in large containers, rebottling and reselling those beverages in smaller containers bearing the same or similar mark, would constitute use because this too raises the guaranteed function of the mark.<sup>114</sup>

In the *Chanel No. 5* case, the court held that,

for a trademark owner to succeed in obtaining an injunction under Art. 36 of the TMA, it is insufficient if the third party's use of a mark merely indicates the goods themselves. Rather, it is necessary that the [the third party] uses the mark to distinguish his goods from another. Furthermore, in determining if the third party has used the mark to distinguish his goods from those of another, all circumstances involved in the sale of the relevant goods must be considered.<sup>115</sup>

## 2. No Trademark Uses

Several categories of non-trademark use have been summarized by the Japanese courts in judicial practice.

### a. Referential Use

Referential use is a typical one. If other merchants besides a trademark registrant or his licensees use the identical or similar trademarks, but the use has no negative effects to the trademark function, it will be unfair to prohibit such use.

When a famous Japanese songwriter, Yosui Inoue, used the plaintiff's registered trademark UNDER THE SUN as the title for his compact disc, the Tokyo District Court held that this was not use of a trademark because such an application did not implicate the function of indicating origin and ownership. That is, use of such a label does not implicate the source of the CD--- a record company.<sup>116</sup>

In the *Brother* case, Brother sued the manufacturer of typewriter ribbons because in various places on its packaging, the defendant placed the words "For Brother", indicating its compatibility with Brother brand typewriters. In a very interesting opinion, the court held for the defendant. The court concluded that this use by the

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<sup>112</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 87.

<sup>113</sup> *KK Valley Entrance v. KK GH3 Romania*, 1923 Hanrei Jiho 92 (Tokyo District Court, Oct. 11, 2005).

<sup>114</sup> *KK Hyponex Japan v. KK Kusa Nursery*, 1522 Hanrei Jiho 139 (Osaka District Court, Feb. 24, 1994).

<sup>115</sup> *Chanel v. KK*, 1457 Hanrei Jiho 137, 140 (Tokyo District Court, Mar. 24, 1993). PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 66.

<sup>116</sup> *Yamanaka v. KK for Life Record*, 1526 Hanrei Jiho 141 (Tokyo District Court, Feb. 22, 1995).

defendant was not a trademark use, but merely a use to accurately indicate that the defendant's products would fit and work with a Brother brand typewriter.<sup>117</sup>

In the "SUNTORY" case, the court ruled that defendant X's act of using the registered trademarks in a comparative advertisement was not use of a trademark and did not violate the TMA because the use of the registered trademark in the comparative advertisement was not for indicating defendant X, but for indicating the plaintiff for the purpose of comparing the defendants' and and Plaintiff's Goods.<sup>118</sup>

*b. Use in Parallel Import*

Trademarks used in parallel import by the importer are identical or similar to the registered trademark held by the registrant in the importing country. If the use here is treated as trademark use, according to Art. 37(i) of the TMA, parallel import is contextually a kind of trademark infringement. But if this is really the case, trademark registrants in the importing country obviously hold the power to stop the importation of the identical or similar goods even without consumer confusion. This result is not the purpose of trademark rights as we have discussed before. If taking likelihood of confusion as the criteria of trademark infringement, parallel import will be resolved easily because of the lack of a likelihood of confusion between domestic goods and imported goods. However, in a Double Identity infringement standard, confusion is not a precondition or defense for infringement.

For example, in the *Parker* case, although advertisement is by definition an act of use under Art. 2(3)(iii) of the TMA, the trademark owner to claim an injunction against such use by third parties has been limited by a decision concerning the parallel importation of goods. This decision defines the function of a trademark as threefold: guaranteeing the quality and origin of the trademarked goods/services, safeguarding the trademark owner's goodwill, and protecting the trademark's marketing value and image. The unauthorized parallel import of trademarked goods does not infringe on any of the above grounds.<sup>119</sup>

In the *Fred Perry* case,<sup>120</sup> the court prescribed three conditions which were needed to be fulfilled for imports of genuine goods in order to not amount to trademark infringement in Japan. First, lawful affixation of the trademark. The trademark must have been lawfully affixed to the parallel imported goods by the foreign brand owner or its licensee. Second, substantially identical origin of goods. The trademark owners (both in the exporting country and in Japan), must be the same either legally or economically. Third, substantially identical quality of goods. The Japanese trademark owner has a right to exercise quality control. Thus, it can be assumed that there is no difference in terms of quality between the imported goods and the Japanese goods. In summary, the Supreme Court relied on the "function theory" of the trademarks and considered that, when these three conditions are met, neither the source function nor quality function is harmed, and thus no trademark infringement exists. Therefore, in

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<sup>117</sup> Brother Mfg. KK v. Aum Electronic KK., 1872 Hanrei Jiho 109 (Tokyo District Court, June 23, 2004). PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 67.

<sup>118</sup> 2007 (Wa) 11899, (Tokyo District Court, Dec. 26, 2008).

<sup>119</sup> Parker, (Osaka District Court, Feb. 27 1970).

