# Trademark Licensing in Japan

*Author blends law and real-world business experience to provide overview of trademark licensing in Japan*

BY DAVID S. GUTTMAN*

While working as a trademark attorney in America, I was frequently puzzled as to what checklist to make and what strategy to adopt in preparing to license my American client's Japanese trademarks to a Japanese user. At times, I wasn't even sure there were any trademark rights to license in Japan, even though several trademark applications were on file and a potential licensee was beating on the door. At other times, it was all too clear that the client had already impetuously agreed to license Japanese trademark rights, but it was not obvious whether the licensed rights belonged more to him than to some Japanese third party with a similar mark in Tokyo or Osaka.



In those days I worked for an American company which had obtained a consulting and trademark use arrangement from a virile but sleepy-eyed U.S. pro wrestler nicknamed the "Silver Sloth." He had let us put his "sloth" totem as a trademark on an exclusive designer line of men's pajamas which were practically jumping off the shelves in North America and Europe. Our company had just filed some trademark applications on the "Silver Sloth" mark in Japan when I received a hurried visit from a well-dressed pair of Japanese executives of Supreme K.K., a rapidly expanding fashion house in Tokyo. "The Japanese love wrestling," said the younger of the two after conferring with this gray-haired mentor, "so we want to put the 'Silver Sloth' to work on clothing in Japan."

Now this being my first big international licensing opportunity, I wanted to consult by phone with our Japanese Patent Attorney, Mr. Tonchi, in Tokyo before agreeing to any licensing scheme. So that evening while the Supreme people were recovering from jet lag at the nearby Merlin Motel, I stayed late a few hours at the office and called Japan for advice.

"Good morning, Mr. Tonchi," I said. "Looks like we're going to get some quick turnover on those new 'Sloth' applications in Japanese trademark Class 17 (Clothing and Bedclothes). Supreme K.K. wants a license of our Japanese trademark rights! Two of their sleepwear experts are checking out the product right now," I crowed.

"Good evening, Guttman-san," Mr. Tonchi replied in his Midwest (Wisconsin University) accent. "I don't want to be a wet blanket, but in Japan a 'trademark right' arises only on registration; this is some years off for those newly filed bedclothes applications. Further you should know that in Japanese the "Sloth" is called "*namakemono*," which is also the famous registered trademark of a giant bed company in Nagoya. Because the Japanese Patent Office has cross-referenced 'bedclothes' in Japanese Class 17 with 'beds' in Japanese Class 20, it's not clear whether your marks will ever go to registration. Unless your client's mark is already 'well known in Japan' for bedclothes, you'd better forget that license for a while," he warned.

Now as it happened, the deal went through anyway because the Supreme people said they urgently needed the "Silver Sloth" to counter a competitor's cute "Koala Bear" campaign. Saying, "We can't hang around three to four years waiting for the 'Silver Sloth' to move to registration," they accepted the risks and took a license anyway, neutralizing the potential conflict with the "Namakemono" bed company by getting that company's participation in a joint sales promotion campaign.

Reflecting on this triumph of marketing horse sense over legal impracticabilities, I resolved to come to Japan to study more about how to license Japanese trademarks, particularly those that are a little inchoate as legal rights. From which studies I am happy to report that if the attorney outside Japan is willing to accept some fundamental adjustments in thinking about trademarks, he can, with the assistance of his Japanese patent attorney and lawyer, achieve an effective licensing program to reach Japan's 120,000,000-person market.

## THE TRADEMARK LAW'S "TRADEMARK"

Say "trademark" and we in Japan have a Pavlovian reflex to reach for a little brown book (red in the English version) containing the Trademark Act. But the Trademark Act has two unfortunate limitations: It defines a "trademark" more narrowly than is the case today in many other countries, and it is only concerned with the grant and enforcement of registration rights in trademarks.

The Trademark Act, Article 2, paragraph 1 at its broadest defines a "mark" as:

> "A character, picture or symbol, or a combination of these, with or without coloring."

The Japanese Patent Office takes the position that the mark is what appears two-dimensionally on the trademark drawing attached to a trademark application. This will no doubt be a disappointment to wine companies planning to register their bottles, candy companies trying to register the distinctive shape of their chocolate bars, and radio broadcasters hoping to register their identifying

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leitmotif, let alone those who sell their trademark as a doll. Many trademark activists believe that the 3-D Trademark Liberation Movement, which began in the United States with the 1958 federal registration of the shape of the Haig & Haig "Pinch Bottle," arose out of a genuine business necessity to protect contemporary indications of quality and source. To such 3-D activists the present Japanese Trademark Act is an antiquated flatland that needs to be supplemented by protection from other Japanese Laws, such as the Unfair Competition Prevention Act, the Design Registration Act, and the Japanese Copyright Act.

