

# 17 Trademark Act and Consumer Protection with a Focus on a Comparative Study of the Sign Systems in Japan, China, and South Korea<sup>(\*)</sup>

Research Fellow: Risa Ide

*Trademarks are designed to convey information on the source, quality, characteristics, etc., of goods or services (hereinafter referred to as “Goods, etc.”) provided by companies. Other signs indicating the quality and characteristics of Goods, etc., such as the place of origin, ingredients, etc., have been established based on systems and legal provisions that are independent and different from those for trademarks. If both a sign and trademark are affixed to the same goods, or when a sign is incorporated into a trademark as a component, it could cause information asymmetry. We need to start with conducting studies and research on these situations. The issue that requires urgent attention is that the lack of coordination among the current sign systems including the Trademark Act in conveying similar information makes it difficult to meet the needs of companies and consumers. A similar issue exists not only in Japan but also in China and South Korea. In particular, the difference between the trademark system and other sign systems in terms of the theoretical grounds for granting rights has made the trademark system vulnerable. In this research, various cases are analyzed based on the results of an international comparative study. Based on the analysis results, the author proposes a new approach (the theory on the function of dynamic factors from the perspective of information incompleteness on the side of consumers) and tries to give suggestions as to how the Japanese sign systems should be revised, while taking note of the universality of the issue addressed in this report.*

## I Introduction

Trademarks serve the private interest as the properties of private individuals in one respect and serve the public interest as a tool to provide consumers with information on the source, quality, and other characteristics of Goods, etc., in another respect.

This research establishes a theory from the perspective of consumers for the following two reasons. First, an attempt to raise issues from the perspective of consumers would help us identify the issues that avoid notice from the perspective of companies. Second, while this research addresses the issue of the incompleteness of the information caused by signs, the theory on such incompleteness is established from the perspective of consumers, who play an intermediary role.

### 1 Background and Purpose of This Research

This research focuses on the issue of the increasing information asymmetry between consumers, i.e., information recipients, and

companies, i.e., information providers, due to the limited ability of consumers to process information and the limited ability of companies to provide information. The information asymmetry between the two causes the incompleteness of information on the side of consumers. Recently, public interest has been growing over sign systems that are designed to mitigate the incompleteness of information. For example, some food labeling systems have been undergoing reform.<sup>1</sup>

This research has two major purposes. The first purpose is to conduct a fact-finding study based on a basic hypothesis that the protection that needs to be provided under the sign systems including the Trademark Act is qualitatively changed by dynamic factors such as the information, etc., on Goods, etc., that are subject to temporospatial variation. The second purpose is to conduct necessary analyses of relevant cases and to propose a revision of sign systems based on a new approach in order to remedy the problems identified in the study.

### 2 Method and Scope of This Research

(\*) This is an English translation of the summary of the report published under the Industrial Property Research Promotion Project FY2011 entrusted by the Japan Patent Office. IIP is entirely responsible for any errors in expression or description of the translation. When any ambiguity is found in the English translation, the original Japanese text shall be prevailing.

In this research, two working hypotheses were made. The first hypothesis is that a comparative study of the sign systems of multiple countries would reveal the existence of the function of dynamic factors across national boundaries. The second hypothesis is that, while sign systems are expected to perform conventional trademark functions such as the source-indicating function, the quality-guarantee function, and the advertising and publicity function from the perspective of consumers as the recipients of disseminated information (hereinafter referred to as the “System-based Functions”), the System-based Functions could become dysfunctional due to the function of dynamic factors. In this research, in order to reach a conclusion that reflects the reality, I collected relevant literature and also conducted an interview with persons with relevant knowledge and experience, practitioners, staff members of public institutions, etc., in Japan, China, and South Korea.

The scope of this research covers the trademark systems and other quality-related sign systems and relevant court precedents in Japan, China, and South Korea.