<sup>120</sup> 2002 (Ju) 1100, (Osaka High Court, Mar. 29, 2002).

order to prevent parallel imports, it is necessary to prove that the imported goods do not fulfill the above requirements.<sup>121</sup>

In the above parallel import cases, the Japanese courts never clearly took non-trademark use as an excuse to defend parallel importation. Instead, they use the three-function analysis. But the notion of trademark use is to use the symbol for the three functions relevant purpose. If the use of a trademark in parallel imports is not relevant to the three functions of registered trademarks, it implies that such use is not trademark use.

In a trademark use for an exporting purpose case, the court clearly takes non-trademark use as a defense for such trademark use.

In order for a mark to be ‘used’ as intended by the statute, such use must be conduct occurring in Japan. Thus, when a defendant exports products similar to the plaintiff’s and then separately ships labels, wrapping, and specially designed boxes that are similar to the plaintiff’s packaging in which the products will be wrapped and sold in West Germany, ‘use’ under the statute has not occurred because the conduct that occurred in Japan was not the type of use contemplated in Art. 2 of the TMA.<sup>122</sup>

## V. MEASURES TO CURE EXTERNAL INCONSISTENCIES

### *A. Loopholes of Goodwill Protection in the TMA and Remedies*

#### *1. Loopholes of Goodwill Protection in the TMA*

Since the TMA only protects registered trademarks from infringement, goodwill enshrined in unregistered trademarks or non-registrable indications is short of protection in the TMA. For example, before the 1996 amendment, registered trademarks were limited to two-dimensional marks, and before 2015, the so called non-traditional indications had not been able to register as trademarks. But these unregistered or non-registrable indications could have accrued goodwill when they were used in business. It is the loophole of the TMA.

Even for registered trademarks, if their goodwill has spilled over the designated goods or services, or even if registered as a defensive trademark, infringements defined in Art. 37 and Art. 67 of the TMA are not broad enough to protect the “spilled” part of goodwill. This is another loophole of the TMA.

The remedies for these loopholes of the TMA are in the UCPA.

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<sup>121</sup> APAA SPECIAL REPORT IN 2012 TO APAA ANTI-COUNTERFEIT COMMITTEE, APAA JAPAN, available at <http://www.apaaonline.org/pdf/2012/AntiCounterfeitingCommitteeReports2012/3SpecialTopic2012ReportofJapanAntiCounterfeitingCommittee.pdf> (last visited Sept. 7, 2017).

<sup>122</sup> [Party Names Not Provided in Original], 10 Mutaizaisan Hanreishu 18, 25 (Tokyo District Court, Feb. 17, 1978). PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 90.

It is important to remember that UCPA and the TMA are both self-sufficient and complete laws, and, as a result, it is not appropriate to expend too much energy trying to decide which to apply to a legal relationship. Both laws, while differing in the legal perspective, frequently overlap in application. For example, it is not appropriate to imagine that UCPA is applicable only to protection of unregistered marks.<sup>123</sup>

In history, a typical example of a service mark not registrable, but well-known and protected under UCPA, is the *Sapporo ramen* case about a franchise service mark in 1972.<sup>124</sup> “This is the first Japanese court decision which discussed the legal nature of the franchise system. Service marks are as important as trademarks to the franchise system, but their protection must be sought under UCPA, since marks are not registrable as such under the TMA.”<sup>125</sup> Now, this loophole about service marks has been filled up by the 1991 amendment of the TMA.<sup>126</sup>

## 2. Indicating Function Protected By UCPA

When goodwill is accrued on indication (also called trade dress) of goods or services, because of no trademark registration, they cannot be protected as RSUR in the TMA, but instead are protected by UCPA. When deciding whether an indication shall be protected because of goodwill enshrined in it as trade dress, it needs to first determine whether the item has an identification function in the course of business.

In order to exercise a right under Art.1(1)(i) of UCPA[now Art. 2(1)(i)], the indication must be in free circulation and the wrapping or container of the goods must indicate their origin so that confusion can arise. In these circumstances, there is a right to enjoin use by the defendant . . . Generally speaking, an indication capable of positively indicating an origin of goods must have obtained a certain degree of recognition.<sup>127</sup>

In *Gibson Guitar Corporation v. Fernandes, K.K.*,<sup>128</sup> the court denied the ability to identify Gibson's guitar configuration. “The reality, however, is that the consumers recognize Gibson's guitar as one of the many copies and, as such, Gibson's guitar

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<sup>123</sup> Long ago, it was theorized that the Unfair Competition Prevention Law was only applicable to unregistered marks, but nowadays, there are precedents acknowledging overlapping application. Osaka High Court Decision August 27, 1963, Kamin-syu, Vol. 14, No. 8, page 1610, and Tokyo High Court Decision, April 28, 1970, Mutai-syu, Vol. 2, No. 1, page 213 (acknowledging that application of the laws can overlap in precedent and common explanation). Additionally, there are many other cases, including many Supreme Court cases that indirectly support the contention. ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 4, 6.