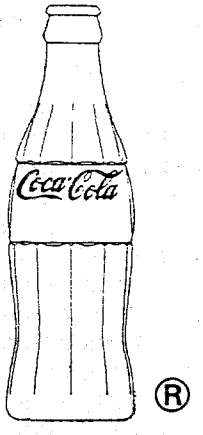


**FIGURE 1**
*Japanese Associate Trademark Registration 410,180 (1952) of The Coca-Cola Company.*

Interestingly, since it is conventionally possible to register a two-dimensional picture of a three-dimensional object as a trademark, some trademark pioneers have applied for and registered such pictures as shown by The Coca-Cola Company's famous 1952 Japanese Trademark Registration 410,180 in Figure 1. The perspicacious reader will wonder how there will be a meeting of minds between 3-D registrant and 23-D Patent Office about proof of the use in Japan necessary to support renewal of such a registration. The answer seems to be that if the registrant is flexible and also uses his mark two-dimensionally as a symbol on tags or wrappings or in advertising of his product, such conventional two-dimensional use can be submitted as trademark use, even if in his heart of hearts the registrant regards his Japanese trademark as three-dimensional. Or the trademark owner can make sure that his two-dimensional picture for registration incorporates some earlier ordinary mark already registered by him in Japan. Then the new picture application can be registered as an Associate Registration to the earlier one so that use of the earlier registration's ordinary mark inures as use to the new Associate Picture Registration, as permitted by Trademark Act, Article 19, paragraph 2, item 2. As can be seen from Figure 1, the registrant The Coca-Cola Company thoughtfully put its earlier 1919 registered "COCA-COLA" word mark on the bottle so as to be able to register its bottle picture as such an Associate Registration.

Returning to the definitions of Trademark Act, Article 2, paragraph 1, a "trademark" is defined as:

> "A mark which a person who makes, processes, certifies, or transfers goods as a business uses in connection with goods."

Because a trademark as defined by the statue must be used "in connection with goods," those businesses not having any connection with goods will not have a chance to use their marks as trademarks. This fact, and the absence of specific provisions for "servicemark" registration, has given rise to the general feeling that "services" cannot register their marks in Japan. However, a close reading of the act shows that if a business performs certain acts with respect to goods, such as processing, certifying or transferring such goods, it may regard the mark it uses in connection with those goods as a "trademark" in Japan, regardless of whether some other country would, under its laws, classify the business of the user of the mark as a "service."

In other words, the Japanese statute is "goods centered," but does not specifically distinguish between various businesses as "service" and "non-service." It only requires that a trademark applicant perform any one of the certain broadly designated acts as a business to goods in connection with which he uses his mark. Even so, the absence of servicemark registration under the Trademark Act is bound to bar many users of marks from obtaining registration to protect their business, in which case the licensor of such an unregistered Japanese mark will have to look beyond the Trademark Act for definition and protection of his rights in the mark.

Up to now we have been talking about what a trademark applicant has to do to *goods* to qualify for consideration as a user of a "trademark" with respect to those goods. But now, if we turn our attention to what he must do with his *mark* to be considered as "using" the trademark, we find broad definitions of trademark "use" by the Trademark Act, Article 2, paragraph 3:

> (1) Applying the mark to the goods or their packaging;
> (2) With respect to the goods, if they or their packaging bear the mark, assigning or delivering the goods or displaying or importing them for the purpose of assigning or delivering them;
> (3) Displaying or distributing advertisements, price lists, or other business papers for dealing in the goods if these advertisements, price lists or business papers bear the mark.



## TM REGISTRATION RIGHT GENERALLY

Assuming that a person is using a mark on goods in a way complying with all the above statutory definitions, then we can say that the mark is a "trademark" within the meaning of the Trademark Act and the use is a "trademark use" as defined by the act. Now at this point we haven't said anything about whether the person in question has the right to use the mark on the goods concerned, nor do we know if he can exclude others from so using the trademark. In fact, it is the specific purpose of the Trademark Act to deal with these two matters by granting trademark registrations on the first-to-file basis. Each trademark registration confers the *registration right* to:

1. Use the trademark as registered on the goods listed in the registration. Trademark Act, Article 25.

2. Exclude others from using the trademark as registered on the goods listed in the registration, Trademark Act, Article 37, as well as claim damages for unauthorized use as a tort under the Civil Code, Article 709.

3. Exclude others from using a trademark *similar* to the registered trademark on the goods listed in the registration or on *similar* goods, as well as claim damages for unauthorized use as a tort. Trademark Act, Article 37, paragraph 1.

From a licensing standpoint, the interesting thing about the Japanese registration right is that the registrant's right to exclude others is broader than his own right to use the registered mark. In effect, each registrant has been given only a very narrowly defined core right to use the trademark shown in the registration on the listed goods, but this core right is safeguarded by enclosing it in a broad protective safety zone from which the registrant can chase intruders.

It follows that in many cases a registrant's "right to exclude" will be more far reaching and valuable than his "right to use." To give a simple example, suppose a small Japanese musical instrument company has obtained a classwide Japanese Class 24 trademark registration for the word "SU-TA-A" (in Japanese Katakana Script) which it actually uses in a desultory manner on jew's-harps. When the giant "STERN" record company of West Germany tries to sell its records in Japan, it will find that it cannot do so without infringing the Japanese company's registration. This is because records are also in Japanese Class 24 and both the word "SU-TA-A" and the German word "STERN" mean "star," so that the marks are similar in idea.