### **3 Definitions of Major Terms Used in This Research**

According to the definition of “quality” in goods science, the quality of goods in a broad sense can be divided into the primary quality and the secondary quality depending on the characteristics of quality.<sup>2</sup> The primary quality is defined as “the primarily important quality from the perspective of the purpose of use of the goods. The primary quality is a prerequisite for transformation of materials into goods.”<sup>3</sup> The secondary quality is defined as “the quality that plays a secondary role by increasing the marketability and product value of goods on the basis of the existence of the primary quality. The secondary quality and the primary quality comprise the quality of goods in a broad sense.”<sup>4</sup>

The “incompleteness of information” occurs due to information asymmetry. In economics, information asymmetry is considered to exist between a seller and a buyer with regard to the nature of goods when the seller and the buyer do not share the recognition of the nature of the goods involved in the transaction.<sup>5</sup> It is said that, if information asymmetry exists, the volume of the goods traded in the market could become smaller than the volume that is considered to be

efficient, or the existence of the market itself could become difficult.<sup>6</sup> As far as market transactions are concerned, there is asymmetry between companies and consumers in terms of the quantity and quality of information that they have. Therefore, the information held by consumers is incomplete.

The term “consumers” is defined as general consumers because the issue of trademark-related information asymmetry arises mostly in cases involving general consumers. If trademarks are considered to be a tool for information provision, the information provided by trademarks could be considered to be responsible for the issue of information asymmetry between companies and consumers. In order to focus on the information conveyance function of trademarks, this research gives special attention to general consumers, who are at a great disadvantage against companies in terms of information processing capability, etc., and examines the issue of the protection of the interests of consumers under the Trademark Act. On the other hand, if consumers’ interests are not protected, it would be impossible to protect the interests of consumers including end consumers under the Trademark Act. Based on these grounds, in this research, a theory is developed on the assumption that “consumers” have been replaced with “consumers (end consumers),” who are subject to the consumer protection policy. Article 2, paragraph (1) of the Consumer Contract Act specifies that “The term ‘Consumer’ as used in this Act shall mean individual(s) (however, the same shall not apply in cases where said individual becomes a party to a contract as a business or for the purpose of business).”

One way of solving the problem of information incompleteness is to make companies, which have information, emit signals to indicate quality.<sup>7</sup> Since the recipients of the signals are consumers, signals displayed in the form of marks or indications including trademarks will remedy the information incompleteness on the side of consumers. In order to conduct research on the issues raised by the information incompleteness caused by trademarks, etc., on the side of consumers, it is the most effective to conduct research from the perspective of consumers. The essence of those issues would not be revealed unless research is conducted from the perspective of consumers. This is why this research is conducted from the perspective of consumers.

The “function of dynamic factors” is determined by the conditions, e.g., quality, characteristics, etc., of the goods to which a trademark is affixed (hereinafter referred to as “Trademarked Goods”). While dynamic factors are related to the quality, more specifically the primary quality of Goods, etc., the primary quality has relative, fluid, variable characteristics. Such variable factor causes constant change in the information concerning Goods, etc. In some cases, the difficulty in conveying such changing information through a medium designed for information conveyance causes information asymmetry. This is the case where the function of dynamic factors is at issue. If consumers’ search costs depend on how effectively signs such as trademarks can convey information on Goods, etc., the incomplete information conveyed by trademarks etc., would damage the interests of consumers.

Such problem is especially noticeable in cases where a sign, either implicitly or explicitly, conveys information on the quality and characteristics of Goods, etc. One way of dealing with the function of dynamic factors is to properly conduct inspections and evaluations on the standards, quality, characteristics, etc., of Goods, etc. It would provide companies with a means to clearly indicate quality, which would improve their competitiveness, and would provide consumers with a reliable means to easily choose appropriate goods from among many other qualitatively indistinguishable goods thanks to the quality indication given by authorities and to protect their interests as a result.<sup>8</sup> Typical examples are certification and verification marks and geographical indications. The information concerning the quality, etc., of Goods, etc., conveyed by such signs is different from the information about the quality (the secondary quality) indicated based on the conventional trademark system. If such sign as mentioned above that indicates the primary quality is placed side by side with a trademark, or if such sign is incorporated into a trademark as a component of the trademark, it would become even harder to properly convey information to consumers. For these reasons, this research focuses on various signs indicating the quality and characteristics of Goods, etc., and defines as dynamic factors those factors that cause signs to bring about information incompleteness in market transactions because of the inconsistency between sign systems or any defects in those systems themselves. The action

of these factors is defined as the function of dynamic factors.