<sup>124</sup> Hokkoku Shoji K.K. v. Eiko Shoj K.K. and Tsutshui, (Tokyo District Court, Nov. 27, 1972).

<sup>125</sup> Teruo Doi, *Trademark and Unfair Competition Law of Japan*, 1 DIGEST OF COURT DECISIONS, 158 (1980).

<sup>126</sup> An amendment to the trademark law introducing service mark registration was established on April 25, 1991.

<sup>127</sup> Toilette Cleanser, (Tokyo District Court, Sept. 19, 1958), see HEATH & LIU, *supra* note 5, at 89.

<sup>128</sup> Gibson Guitar Corporation v. Fernandes, K.K., 1719 Hanrei Jiho 122 (Tokyo High Ct., Feb. 24, 2000).

configuration does not function to identify a particular source of the goods; rather it now identifies many sources of the particular goods.”

Because in the TMA the legal order of fair competition is constructed upon private right, only right holders or their representatives have the legal authority to trigger legal action for infringement. But in UCPA, the situation is different. “In a case involving infringement of a registered trademark, only the owner and the registered exclusive licensee have a capacity to sue the infringer. Under the UCPA, there is no such restriction, and any person whose interest in business is likely to be harm can sue.”<sup>129</sup>

### 3. Protection for Well-known Indications By UCPA

#### a. Criteria of Well-known

In Art. 2(1)(i) of the UCPA, it is unfair competition when creating confusion with another person’s goods or business by using an indication of goods or business (meaning a name, trade name, Trademark, Mark, container or packaging for goods pertaining to a person’s operations, or any other indication of a person’s goods or business), is identical or similar to another person’s indication of goods or business that is well-known among consumers.<sup>130</sup> We can find out at least three key points in this article. The first one is that indication here is very broad including nearly all the symbols that have the function of indication, which covers the items not included in the TMA. The second one is that the indication protected in this article should be well-known. And the third one is that confusion is needed to be considered as unfair competition.

For the geographical range of “well known”, the requirements in the TMA and UCPA are different. Under Art. 4(1)(x) of the TMA, courts have required concerned indication in nationwide recognition in order to prevent registration. Under UCPA, courts have held local recognition sufficient insofar as the market is geographically distinguishable.<sup>131</sup>

On the other hand, if indications are not well known under the meaning of Art. 2(1)(i) of UCPA, there is not enough goodwill that has accumulated. These indications are not protected under this Article. For example, in the *NuBra* case,<sup>132</sup> regarding the act of creating confusion, the court dismissed the plaintiff’s claim by holding that the configuration of the plaintiff’s product cannot be regarded as a well-known indication of a product because many imitations of the plaintiff’s product were marketed soon after the commencement of the sale of the plaintiff’s product and parallel-imported products of the plaintiff’s product were also on the market.

In the *Dolls-Dolls* case,<sup>133</sup> the key point at issue was whether the dolls manufactured and sold by the respondent became well-known as the claimant’s

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<sup>129</sup> Doi, *supra* note 125, at 196.

<sup>130</sup> UNFAIR COMPETITION PREVENTION ACT (UCPA) IN JAPAN, art. 2(1)(i).

<sup>131</sup> HEATH & LIU, *supra* note 5, at 89.

<sup>132</sup> 2004 (Wa) No.1671, (Osaka District Ct., Mar. 30, 2006).

<sup>133</sup> K.K. Atsumi v. Sakuragi Plastic Kogyo K.K., (Tokyo District Court, June 28, 1974).

products and, therefore, whether the claimant was entitled to protection under UCPA. The Judgment was that it was well recognized among manufacturers of dolls that the source of the dolls in question was the respondent. The claimant failed to establish that the dolls became well-known as the claimant's products, and, hence, the claimant was not entitled to an injunction.<sup>134</sup>

*b. Confusion Needed*

Goodwill under UCPA has no registered trademarks as the "bottle" to protect, therefore, no Double Identity Infringement standard to determine whether infringement happens. Confusion becomes a main standard to measure boundaries of goodwill.

In the *Shell* case,<sup>135</sup> the plaintiff contended: (1) the plaintiff's trade name and its Shell mark had been well-known among the petroleum industry and the consuming public before the defendant company was organized; and (2) the defendant's use of its trade name and mark is likely to cause confusion with the plaintiff's business establishments and activities, and thereby harm the plaintiff's goodwill. The court applied Art. 1(1)(ii) of the UCPA of 1934 (now Art. 2(1)(i) of UCPA) and made the following judgment: (1) The defendant shall take a procedure to cancel its trade name in its commercial registrar at the Omori Branch, Tokyo District Office of the Ministry of Justice; (2) The defendant shall take a procedure to cancel its trade name listed in the telephone directory; (3) The defendant shall not use "sheru", "SHELL" and the mark in its business.<sup>136</sup>

Confusion as a concept under UCPA is not limited to the direct misappropriation of goodwill, but embraces the broad concept of confusion for which some sort of association is deemed sufficient.<sup>137</sup> Thereby, a claim based on unfair competition law no longer has to show any competitive relationship or related field of business between the plaintiff and defendant. It is deemed sufficient that customers may not find a connection between plaintiff and defendant completely unlikely, and the plaintiff's business reputation may suffer as a consequence thereof.<sup>138</sup>

In the *Yashica* case, the defendant used the Yashica trademark for cosmetics. Although there was no real danger of confusion with the camera maker Yashica, the court held that "if such trade mark's function of enabling the public to associate the mark with budget cameras and the power to attract customers, including the effect of promotion as an intangible asset, will diminish."<sup>139</sup> "One could interpret the term 'confusion' in the broad sense as covering associations of sponsorship<sup>140</sup> or business

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<sup>134</sup> Doi, *supra* note 125, at 183.