Note that even though the Japanese company does *not* have a right to use "STERN" (its right to use is only confirmed for the "SU-TA-A" of its registration), it *does* have a right to stop the Germany company from using "STERN." However, it probably has enhanced its chances of obtaining a Japanese trademark registration of "STERN," since it has removed one blocking registration and will be able to apply for "STERN" as an Associate Registration to an existing registration.

This example also illustrates why, even though a trademark registration is *not* required for trademark use in Japan by the Trademark Act, most companies will feel compelled to obtain a trademark registration to acquire a positive right to use the mark registered. Without a registration there are usually just too many registrants of prior marks who might someday complain that one's unregistered mark is an infringement of their right to exclude similar marks on similar goods.

## NONEXCLUSIVE LICENSE OF TM REGISTRATION RIGHT

Only if one has a *registered* trademark can he grant, under the Trademark Act, a recorded nonexclusive license in the mark, or more accurately, the registration right. The Trademark Act has special provisions for recording nonexclusive (Article 31) licenses to use registration rights, but no provisions concerning licenses of unregistered trademark rights.

Presumably, this is because an unregistered trademark is, from the point of view of the Patent Office, if not exactly illegal, not yet approved for use by the Patent Office. Hence, it is thought inconsistent for the Patent Office or the Trademark Law to officially countenance and facilitate licensing and assignment of such unregistered trademarks by providing for them in the recording scheme. But as we shall see, this head-in-the-sand attitude of the Trademark Act has not prevented the licensing and assignment of unregistered trademarks; it has merely caused the licensing and assignments to take place under the general contract provisions of the Civil Code.

Alternatively, if one has a trademark registration, under Article 31 he can grant just a *nonrecorded* nonexclusive license under the registration right, since such nonrecorded licenses are permitted by the Trademark Act.

For registered trademarks, a recorded license of a nonexclusive right to use the trademark conveys to the licensee the right to use the trademark as registered on the goods and for the time period set forth in the license. (The time period of use may not be longer than the current term of the registration). Recording protects the licensee because the registration remains subject to the license even if the owner of the registration assigns the trademark to another; a summary of the recorded nonexclusive license appears as a warning on the computerized trademark certificate (title record) at the Patent Office. Patent Act, Article 99, paragraph 1 (as applied by Trademark Act, Article 31, paragraph 4). But the licensee does not acquire by the recording any right to assign or sublicense without permission of the licensor. (Trademark Act, Article 31, paragraph 3).

Usually the "recorded" license document is quite brief. Most attorneys are familiar with the situation where a very complex Agreement to Assign a trademark registration is negotiated, but to carry out the actual assignment a very brief Assignment is then executed and submitted for recording at the Patent Office. Such a "secondary conveyance" serves to actually transfer the interest granted by the prececdent Agreement to Assign while facilitating processing by the fastidious recording clerks at the Patent Office (who are not attorneys). Similarly with licenses of trademark registrations, the Agreement to License may be very complex, but against the Patent Office Registration the parties may execute and record a relatively simple nonexclusive license, facilitating recording.

In practice, recorded nonexclusive licenses are not popular with licensors. First there is the cost and inconvenience of complying with Patent Office formalities for recording. Further, once granted, the recorded license remains against the registration certificate until the general term provided for in the license expires, unless the licensee agrees to give written consent to cancel the license or a court orders its cancellation. Therefore, nonrecorded nonexclusive licenses of registration rights are more popular than recorded licenses since they can be oral or written and more easily altered or cancelled by notice. Unlike recorded licenses, nonrecorded licenses do not run with the registration if it is assigned by the licensor: Such a license is personal to the licensor, though he may be liable for a contract breach for failing to meet his contractual obligations.

Concerning renewal of the registered trademark, the reader might be concerned that if a nonexclusive license to a Japanese party is not recorded at the Patent Office,

at renewal time it will be impossible to rely on the Japanese licensee's use as proof of use in Japan to support the Renewal application. Not to worry: Since nonrecorded licenses are sanctioned by Trademark Act, Article 31, the renewal window at the Patent Office does not require that a license be recorded for the licensee's use to insure to the benefit of the registrant under Trademark Act, Article 19, paragraph 2, item 2.

Similarly, the Bank of Japan does not inquire as to whether a license of a trademark registration is recorded or not to approve payment of royalties by a Japanese licensee to a foreign owner of the registration.

Therefore, it is generally the licensee who asks for recording of a nonexclusive license to clarify his rights and as notice to third parties, such as any purchaser of registration.

## EXCLUSIVE LICENSE OF TM REGISTRATION RIGHT

For registered trademarks, a recorded exclusive license *(senyo shiyoken)* of the registration right is the King of Trademark Licenses. Such a recorded exclusive license may be limited in time, or in the goods licensed, but within its purview the licensee enjoys both the exclusive right to use the trademark as registered on those goods listed in the registration which have been exclusively licensed him, and the right to sue in his own name to exclude others from using the trademark as registered or a similar mark on the goods of his exclusive license or similar goods. (Trademark Act, Articles 30, 36 & 36). Within the scope of goods of the exclusive license, the Patent Office will not record the license as an *exclusive* license *(senyo shiyoken)*, if the licensor wants to reserve the right to also use the registered trademark on those goods. (However, having successfully recorded an exclusive license with respect to certain goods of the registration, the recorded exclusive licensee can give back to his licensor a nonrecorded, nonexclusive license to use the registered mark for those goods).