## **II Quality-Guarantee Function under the Trademark Law**

### **1 Japan**

The provisions of the Trademark Act of Japan regarding quality include Article 3 (Requirements for trademark registration), paragraph (1), item (iii), Article 4 (Unregistrable trademarks), paragraph (1), item (xvi), the gist of Article 7-2 (Regional collective trademarks), Article 26 (Limitations of effects of trademark right), paragraph (1), item (ii) and (iii), Article 51 (Trial for Rescission of a Trademark Registration), paragraph (1), and Article 53 (Trial for Rescission of a Trademark Registration), paragraph (1).

Regarding the registration of marks indicating quality, the Japan Patent Office presents relevant examination guidelines in Chapter I, Part 5 (the guidelines concerning Article 3, paragraph (1), item (iii) of the Trademark Act) and Chapter III, Part 14 (the guidelines concerning Article 4, paragraph (1), item (xvi) of the Trademark Act) of the revised Examination Guidelines for Trademarks.

From the perspective of economics, protection of the quality-guarantee function of trademarks would guarantee that trademarks will function as the standards for consumers’ product choices and would reduce the product search costs of consumers.<sup>9</sup> In Japan, while there are the theory that denies the quality-guarantee function<sup>10</sup> and the theory that highly values the quality-guarantee function,<sup>11</sup> the commonly accepted theory concerning the quality-guarantee function of trademarks is that “the quality-guarantee function of trademarks is a function that indicates that all of the goods and services bearing the same trademark have the same quality.”<sup>12</sup> Under the Trademark Act, the term “quality” does not mean the objective, physical quality of Goods, etc., and the term “guarantee” does not mean the guaranty of liabilities in the sense that the quality of goods and services is guaranteed and that, if a certain quality standard is not satisfied, the goods would be replaced, or the service would be provided again, or the damages would be paid (even if such guarantee is specified in an agreement, it is not a legal effect of trademarks.) but simply means that consumers can expect that all of the goods and services bearing the same trademark usually have

the same quality.<sup>13</sup>

On the other hand, in the “Fred Perry case,”<sup>14</sup> the Supreme Court cited the legislative purpose of the Trademark Act (Article 1) and held that “the so-called parallel import of genuine goods would not damage the source-indicating function and the quality-guarantee function, which are the functions of trademarks, and would not damage the goodwill of the company that uses the trademark, the interests of consumers, and, should not be considered illegal in practice” and therefore would not constitute trademark infringement. The Supreme Court further held that, in this case,” the limitations on the manufacturing countries and subcontractors imposed by the provisions of the license agreement are important in order to enable the trademark holder to manage the quality of the goods and ensure the full performance of the quality-guarantee function” and that this case may not be regarded as the parallel import of genuine goods and therefore constitute trademark infringement. The Supreme Court found that the quality-guarantee function of trademarks is the function that enables the trademark holders to control the quality of the Trademarked Goods.

## 2 China

In China, the provisions of the Trademark Law regarding quality guarantee include Article 3, paragraph (3) concerning the definition of certification trademarks,<sup>15</sup> Article 7 concerning the trademark user’s liability for the objective quality of goods (the primary quality),<sup>16</sup> Article 10, paragraph (1), item (iv) concerning the reasons for trademark unregistrability,<sup>17</sup> Article 11, paragraph (1), item (ii) concerning the marks unregistrable as trademarks,<sup>18</sup> Article 16, paragraph (2) concerning the definition of geographical signs,<sup>19</sup> Article 39, paragraph (1) concerning the guarantee of the objective quality of the trademarked goods of the trademark assignee,<sup>20</sup> and Article 40, paragraph (1) concerning the objective quality of trademarked goods, more specifically, the obligation of the licensor to supervise the licensee and the obligation of the licensee to guarantee quality.<sup>21</sup> Furthermore, the following laws and regulations were established under Article 3 of the Trademark Law as other sign systems concerning quality guarantee: the Procedures for the Management and Registration of Collective Trademarks and Certification Trademarks, the Anti-unfair Competition Law, the Regulations on Provisions on Recognition and

Protection of Well-known Trademarks, the Product Liability Law, the Food Safety Law, and various legal interpretations, etc., of the Supreme People’s Court of the People’s Republic of China.