<sup>135</sup> Shell Oil K.K. v. K.K. Shell Boring, (Tokyo District Court, May 28, 1973).

<sup>136</sup> Doi, *supra* note 125, at 153 – 154.

<sup>137</sup> BELT CLASPS 1993, Tokyo Kanri 1185, (Tokyo District Court, Oct. 25, 1991): confusion in general is not sufficient; confusion has to related to the plaintiff's and defendant's indications or goods, respectively. HEATH & LIU, *supra* note 5, at 91.

<sup>138</sup> This was so held particularly in cases of incompatible use, CHANEL for so called Love hotel (1987); Disney for striptease bar PORNOLAND DISNEY (1984). HEATH & LIU, *supra* note 5, at 92.

<sup>139</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 18.

<sup>140</sup> Wall v. Rolls Royce of America, 4 F.2d 333 (3d Cir. 1925).



connections.”<sup>141</sup> This point of view was confirmed by the Supreme Court in the *Snack Chanel* case,

the current case according to Art. 2(1)(i) of UCPA requires ‘an act causing confusion’, which should be understood to embrace the concept of confusion in the broad sense. Certainly, the defendant’s business both in content and style is different from the business of the plaintiff’s Chanel group. ‘Chanel’ is an extremely well-known indication, and the Chanel group’s enterprises are much diversified. The defendant’s use of his indication according to the facts of this case might indicate to the general consumer that the defendant and the Chanel group are in a close business relationship with each other, or even belong to the same group of enterprises. This may lead to the danger of confusion.<sup>142</sup>

In the HOTEL RITZ case (1997), Kobe District Court (Nov. 25, 1996), both plaintiff and defendant could claim legitimate ownership of the business indication for RITZ hotels. The plaintiff, for hotels in London and Paris, the defendant, for the Hotel Gaufres Ritz in Barcelona. Correctly, however, the court held that to the extent that confusion was concerned, the defendant should be enjoined from using his indication because Japanese customers would associate the name RITZ with the Paris hotel, at the very least due to a well-known movie starring Audrey Hepburn.<sup>143</sup>

### *c. The Coexistence of Two Well Known Indications*

According to UCPA, the same indications enshrined with different goodwill held by different entities can co-exist in the business practice. In an accusation according to UCPA, a defendant has several defenses such as plaintiff’s lack of standing to sue; lack of confusion; better rights; unclean hands and time-bared through inaction. For better rights, the defendant may argue that while the plaintiff’s indication may be well known, so is the defendant’s. The relevant point in time is the commencement of use of the similar mark by the defendant. If the plaintiff’s mark was not well-known at this point in time, the action fails. To go even further, the action will also fail if the defendant can prove that his own indication is well-known at least locally within a certain geographical area.<sup>144</sup> In the HONKETA NABEYA case, the court held that the indication holder had no right to enjoin a defendant from using a confusingly similar indication if the markets of both were neither identical nor adjacent.<sup>145</sup>

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<sup>141</sup> Mitsubishi, 19, Kosai Minshu, 215, (Osaka High Court, Apr. 5, 1966). This theory derives its justification from the specific structure of Japanese Keiretsu groups whose members bear the same name, but operate in different fields of business. HEATH & LIU, *supra* note 5, at 5.

<sup>142</sup> Concerning a fast food restaurant that operated under the name of “Snack Chanel”. HEATH & LIU, *supra* note 5, at 93.

<sup>143</sup> *Id.* at 95.

<sup>144</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 104.

<sup>145</sup> HONKETA NABEYA, (Osaka High Court, 27 Aug. 27, 1963), (adjacent markets denied for Osaka/Kyoto); KATSU’AN, (Tokyo District Court, Mar. 31, 1976), (adjacent markets affirmed for Tokyo/Yokohama). HEATH & LIU, *supra* note 5, at 89.