Among licenses of registered trademarks, the recorded exclusive license *(senyo shiyoken)* seemed pretty special to the drafters of the Japanese Trademark Act since such a license gives the licensee (within the scope of the license) statutory rights (a) to exclude even the trademark registrant (licensor) from use of the mark, and (b) to sue infringers in his (the licensee's) own name independent of the trademark registrant's right to sue. So the drafters called all other proper licenses of registered marks granted or permitted by the registrant "ordinary licenses" *(tsujo shiyoken)* regardless of their terms.

With respect to registered trademarks, the term "ordinary license" as employed by the statute is then very broad and includes:

1. Any license to use granted or permitted by the trademark registrant but not recorded, whatever its terms.

2. Any license to use which has been recorded but not as a *senyo shiyoken* (recorded exclusive license). Usually this subcategory (b) includes the run-of-the-mill recorded nonexclusive license. But it can also include a license which by its terms is a sole license but does not give the licensee the right (within the scope of the license) to exclude use of the mark by the trademark registrant (licensor) or is otherwise missing some condition needed for recording as a *senyo shiyoken.*

It follows that until recorded even an "exclusive" license cannot enjoy the special statutory privileges of a *senyo shiyoken.* And not every license that has been recorded is a *senyo shiyoken,* even if the license agreement throws around words like "exclusive," "sole" etc. When in doubt, the trademark specialist should look his Japanese informant in the eye and ask, "Is this a *senyo shiyoken?*"

Possession of even a recorded exclusive license *(senyo shiyoken)* is not the equivalent of being the registration owner. For example, trademark registrations are granted for just 10-year terms, so such licenses cannot be recorded for more than the current term. Only the trademark registrant can apply for renewal of the registration term, and his fresh consent is needed to record a further exclusive license against each renewal term. In addition, the right to apply for associate registrations of similar marks lies with the registration owner, not with his recorded exclusive licensee. Also, assignment or sublicensing of the recorded exclusive license requires fresh permission of the registrant who licensed the mark. Trademark Act, Article 30, paragraph 3 and Patent Act, Article 77, paragraph 4 (as applied by Trademark Act, Article 30, paragraph 4).

As explained above, a nonrecorded exclusive license of a trademark registration will be an "ordinary license" under the Trademark Act. Such an exclusive licensee has no right to sue infringers in his own name or otherwise qualify for the special rights reserved a *recorded* exclusive licensee by the Trademark Act. Furthermore, the exclusive right granted runs personally from the licensor and does not encumber the registration if the registration is transferred or licensed to another by the trademark registrant.



### Sublicensing

Regarding sublicensing rights, neither the recorded nor nonrecorded exclusive licensee would be assumed to have sublicensing rights absent a specific provision in the licensing agreement. However, the licensor having vested so much exclusive power in Japan with respect to a registration in an exclusive licensee, it would not be too surprising if the business executives of other companies came to regard such a Japanese licensee as also capable of entering in sublicensing arrangements, even if this is not the case. On the part of the exclusive licensee, there is a tendency for businessmen to feel that having paid for the exclusive right to use the registered trademark on all or a portion of the goods of the registration, the recorded exclusive licensee should be able to make whatever arrangements are necessary in a business sense to fully exploit the exclusive right, even if these arrangements involve authorizing use of the registered mark by other companies. Therefore, if sublicensing is not to be permitted to an exclusive licensee, it is preferable for the license to explicitly prohibit sublicensing as a clear notice to the exclusive licensee.

For pending trademark *applications,* exclusive licenses of a registration later issuing on the application have a special role to play in coping with a Final Rejection based on the applicant's trademark being similar to another's prior registered mark.

In Japan a Letter of Consent from the prior registrant cannot be used to overcome such rejections, apparently on the theory that the Patent Office, not the prior registrant, can best decide whether the proposed registration would be detrimental to the public by causing confusion with the prior registered mark. Since amendments of the proposed trademark are also not permitted, to obtain registration the trademark applicant will have to purchase the cited registration or obtain its cancellation or abandonment, in whole or in part, so as to remove the conflict with his application.

Where this cannot be done, the applicant still has the option of assigning his application to the owner of the cited prior registration. The prior registrant can then register the mark in Association with his prior registration (Parent Registration). When the Associate Registration has come into being, while it cannot be assigned separate from the Parent Registration (Trademark Act, Article 24, paragraph 2), it may be exclusively licensed, with or without recording, to the originally blocked applicant. As stated previously, a recorded exclusive license even permits the exclusive licensee to sue for infringement in his own name, so that such a license is, under the circumstances, a fairly good resolution of the problem of obtaining an effective registration of the blocked mark in Japan.

## RECORDING PROCEDURE

For those only familiar with the recording procedures of the U.S. Patent Office, the recording procedure at the Japanese Patent Office has two striking differences:



1. When recording a bilateral transaction (e.g., assignor—assignee, licensor—licensee), the parties on both sides must participate in the application to record.