Regarding the Trademark Examination Guidelines, the guidelines related to Article 10, paragraph (1), item (iv) are presented in Chapter I, Part 6 of the Guidelines, and the guidelines related to Article 11, paragraph (1), item (iv) are presented in Chapter II, Part 4 of the Guidelines.

According to academic theories, while there are different perspectives, i.e., the perspectives of trademark holders, the purchaser of goods, and consumers, the theories established from the perspective of consumers include the following: the theory stating that trademarks have the function of indicating the quality of the goods,<sup>22</sup> the theory stating that the function of trademarks is limited to enable trademark holders to control the quality of the designated goods, etc., and the important function is to guarantee the quality of the goods,<sup>23</sup> the theory taking a critical stance against the Chinese Trademark Law, whose legislative purpose is to manage and supervise the primary quality, and arguing that said law distorts the quality-guarantee function of trademarks,<sup>24</sup> and the theory arguing that “according to the theory of information science, the legitimacy of trademark rights has a basis in the economic function in the sense that the information conveyed by trademarks reduces the consumption costs, helps consumers make purchase decisions, and encourages companies to improve the quality of goods.”<sup>25</sup> As pointed out by Mr. WEN, the contents of Article 39, paragraph (1) and Article 40, paragraph (1) of the Chinese Trademark Law have been established based on the concept of the primary quality. If either of these provisions is violated, the trademark would be rescinded. The System-based Functions under the Chinese Trademark Law are different from the System-based Functions in Japan, particularly in terms of the quality-guarantee function.

## 3 South Korea

In South Korea, the provisions of the trademark law regarding quality guarantee include Article 2 (Definitions), paragraph (1), item (iii.bis) concerning the definition of geographical indication, item (iv) concerning the definition of certification marks, item (iv.bis) concerning geographical indication certification marks, Article 3ter (Those entitled to obtain registrations of certification marks), Article 6

(Requirements for trademark registration), paragraph (1), item (iii),<sup>26</sup> Article 7 (Unregistrable trademarks), paragraph (1), item (xi),<sup>27</sup> and Article 9 (Application for trademark registration), paragraph (5). Other provisions include Article 51 (Limitations of the effect of a Trademark Right), paragraph (1), item (ii),<sup>28</sup> Article 73 (Trial for the rescission of a registered trademark), paragraph (1), item (ii) concerning misunderstanding and confusion about quality, item (v) concerning misunderstanding and confusion about collective marks, item (vi) concerning the risk of misunderstanding and confusion about quality due to a change in the articles of incorporation at the time of the establishment and registration of a collective mark, item (viii) concerning misunderstanding and confusion about quality among trademark users, item (ix) concerning misunderstanding and confusion about quality among the holders of the right of prior use, item (x) concerning misunderstanding and confusion about quality, etc., caused by a third party's use of a collective mark and the inaction by the holder of the collective mark, item (xii) concerning misunderstanding and confusion about quality caused by homonyms found in geographical indication certification marks used by the holders of collective marks or the members of the organizations, and item (xiii) concerning misunderstanding and confusion about quality, etc., of certification marks.

Regarding the Trademark Examination Guidelines, the guideline related to Article 6, paragraph (1), item (iii) is presented in Article 8 of the Guidelines, and the guideline related to Article 7, paragraph (1), item (xi) is presented in Article 25 of the Guidelines.

In South Korea, other systems concerning quality guarantee include the Unfair Competition Prevention and Trade Secret Protection Act, the Agricultural and Fishery Products Quality Control Act, and the Livestock Product Sanitation and Inspection Act. For example, the Livestock Product Sanitation and Inspection Act, the Food Sanitation Act, the Pharmaceutical Affairs Act, etc., provide a basis for HACCP marks and health functional food marks. International notices on these marks were sent via WIPO on March 31, 2009, under Article 6ter of the Paris Convention. However, there have been trademark registrations of marks that incorporate such mark that symbolizes internationally recognized quality into themselves as a component. The information concerning the primary quality of the Goods, etc., conveyed by these marks functions as a dynamic

factor because such information can easily change. Any sign used as a medium of information is unstable due to the function of dynamic factors. For example, the registered trademark itself could be rescinded. Such signs undergo qualitative changes in terms of the function as an indication of product safety or the System-based Function such as various trademark functions.