If UCPA is meant primarily to avoid confusion, then it is quite clear that a well-known indication cannot succeed against one that prior to this has obtained local recognition at least in a particular region. Not only can the proprietor of the well-known indication not prevent use of the indication by the third party, but the latter can even prevent the owner of the well-known indication using it in the area concerned. Again, this is a consequence of the theory that UCPA seeks to protect goodwill.<sup>146</sup>

When an indicative user's goodwill is in conflict with a registered trademark right, under UCPA, the user's goodwill protections will be privileged. In the *Tateyama* case,

a person who owned a well-known trademark called 'Hataserukana Tateyama', which was well known in respect of Japanese sake in Toyama Prefecture, was allowed to enjoin the sale of Japanese sake called 'Echino Tateyama' (a registered trademark) under Art.2(1)(i) of UCPA (Toyama District Court, Report No. 288-8683 dated August 12, 1996).<sup>147</sup>

#### 4. Protection for Famous Indications By UCPA

##### a. Special Protections for Famous Indications

For famous indications protection, Art. 2(1)(ii) of UCPA prohibits "the act of using as one's own an indication identical with or similar to another party's famous indication of goods, or the act of transferring, dealing in, importing or exporting goods using such as indication." The "famous" indication here would require recognition throughout Japan, rather than local recognition only. Yet, it is unclear if the protection also protects internationally well-known marks that have obtained only limited recognition in Japan.<sup>148</sup>

For protection of famous indications in Art. 2(1)(ii) of UCPA, whether registered or not, no confusion is required, which is different from the requirement of well-known indications protected in Art. 2(1)(i) of UCPA. Some scholars believe special protection for famous indications complies with the prevention of misappropriation of commercial achievements. This means that because of the tremendous goodwill accumulated in famous indications, protection for them shall be stronger, and the public shall have the obligation of caution to avoid misappropriation of this goodwill. This trend of strong protection for famous indications is reflected in trademark laws as a concept of anti-dilution, first created in the U.S.

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<sup>146</sup> Jet Slim Cline, (Tokyo High Court, July, 1991); HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 148.

<sup>147</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 4, 9.

<sup>148</sup> Scholars' opinions are different, Tsuneyuki Yamamoto considered taking foreign recognition into account, but Ono did not think in the same way. For example, a turban manufacturer that may be extremely well reputed and widely known in Arab countries and even Indonesia, but has basically no business in Japan. HEATH & LIU, *supra* note 5, at 94.

The justification of giving stronger protection against dilution, explained by Schechter, was that the uniqueness of the trade mark should be protected because ‘the value of the modern trademark lies in its selling power’, originating from the uniqueness and /or individuality of the mark, which was a vehicle of the creation and retention of custom, and it is of paramount interest to the trade mark owner.<sup>149</sup>

Trademark dilution can be normatively defined as a right awarded to the holders of famous trademarks to prevent the use of the same or similar marks on non-competing goods or services.

Courts in Japan frequently engage in protecting trademarks even without a showing of competition between the parties. They do this by calling it “confusion in the broad sense of the term”. Japanese courts generally approach confusion as narrow confusion and wide confusion. That is, Japanese courts consider narrow confusion to be when two parties are in direct competition. Confusion in the wider sense of the term is used to prevent conduct that may also be prevented under a dilution rationale.<sup>150</sup> Japanese commentators conclude that trademark laws include the right to protect even a mark’s social function. Because trademark rights include the publicity or advertising function, conduct that weakens the personality, distinctiveness, or dilutes the product identity, should be an infringement of the trademark’s rights.<sup>151</sup>

#### *b. Anti-Dilution in Japanese Laws*

The two provisions of UCPA that courts have used to address trademark dilution are Art. 2(1)(i) and Art. 2(1)(ii). Under Art. 2(1)(ii) of UCPA, to establish “dilution,” the plaintiff must establish the following: (1) Use of the plaintiff’s goods or other appellation; (2) the plaintiff’s appellation is famous; (3) the defendant’s appellation is the same or similar to the plaintiff’s. Although there may be some narrow exceptions, it seems safe to say that essentially, nationwide fame is required.<sup>152</sup>

There have been very few cases dealing with dilution in Japan. This is likely due to multiple factors. First, there are probably more cases than those that get reported, but even so, that number is likely negligible. Second, the statute is very vague and does not even use the word “dilution”, thus it does not provide Japan’s judges with much guidance. Third, the defensive trademark system, underutilized as it is, provides an alternative to dilution protection. Fourth, the theoretical understanding of trademark law renders dilution claims superfluous.<sup>153</sup>

In the case of dissimilarity of goods/services, the courts have granted remedies on the basis that dilution of a mark can be regarded as confusion in the broad sense.

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<sup>149</sup> ONISHI, *supra* note 56, at 12.

<sup>150</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 183.

<sup>151</sup> MAKOTO AMINO, SHOYO (TRADEMARKS), 3 – 4 (1995); Kenneth L. Port, *Protection of Famous Trademarks in Japan and the United States*, 15 WISCONSIN INT’L L. J. 2 (1996).

<sup>152</sup> *Id.* at 166.

<sup>153</sup> *Id.* at 178.