2. After the recording, the License Agreement is returned to the parties without a full copy being made available for viewing by the public. However, the public is able to view and make copies of the other portions of the application to record, and, of course, the public has access to an Abstract of the License Agreement recorded against the registration.

To illustrate these differences, let us assume that an American company, Conglomerate Corporation, decides to give a recorded exclusive license *(senyo shiyoken)* of its Japanese Trademark Registration 999,999 to a Japanese company, Supreme K.K. The License Agreement to be recorded at the Patent Office is usually made quite brief. Certainly such a license will only follow a more detailed oral or written agreement, but for recording purposes at the Patent Office this brief instrument is sufficient.

In the United States, either party alone might send in his original copy of an agreement for recording as an instrument relating to rights in the mark, though usually it will be the licensee who does so. But, in Japan both sides of this bilateral agreement must give permission for the recording, one party alone not being sufficient. These parties usually proceed by their attorneys, though for convenience, attorney for one party can act for both if he has a separate power of attorney from each. On the Application to Record among the "attachments" listed is Attachment showing that the Bank of Japan has received Notice and issued approval for the licensing of the registration, since the registration is owned by a foreigner but being licensed to a Japanese company.

Such approval is required by the Foreign Exchange Control Law, though nowadays, except for certain very sensitive fields, such as defense, frontier technologies, and declining industries, such approval is rather automatic, being issued on the day the Notice is received by the Bank of Japan in acceptable form.

Where Notice to the Bank of Japan is required, the Japanese Patent Office encourages compliance by not permitting recording of such a license to go forward until there is proof that the Notice has been made and the Bank has indicated that the proposed license may be executed and implemented.

For completeness about required approvals, we note that following the Bank of Japan's approval, within 30 days of the execution of the license agreement one must also report it as an "international agreement," sending a copy to the Japanese Fair Trade Commission. The Japanese FTC reviews each such international agreement made by a Japanese entity with a foreign party, looking for antitrust problems or other prohibited terms; the FTC will require any changes it deems necessary. Note that since such review takes place after execution by the parties, the Japanese Patent Office is *not* requiring proof of the FTC's approval in order to record a license.

The Notice of Recording is sent by the Patent Office when the recording is completed, at which time the Office also returns the License Agreement that was submitted for recording. At this point, if one were to check the computerized Trademark Register at the Patent Office, the information provided in the application to record would not appear on the computerized certificate of Trademark Registration 999,999.

## LICENSE ARISING FROM PRIOR USE

While the Japanese Trademark Act is basically a first-to-file, rights-only-on-registration system, there are some provisions respecting the equities in favor of a person who, without obtaining registration, has made his mark "well known" in Japan for certain goods. Because of the very strict trademark examination standards being applied by the Japanese Patent Office, and the examination backlog and consequent delay which has built up in recent years, this is not as rare a situation as one might think; in fact at any one time there are a great many "well known" but as yet unregistered trademarks in use in Japan.

To see how this comes about, let us return to the example of the West German Stern Company and its "STERN" mark. Suppose that company enters the Japanese market with its "STERN" records in 1980, simultaneously filing a Japanese trademark application in Japanese Trademark Class 24 to register "STERN" for "records and all other goods in Class 24." Since the scale of its operations in Japan is large, by the fall of 1980 "STERN" has become a well-known trademark for "records" in Japan. But in February 1983 its trademark application is finally rejected because of the examiner's citation of the prior Japanese katakana script mark "SU-TA-A."

If the Stern Company does not appeal the Final Rejection, or if it does appeal but is not able to remove the

cited "SU-TA-A" registration in some way, eventually the Final Rejection will enter into force and the "STERN" trademark application will become abandoned. At that point, the Stern Company will have no rights flowing from its 1980 trademark application whatsoever; it will only have whatever rights it can claim for having used its "STERN" trademark in Japan to the extent that it became "well known" in Japan.

Now let us further posit that in 1982 the French record company "CERN" filed a trademark application in Japanese Class 24, also to register "records and all other goods in Class 24." The French and German companies are rivals and have been supporting a legion of trademark examiners and trademark attorneys around the world because of the similarity of pronunciation of their marks when spoken by the local population of various countries. Having disposed of the earlier 1980 priority "STERN" application by Final Rejection (which we postulate has gone into force causing the application to become abandoned), the Japanese Class 24 Examiner takes up the 1982 "CERN" application and rules that it ought to be published for opposition, so that in August 1983 "CERN" is actually so published. Can the Stern Company file an Opposition based on its earlier use in Japan of the "STERN" mark?

Japanese Trademark Act, Article 4, paragraph 1, item 10 provides for just such a situation, authorizing the examiner to reject an application if it is for:

> "a mark which is similar to a trademark well known among purchasers as indicating certain goods related to another's business, if the application proposes use on the same or similar goods."

Since the "CERN" application was filed in 1982 at a time when the "STERN" trademark was already "well known in Japan" for records, the rejection is applicable if the Examiner agrees that "CERN" is confusingly similar to "STERN." (Trademark aficionados will note the Examiner's fine form in being aware of the "STERN" mark but not himself citing it because the "STERN" application had lapsed and he had no personal knowledge that "STERN" had become widely known in Japan since at least the fall of 1980 for "records." Instead, the Examiner relied on the Publication for Opposition to flush out such nitty-gritty marketplace facts not easily available to the Patent Office trademark examiners.)