In South Korea, the academic theories concerning trademark functions include the following: the theory stating that, while trademarks have three essential functions, i.e., the distinction function to distinguish the trademark holder's products from others, the source-indicating function, and the quality-guarantee function, the quality-guarantee function serves the public interests<sup>29</sup> and the theory stating that the fundamental or basic function of trademarks is the distinction function,<sup>30</sup> and the theory that highly values the quality-guarantee function.<sup>31</sup>

### **III Quality-Guarantee Function of Certification Marks and Verification Marks**

#### **1 Japan**

Regarding the distinctive characteristics of "quality," Mr. Zentaro Kitagawa states that "quality" is relative, fluid, and variable. The important factors that determine the quality are the existence of the purpose of use and the characteristics as a function of temporospatial conditions.<sup>32</sup> He also states that "there are also artificial, socioeconomic factors such as the development of new products thanks to technological innovation, the emergence of unique quality, and the quality reform carried out under a management policy or national policy concerning quality."<sup>33</sup> Since the quality of Goods, etc., is susceptible to temporospatial variation and is also easily influenced by artificial, socioeconomic factors, it is necessary to guarantee the quality of Goods, etc., (system-based guarantee) by certification marks and verification marks under the systems related to certification, verification, etc. For instance, "users and consumers pay attention to whether the JIS mark has been placed only if 'the invisible quality and the invisible capability of a product' are accurately checked and confirmed under strict criteria."<sup>34</sup> It is expected to provide a system-based guarantee in such a way that is most suitable for the characteristics of the quality.

## 2 China

In China, certification marks and verification marks have been gathering public attention. In particular, food safety is an issue that requires urgent improvement. Certification marks and verification marks are expected to perform the function of conveying information to consumers. However, there is a large number of certification marks and verification marks for food quality alone. They often prevent consumers from making free and appropriate consumption choices.

These marks are mostly protected as certification trademarks, which are different from regular trademarks. "First, while regular trademarks are prohibited from indicating the quality or intrinsic capability of goods, the purpose of using a certification trademark is to inform the public of the intrinsic quality of goods. Second, the holder of a certification trademark is prohibited from using the certification mark for himself/herself and is only allowed to supervise whether the use of the certification trademark by another person complies with the relevant regulations. On the other hand, the holder of a regular trademark has the right to exclusively use the trademark for himself/herself. Furthermore, the purpose of using a trademark is usually to distinguish the source of goods, while a certification trademark is, due to its function, not basically designed to distinguish the source of goods. Certification trademarks are permitted to certify the area or source from which the goods or services originated. The provision that prohibits the use of geographical names in regular trademarks is not applicable to certification trademarks."<sup>35</sup> Due to these characteristics, the examination guidelines for certification trademarks are different from those for regular trademarks.

Part 4 of the Trademark Examination Guidelines specifies the guidelines applicable to subject and object respectively concerning the management and supervision of the objective, natural, fundamental primary quality of Goods, etc.

## 3 South Korea

The Korean government recognizes that too many certification marks and verification marks have become problematic.<sup>36</sup> In order to improve the situation, the government has decided to introduce the KC mark, which will unify 13 existing legally compulsory certification marks by

August 20, 2008. Moreover, the government has decided to introduce a new product certification system by establishing and revising necessary laws and regulations. In order to coordinate different certification systems, the government has obliged any organization that plans to use a certification mark to contact the Ministry of Knowledge Economy for prior consultation about the mark. Despite these measures, the number of certification and verification marks is still on the rise.

Certification marks and verification marks are specified in the Trademark Act as certification marks and business emblems.<sup>37</sup> Certification marks are defined in Article 2, paragraph (1), item (iv), while business emblems are defined in item (v) of said paragraph. Certification marks are marks that organizations engaged in the business of certifying the quality, place of origin, production process, or any other feature of goods or services may use in order to certify that the goods of any company engaged in the business of producing, manufacturing, processing, or selling goods or the services of any company engaged in the business of providing services satisfy the requirements in terms of quality, place of origin, production process, or any other feature. On the other hand, business emblems are marks that organizations engaged in non-profit business use in order to indicate their own business.