The use of the term Yashica cosmetics dilutes the image of the mark 'Yashica' developed by the Yashica camera Co., weakens its association with their cameras and thus undermines the trade mark's function of reminding the public of value-for-money Yashica cameras, thereby reducing its attraction to customers and diminishing its value as an intangible asset.<sup>154</sup>

In the *Mitsubishi* case, the court accepted the plaintiff's claim by holding as follows: The "Mitsubishi" part of the defendant's trademark gives a strong, dominant impression as a mark to distinguish the defendant's business, and any viewer of the defendant's trade name would perceive the "Mitsubishi" part as standing alone. The same may be said about the defendant's indication of business, in other words, any viewer of the defendant's indication of business would perceive the "Mitsubishi" part as standing alone. Since the defendant's indication of business is identical to the famous mark "Mitsubishi", which is used as the plaintiff's indication of business, in terms of pronunciation and concept, the defendant's indication of business, etc. may be considered to be similar to the plaintiff's indication of business. There is no sufficient evidence to recognize that the defendant had been using the defendant's indication of business, etc. since it was before the plaintiff's indication of business became famous.<sup>155</sup>

*c. Goodwill Protection in Comparative Advertisement*

The attitude of trademark protection in comparative advertisements is a touchstone for Japan's famous trademark protection in practice. Because in comparative advertisements famous trademarks are used as comparative targets, in most cases, if taking confusion as a requirement for trademark infringement, comparative advertisements can pass through the test with high possibility. But if taking the misappropriation of a famous trademark is a standard of unfair competition, it is hard to predict that comparative advertisement can pass through such a test. The ideology of misappropriation of commercial achievements makes legitimated comparative advertisement very difficult. For example, in cases of perfumes, cigarettes and other luxury items, recognition is often not based on product qualities, but on marketing images. In such cases, an objective comparison, even if targeted at the objective qualities of the product, is unfair misappropriation, because the product is not bought primarily for its qualities.<sup>156</sup> Even if T-shirts bearing the indication "Chanel" are not understood as bearing an indication of origin, the use is prohibited under unfair competition law, because it entails an unfair appropriation of goodwill. But when model racing cars are sold bearing all the logos of sponsors, it would be a legitimate defense to point out that a realistic copy would require putting some of these sponsors on the car.<sup>157</sup>

For example, in one case decided in 1980, the defendant had offered a number of perfumes which according to its advertisements, matched the fragrances of famous

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<sup>154</sup> Yashica, (Tokyo District Ct., 1966); HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 100.

<sup>155</sup> 2013 (Wa) 18129, (Tokyo District Ct., Dec. 19, 2013).

<sup>156</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 149.

<sup>157</sup> *Id.*

foreign perfumes such as Sweet Lover, Miss Dior, Joy, Nina Ricci, and Chanel No. 5. The action by Chanel based on unfair competition law failed because there was not a sufficient risk of confusion. The appeal was unsuccessful, as the court held that a passing-off action had to show at least a minimal degree of confusion. On the other hand, an action brought against fragrance sticks being sold under the slogan, “if you like the fragrance of Chanel No. 5, you’ ll love Cinq,” was held confusing and thus impermissible.<sup>158</sup>

According to UCPA, it is arguable that only acts qualified as unfair should give rise to an action. On the other hand, acts of fair use such as using indication in order to indicate compatibility, (particularly of spare parts and accessories,) should be permissible. It should also be permissible to use such an indication by way of comparative advertising. This, at least, was the intention of Parliament when debating the amendment.<sup>159</sup> Because UCPA takes goodwill as a legal interest to protect, the use of well-known indications as a reference is allowed if there is no danger of confusion and no misappropriation, dilution, or tarnishment of goodwill. “It is quite clear then that the information on compatibility must be a matter of legitimate business interest, and not a free ride.”<sup>160</sup> The TMA as a subsidiary legislation to the Anti-Monopoly Act is enforced by the Fair Trade Commission. Art. 4 of the TMA prohibits the use of “indications that may be misleading for consumers in regard to quality, price or other essential qualities of goods or services.” Comparative advertising per se is not prohibited under Art. 4, as the Fair Trade Commission clarified in a legal opinion on comparative advertising published in 1987.<sup>161</sup>

## *B. Prevention of Trademark Rights Abuses by Civil Code*

### *1. The Institutional Function of Trademark Rights Abuse Doctrine*

#### *a. The Legal Basis for Trademark Rights Abuse Doctrine*

No provisions about prevention of abuse of trademark rights can be found in the TMA. Before the amendment of UCPA in 1994, Art. 6 exempted the lawful exercise of an intellectual property right from its provisions. In all but one case, however, a court denied application of this provision due to an “abuse of right”.<sup>162</sup> The provision has been repealed and can no longer serve as a defense.

Although the first Japanese Civil Code in 1896 did not have a provision regarding abuse of rights, abuse of rights became judicially recognized in 1917,<sup>163</sup> and was seen as an important part of the judiciary’s general lexicon, rather than trademark

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<sup>158</sup> TYPE CHANEL NO.5 (1995), (Tokyo District Court, Mar. 24, 1993), here the action was based on trade mark law.

<sup>159</sup> HEATH & LIU, *supra* note 5, at 95.

<sup>160</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 148.

<sup>161</sup> LEGAL OPINION OF THE FAIR TRADE COMMISSION ON COMPARATIVE ADVERTISING (Apr. 12, 1987).