But what happens if the "STERN" people fail to notice that "CERN" has been published for opposition and so do not file an Opposition? In that case, the "CERN" application will proceed to registration in 1984, at which time the French company will receive a registration right with respect to "CERN" for all the goods of Japanese Class 24, including "records." Even in such a case, the fact that the Stern Company's "STERN" mark became "Well known in Japan" in the fall of 1980 for "records" will still be of benefit: *By operation of law* it will receive a nonexclusive royalty free license to continue using its mark in spite of the fact that it might otherwise infringe the French company's recently granted "CERN" registration because of similarity of pronunciation by Japanese people and identity of goods. (Trademark Act, Article 32).

The Stern Company will also have the right to file an Invalidity Trial in the Patent Office to invalidate the "CERN" registration because "CERN" ought not to have issued in view of the provisions of Trademark Act, Article 4, paragraph 1, item 10 discussed above (confusingly similar to another's already well-known trademark.) Trademark Act, Article 46, paragraph 1, item 1.

To complete the analysis of the "STERN" hypothetical, we should note that the Trademark Act gives a license to continue use only with respect to trademark registrations issuing on applications filed *after* "STERN" had become well known in Japan. Such licenses to continue use by virtue of prior use are procedurally rather weak since although they arise by operation of law they are not recorded against the later priority trademark registrations to which they pertain. Nor is there a procedure by which one can ask the Patent Office to record such a license.

Also, the *Trademark Act* does not give the Stern Company any right to sue infringers of its well-known mark, that right instead being given by the Unfair Competition Prevention Act. Note that if it sues an infringer under the Unfair Competition Prevention Act, the Stern Company will initially have the burden of establishing that "STERN" was a well-known mark in Japan for "records" at the time of the alleged infringement. By contract, if the Stern Company had a "STERN" trademark registration, regardless of the mark's fame it could instead just sue under the Civil Code, Article 709 for infringement of its registration right in the "STERN" mark, only having to prove the existence of the registration and infringement.

## RIGHTS IN TRADEMARK APPLICATIONS BACKUP PROTECTION



Many trademark licenses concerning Japan will include one or more pending trademark applications, yet the Trademark Act does not regard the applicant's unilateral action of filing a trademark application as sufficient to give any rights to a trademark; in particular, no right to use the trademark or license it to others arises merely because one has filed an application to register the mark. This is because the Patent Office may not approve the application to register, in which case the application will eventually go abandoned and be void of legal effect.

To understand this approach to trademarks, one should think of an application to start selling a new drug filed at the Health Ministry. The Ministry would be aghast to learn that while awaiting approval of his application, the applicant had started selling his new drug to consumers or licensing others to do so. From the Ministry's point of view, filing the application improves the applicant's eventual chances of selling the drug but not his immediate right to do so.

While unlike a new drug, use of an unregistered trademark is not forbidden in Japan, precipitately beginning use of a trademark before a registration has been obtained is frowned upon. It follows that the Trademark Act provides only for assignment and succession to rights in pending applications but does not provide for the applicant's use of licensing to others of the applied for trademark while the application is pending. If the time from application to registration was brief, this might not be a problem, but nowadays many years elapse between filing and registration of even simple cases, during which time some provisional ar-

| Class | Description of Goods | Relative Speed (Months) | Number of Examiners | Backlog before Examination Begins |
|---|---|---|---|---|
| 1 | Chemicals (excluding those belonging to any other group), medicines and drugs, medical accessories | +3 | 11 | 16 months |
| 2 | Fertilizers | +3 | 1 | 16 |
| 3 | Dyestuffs, pigments, paints (excluding insulating paints), printing ink for stencil use), shoe polishes, polishing agents | +9 | 1 | 10 |
| 4 | Soaps (excluding those belonging to medicines and drugs), dentifrices, cosmetics (excluding those belonging to medicines and drugs), perfumes | −6 | 6 | 25 |
| 5 | Fuels, industrial oils, inedible oils and fats, waxes, high quality fatty acid | +3 | 1 | 16 |
| 6 | Metals (excluding sodium, potassium and calcium), ores (excluding those belonging to fuels) | +3 | 3 | 16 |
| 7 | Materials for architecturally or structurally exclusive use, cement, lumber, stone, glass | +3 | 3 | 16 |
| 8 | Firearms, ammunition and shells, gun powder, exclusive firing articles and their auxiliaries, parts and accessories thereof | +12 | 4 | 7 |
| 9 | Industrial machinery and implements, prime movers and implements (excluding motors), pneumatic and hydraulic machinery and implements, office machines and equipments (excluding those belonging to applied electronic machinery and apparatus), other machinery and equipment not belonging to any other group, parts and accessories thereof (excluding those belonging to other groups), machine elements | −9 | 7 | 28 |
| 10 | Physical and chemical apparatus and instruments (excluding those belonging to applied electronic machinery and apparatus), optical apparatus and instruments (excluding those belonging to applied electronic machinery and apparatus), photographic apparatus and instruments, motion picture apparatus and instruments, measuring apparatus and instruments (excluding those belonging to applied electronic machinery and apparatus and electric and magnetic measuring instruments), medical instruments, their parts and accessories (excluding those belonging to other groups), photographic materials | −9 | 4 | 28 |
| 11 | Electrical machinery and implements, electric communication machinery and implements, applied electronic machinery and apparatus (excluding those belonging to medical instruments), electric materials | +2 | 6 | 16 |
| 12 | Transportation equipment, parts and accessories thereof (excluding those belonging to other groups) | −9 | 2 | 28 |
| 13 | Hand cutlery, hand tools, metal fittings (excluding those belonging to other groups) | −9 | 3 | 28 |
| 14 | Raw Fibers | +15 | 1 | 4 |
| 15 | Yarns (excluding sewing thread and fishing line) | +3 | 1 | 16 |
| 16 | Woven fabrics, knittings, felt, other cloths | +9 | 2 | 10 |
| 17 | Clothing (excluding athletic use special apparel), fabric apparel accessories (excluding those belonging to other groups), beddings (excluding beds) | +3 | 13 | 16 |
| 18 | Cords (excluding those belonging to clothings and cords for footwears or athletic goods), ropes (excluding those belonging to athletic goods), nets (excluding those belonging to athletic goods, packing containers) | +9 | 1 | 10 |
| 19 | Kitchen utensils (excluding those belonging to electric machinery and implement, hand cutlery and hand tools), daily goods (excluding those belonging to other groups) | −8 | 3 | 27 |
| 20 | Furniture, matting, fittings, indoor fixtures (excluding calligraphy and paintings and sculpture), outdoor fixture (excluding those belonging to other groups), trophies, mortician or festival goods | 3 | 3 | 22 |
| 21 | Personal outfittings, buttons, bags, pouches, jewels and their imitations, artificial flowers, toilet articles | 3 | 3 | 22 |
| 22 | Footwear (excluding special shoes for athletic use), umbrellas and parasols, canes, their parts and accessories | 8 | 2 | 27 |
| 23 | Timekeepers, glasses, their parts and accessories | | 2 | 28 |
| 24 | Toys, dolls, recreation equipments, sporting goods, fishing tackle, musical instruments, musical performance auxiliary instruments, gramophones (excluding electric phonographs), records, their parts and accessories | +3 | 6 | 16 |
| 25 | Paper, Stationary | +3 | 3 | 16 |
| 26 | Printed matter (excluding those belonging to stationary), paintings and writings, sculpture, photographs, their accessories | +3 | 6 | 16 |
| 27 | Tobacco, smoker's accessories, matches | +3 | 2 | 16 |
| 28 | Liquors (excluding medicated wines) | +3 | 2 | 16 |
| 29 | Tea, coffee, cocoa, soft drinks, fruit juices, ice | +9 | 4 | 10 |
| 30 | Confections, bread | +3 | 8 | 16 |
| 31 | Seasoning, spices, edible oils and fats, milk products | +3 | 3 | 16 |
| 32 | Meats, eggs, edible marine products, vegetables, fruits processed foodstuffs (excluding those belonging to other groups) | −9 | 6 | 28 |
| 33 | Grains, pulses, flour, feedstuffs, seeds, other plants and animals not belonging to other groups | +3 | 3 | 16 |
| 34 | Plastics, rubber, leather, pulps, other basic materials not belonging to other groups | −11 | 1 | 30 |
| | **FOR ALL CLASSES** | **0** | **127 Total** | **19 months (Weighted average)** |



## Figure 2.

*Trademark Examination Backlog by Class as of April 1983*

*Source: Japanese Patent Office Report on latest cases reached for examination, by Class, published June 13, 1983, pp. 117-122.*

rangements must be made among the applicant and other users of marks because of practical business necessity. (See Figure 2 for a listing of the current backlog before a case even reaches the examiner in various classes; to this should be added at least another year for publication and registration of even quickly allowed cases.)

Therefore, as a first step during the pendency of his application the applicant who wants to use or license his mark before registration must search the relevant class to see if such use could be considered infringement of another's prior registered, or soon to be registered, mark. If so, some accommodation with such registrants must be contractually made.

Second, the period while the application is pending is an excellent time to evaluate the applicant's chances of success in view of the prior marks of others and the know predilections of the trademark examiners in that class. If necessary, further applications may have to be filed presenting alternative, more registrable versions of the mark for consideration.

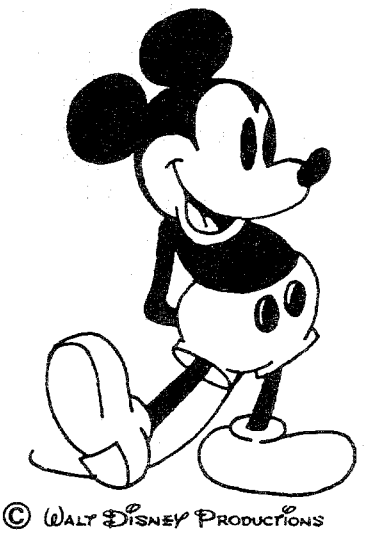


**Figure 3**
*A Famous Licensing Program Based on Copyright*

Third, alternate schemes of "trademark" protection should be considered. If the client has a design mark, such as a cartoon character, parallel protection under the Copyright law should be considered, along with the proper marking (See Figure 3.) If the mark is esthetically pleasing and applied decoratively to the client's goods, perhaps design registrations of the client's product with the mark applied can offer backup protection in case the trademark application is not approved or otherwise deficient in protecting the mark. Then these rights to other forms of protection can also be licensed to others.