<sup>162</sup> HEATH, THE SYSTEM OF UNFAIR COMPETITION PREVENTION IN JAPAN, at 57.

<sup>163</sup> See PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 69.

jurisprudence. After World War II, the Civil Code was specifically amended to prohibit the abuse of rights.<sup>164</sup> Since trademark rights are private rights, this provision was also applied as an external restraint for the abuse of trademark rights. Additionally, the Constitution reads as follows: “The freedom and rights guaranteed to the people by this Constitution shall be maintained by the constant endeavor of the people, who shall refrain from any abuse of these freedoms and rights and shall always be responsible for utilizing them for the public welfare.”<sup>165</sup> This provides a constitutional foundation for the abuse of rights doctrine.

*b. The Institutional Function of Trademark Rights Abuse Doctrine*

The trademark rights abuse doctrine is a legal instrument in Japan to restrain and adjust RSUR that is implemented beyond reasonable expectation by legislators, which allows a court to obviate a specific statutory right if, in its judgment, the exercise of that right seems unjust.

[I]n general, even if there are no grounds for invalidation of a registered trademark found under Art. 46(1) of the TMA, the enforcement of the trademark right could be considered as an impermissible abuse of right when such enforcement could hinder fair competition from an objective point of view, and if certain inequitable aspects are found in terms of the background and purpose of the acquisition of the registered trademark and the manner of exercising the trademark right.<sup>166</sup>

However, it is truly difficult to determine and predict when the doctrine will be applied by a Japanese court and there does not appear to be any multi-factored test or other predicable mechanism to determine when the doctrine should apply.<sup>167</sup> The discretion and uncertainty of the abuse of rights doctrine related to trademark rights is the consequence of the ambiguity of goodwill squeezed out by statutorily registered trademark rights. As we have discussed in the beginning of this paper, the institutional function of a registered trademark is to transform ambiguous goodwill into a statutory right; from protection of “water” to protection of the “bottle”. But the “bottle” does not always perfectly comply with the “water” inside. The trademark rights abuse doctrine functions to deal with any unpredicted marginal errors between them. Therefore, understanding and judicial implementation of this doctrine is unavoidably ambiguous and flexible at times. As a general rule, if any use of trademark rights is a betrayal of its purpose, especially its three functions, it is highly considered as an abuse of rights in Japanese judicial practice, which can be found in the summarized types of abuses of the trademark rights below. In short, this doctrine has proven widely applicable to prevent a wide variety of conduct by actual trademark registration owners that would “abuse the social nature of rights”.<sup>168</sup>

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<sup>164</sup> J.P. CIVIL CODE, no. 222, art. 1. ¶ 2. “The abuse of rights is not permitted.”

<sup>165</sup> J.P. CONST. art. 12.

<sup>166</sup> 2003 (Wa) No.16505, 2004 (Wa) No.10154, (Tokyo Disctrit Ct., Oct. 11, 2005).

<sup>167</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 73.

<sup>168</sup> *Id.* at 72.

## 2. *The Typical Examples of Abuses of RSUR*

### a. *Abuse of RSUR with Illicit Purpose*

Trademark rights as private rights are purposely for protecting rights holder's goodwill. However, if rights holders manipulate trademark rights for unfair benefits that betray this purpose, they will be restrained by the trademark rights abuse doctrine derived from Art. 1 of Civil Code (even if it is superficially legitimated according to the TMA).

For example, Japanese courts have used this doctrine to prevent large corporations from purchasing trademark registrations that are the same or similar to their competitors' marks, and then suing their competitors for trademark infringement.<sup>169</sup> This doctrine is also used to prevent trademark owners who consent or acquiesce to the use of their registered trademark by a third party from suddenly reappearing and suing the third party for an injunction when, through the third party's use, the mark had become widely recognized.<sup>170</sup>

In the *UCC Coffee* case,<sup>171</sup> the plaintiff UCC was a large and widely recognized coffee producer. It got in a tiff with a smaller, regional coffee producer known as DCC coffee. When UCC coffee realized that DCC coffee never registered their trademark, UCC coffee registered the mark "DCC" and sued DCC coffee for trademark infringement. Contextual meaning of Art. 18 of the TMA seems to allow for this type of conduct. After all, it says that the first entity to register the trademark is considered that trademark right owner. UCC Coffee registered it first, therefore, it ought to own the mark. Rather than invalidating the registration, the court found that UCC might have a valid trademark because DCC had not made the mark well-known in its years of use, but that allowing them to assert this right in this way against DCC would be an abuse of that right.<sup>172</sup>

### b. *Abuse of RSUR for Market Exclusion*

Japanese courts in some cases use the trademark rights abuse doctrine to prevent manipulation of the RSUR for market exclusion purposes.

For example, in the *PEOPLE's* case, a sudden request for an injunction was filed by the plaintiff against the defendants' use of the marks, which had been implicitly allowed by the plaintiff. The court regarded such a request for an injunction as an unacceptable abuse of right that ran contrary to the purpose of the TMA to promote an objectively fair competitive environment. Consequently, the court dismissed plaintiff's claim.

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<sup>169</sup> UCC v. DCC, 499 HENREI TIMES 211 (Hiroshima District Court, Sept. 30, 1982). See PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 72.

<sup>170</sup> KK Baikado Headquarters v. KK Baikado, 407 Hanrei Jiho 34 (Osaka High Court, Jan. 22, 1965).

<sup>171</sup> UCC v. DCC, 499 HENREI TIMES 211 (Hiroshima District Court, Sept. 30, 1982).

<sup>172</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 71.

In the *Uehara Masaki* case, while a master of the Japanese harp had obtained a trademark right for the trademark “Uehara Masaki” as his stage name, one of the survivors of the master made a claim, based on said trademark right, for an injunction against another survivor's use of a mark that is similar to said trademark, but the court dismissed said claim as an abuse of right.<sup>173</sup>

*c. Abuse of RSUR for Unfair Profit*

The abuse of trademark rights may also arise when there are two users of the same or similar registered trademark on different goods. When one mark becomes well known, the other party whose mark did not become well-known could take economic advantages of the resulting association that consumer may make. This is precisely what happened in the *Elle* case.<sup>174</sup> In this case, the plaintiff had registered ELLE as its mark for use on or in connection with fashion accessories. Defendant (and its licensee) had five registrations for ELLE CLUB. However, ELLE became well-known and the court found that allowing defendants to use the mark resulted in an abuse of right in favor of the defendant. The court resolved the issue by clearly delineating the use of the marks on specific goods between the parties.<sup>175</sup>

In this case, the defendant, as a registered trademark rights holder, should have the right to use the registered trademark as stipulated in Art. 18 of the TMA. However, such use is actually use of the “bottle” to occupy and freeride the plaintiff's goodwill. The use of “bottle” has been beyond the purpose of protecting three functions of registered trademarks. There is no remedy in the TMA itself to cure this inconsistency. Therefore, the trademark rights abuse doctrine derived from Art. 1 of the Civil Code becomes the remedy for this external inconsistency.

*d. Abuse of RSUR in Parallel Imports*

As we have discussed before, legitimacy of trademark use in parallel imports is a difficult issue for the Japanese judiciary in legal practice because the use could be considered a contextual infringement of trademark rights by the Double Identity Infringement Standard, but should be legalized according to business policy and trademark rights notion. Therefore, the Japanese judiciary needs to find escape gates for trademark use in parallel imports. One escape gate in the TMA itself is to sometimes legalize parallel imports, i.e. non-trademark use. But besides non-trademark use in the TMA, the trademark rights abuse doctrine is arguably suggested by some scholars as an escape gate as well.

For example, in *K.K. Asahi v. Asahi Tsusho K.K.* of 1973,<sup>176</sup> a Japanese importer who registered an Italian manufacturer's trademark in its own name, could enjoin importation of genuine trademarked goods by another importer.<sup>177</sup> Professor Teruo Doi

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<sup>173</sup> 2008 (Wa) 3023, (Tokyo Dist. Ct., Mar. 12, 2009).

<sup>174</sup> *Ashetto v. Deco Japan*, 1678 Hanrei Jiho 139 (Tokyo District Court, Nov, 27, 2000).

<sup>175</sup> PORT, TRADEMARK AND UNFAIR COMPETITION LAW AND POLICY IN JAPAN, at 72.

<sup>176</sup> Judgment of the Tokyo District Court, August 31, 1973.

<sup>177</sup> Excerption from Doi, *supra* note 125, at 89 – 99.



criticized the judgment saying, “this case demonstrates how the registration system under the TMA is abused.” And he argued that “it should be noted that a foreign manufacturer whose goods have been imported into Japan and whose trademark has become well-known in Japan may claim that he is entitled to a continuous use of his trademark despite registration by a Japanese firm under Art. 32 of the TMA.”<sup>178</sup>

## VI. CONCLUSION

For efficiency purposes, Japan’s trademark law adopts the RSUR system instead of the RSUU system, but this system brings about inconsistencies with the purpose of trademark law in some situations. These inconsistencies are the conflicts between goodwill protection, the substantial fairness as the RSUU system, and the preferential efficiency of the RSUR system. The inconsistencies can be categorized into two types: the internal inconsistencies which are mainly resolved in the TMA itself; and the external inconsistencies which are resolved by laws other than the TMA, such as UCPA and Civil Code. By the coordination and collaboration of the TMA, UCPA and Civil Code, Japan’s trademark laws keep a good balance between these two right-generating systems. As Ono said, “Japanese trademark law is considered to be most influenced by English and German trademark laws.”<sup>179</sup> By grasping this big picture of Japan’s trademark laws and overlooking well-known/famous trademark protection in such a macroscopic point of view, we can understand the institutional function of well-known/famous trademark protections more accurately, which will help us to predict which trend Japanese trademarks will develop and what policies could be adopted by courts in a specific case concerning well-known/famous trademark protection.

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<sup>178</sup> *Id.* at 99.

<sup>179</sup> ONO, OVERVIEW OF JAPANESE TRADEMARK LAW, at Ch. 2, 4.