The intellectual property approach used by an organization in its home country may not be appropriate for Japan and may have to be altered accordingly. For example, in the United States many famous universities rely on the indulgence of the common law and the U.S. judiciary to protect their symbols and marks without registration. They may not even have a trademark protection program per se. But, by this approach they may be irrevocably losing rights (and licensing revenues) in the enormous Japanese market. Or a publisher or an artist may be relying on his protection, whereas such copyrights along may not be sufficient to deal with potential trademark conflicts in Japan.

One must also investigate to be sure that the subject matter of the license can belong in the same type of industrial property in Japan as in the home country. For example, both Japan and the United States have copyright laws and belong to the Universal Copyright Convention, but the "subject matter" actually copyrightable in the two countries differs somewhat. A product label copyrightable in the U.S. might be considered "noncopyrightable" subject matter in Japan because judged more suitable for Japanese trademark registration. Or a fabric design copyrighted in the U.S. might be considered more appropriate for design registration in Japan because Japanese design law provides a special category for "fabric designs."

There may also be differences in the resulting scope of "counterpart" trademark registrations in different countries. Thus, a U.S. trademark registration for use of a certain mark on a few specified goods (e.g. musical instruments) may have a Japanese counterpart registration covering a much broader variety of licensable goods of the same Japanese trademark class (sports equipment, game sets, musical instruments, records, toys), creating new licensing opportunities in Japan not yet realized in the home country of the mark.

## UNFAIR COMPETITION PREVENTION ACT RIGHTS

Invariably when there is a license or dispute concerning unregistered trademarks, whether because applications are only pending or because the "trademarks" are not of the kind registrable under the Japanese Trademark Act (such as servicemarks, product and package shapes, etc.), the parties turn to the Japanese Unfair Competition Prevention Act. We will not treat that act here in detail, except to call attention to its special limited role in the Japanese industrial property system and licensing of marks.



First, the act is much narrower than its name implies. It is primarily concerned with giving a cause of action against those who cause confusion of merchandise, business or source by using misleading tradenames, trademarks, servicemarks, containers, packaging, labeling, invoices or advertising. But it does not extend to such other traditional areas of Unfair Competition as theft of trade secrets, hiring away another's key employees by unfair means, interference with another's contractual relationships, false disparagement of another's goods, antitrust, etc.

Certainly the scope of "mark" or "indication of origin" under this act is much broader than that of the "Trademark Act," but on the other hand protection is only extended to marks "well known in Japan among purchasers of the product or service concerned," and until this high threshold of recognition is reached the act does not convey any protection.

It follows that anyone licensing in Japan an unregistered, or an unregisterable mark, not yet "well known in Japan," should not assume that there is already some protection under the Unfair Competition Prevention Act against another's later adoption and use

of a similar mark. A corollary to this is that the licensing program should put a premium on finding a Japanese licensee and getting him to quickly engage in activities that will soon make the mark "well known in Japan." Therefore, even if a trademark is famous and licensed at a high royalty in other countries, if it is not yet well known in Japan it is important to license early in Japan and even on very favorable terms so that the mark will quickly also become well known in Japan, creating exclusion rights under the Unfair Competition Statute.

All too often, companies with marks famous outside Japan adopt a policy that, if initial licensing of the mark in Japan is not likely to produce significant revenue, they are not interested in making an effort to introduce their mark to Japan (or even to file trademark applications here). Thus, early opportunities to protect an unregistered or unregistrable mark by means of the Unfair Competition Prevention Act are lost, sometimes with the result that a complete stranger acquires better rights in the mark famous in Japan than the originating company or its eventual Japanese licensee.

In contrast to the Trademark Act, which also creates a positive right *to use* a registered mark on the goods of the registration, the Unfair Competition Prevention Act only gives one whose use of a mark has made it "well known in Japan" the right *to exclude* another's misleading use of a similar mark, etc. Therefore, the only licensable right under the Unfair Competition Prevention Act is a convenant *not to sue* for activities otherwise actionable under the act, or *to sue* third parties for activities actionable under the act if this will help one's licensee. Such a licensor should not go beyond this and guarantee his licensee that he can use a mark unless thorough research has shown that such an assurance is reasonable.

## CONCLUSIONS

1. The scope of "trademark rights" in Japan may be different than in other countries familiar to the non-Japanese trademark expert.
2. "Trademark rights" in Japan are not wholly governed by the Trademark Act; other statutes and rights may be very important to the "trademark protection" scheme of a trademark owner.
3. The Trademark Act's licensing scheme for registered trademarks does not reveal the full range of options available to those licensing trademarks.
4. Where many of an organization's Japanese trademarks are still only in the application stage, it must exercise great caution in determining that such marks are available for use or licensing to others. The application pending period should be a time when by investigation and planning the applicant's chances of successful registration are enhanced.