Regarding certification marks, the Trademark Examination Guidelines merely specify, in Article 74 (Process of examination concerning collective marks, certification marks, and guarantee marks), paragraph (1), that, in the case of an international application for trademark registration, if it is notified that the trademark claimed in the application will be used as a collective mark, certification mark, or guarantee mark, said application shall be deemed to be an application for registration of a collective mark."

On the other hand, regarding business emblems, detailed examination guidelines covering seven points are presented in Article 50 of said Guidelines. In addition, Section 8.1.1 of the Trademark Examination Manual explains in detail the examination method of business emblems and the important points.

The business emblem systems are designed to have an active legal effect in the form of the permission of exclusive use of the respective emblems for non-profit business. Such system does not exist in any other country. There has been a persistent view that this system should be abolished because it is a legislative error.

However, thanks to an increase in the number of registrations of business emblems, such voice calling for the abolishment of the system has become somewhat weaker.

## **IV Quality-Guarantee Function Concerning Geographical Names**

### **1 Regional Collective Trademarks and Geographical Indications in Japan**

Geographical indications are defined in Article 22, paragraph (1) of the TRIPS Agreement as follows: “Geographical indications are, for the purposes of this Agreement, indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.”

In Japan, the Trademark Act specifies regional collective trademarks in such provisions as Article 7-2, Article 11, Article 24-2, Article 30, Article 31-2, Article 32-2, and Article 46.

Geographical indications are different from regional collective trademarks in some ways. For example, “the scope of protection for regional collective trademarks is limited in the sense that a regional collective trademark consists only of the name of a region and the name of Goods, etc. However, the scope of protection for regional collective trademarks is wider than that for geographical indications defined in the TRIPS Agreement in the sense that the protection covers services as well.”<sup>38</sup> A regional collective trademark may be registered only if it has achieved a certain level of well-knownness among the public. In order for a trademark to become well-known, the trademark must embody the goodwill concerning the primary quality of Goods, etc., and must improve the subjective, social factors that affect the secondary quality in order to increase public trust in the trademark, which will eventually make the trademark famous. Regional collective trademarks are media for information concerning special quality, characteristics, etc., associated with the region. The goodwill generated by such a high-level of well-knownness includes information concerning the objective, fundamental quality, characteristics, etc., of goods that are determined by geographical factors such as natural factors and humanistic factors. By conveying such information to a wide range of consumers, regional collective trademarks will consequently function differently

from regular trademarks in terms of quality guarantee.

### **2 Protection of Geographical Indications in China**

In China, geographical indications are defined in Article 16, paragraph (2) of the Trademark Law as the signs that signify that the goods bearing a sign are originated from the place indicated and have the special qualities, credibility or other characteristics that are primarily determined by the natural factors or humanistic factors of the place indicated. While geographical indications are specified as “collective marks and certification marks” in the Trademark Law, geographical indications are subject to the Procedures for the Management and Registration of Collective Trademarks and Certification Trademarks, which have been established based on the definition and text of Article 3. Article 49 of the Trademark Regulations specifies what does not fall within the scope of the effect of trademark right.

Chapter VI, Part 5 of the Trademark Examination Guidelines specify the examination guidelines for collective marks and certification marks. These guidelines have many provisions not only about the required qualifications for applicants but also about quality management and supervision. This is because geographical indications themselves are, as defined to be, tools to convey information concerning the equality, reputation, and other characteristics of the designated goods and are therefore different from regular trademarks in terms of nature.

However, in China, the geographical indication registration systems have been established by the State Administration for Industry & Commerce, the General Administration of Quality Supervision, Inspection and Quarantine, and the Ministry of Agriculture, respectively. Since multiple authorities establish relevant regulations one after another, conflicts and overlaps are caused. In addition, these authorities do not recognize the legitimacy of each other’s regulations at the stage of law enforcement. This situation has caused various problems related to the protection of geographical indications.<sup>39</sup>

### **3 Protection of Geographical Indications in South Korea**

In South Korea, the Trademark Act specifies the protection of geographical indications in

Article 2, Article 3bis, Article 3ter, Articles 6 to 9, Article 19, Article 22bis, Article 23, Article 51, Article 66, Article 71, Article 73, Article 86quater, Article 86sexdecies, Article 90bis, Article 91bis, etc., concerning geographical indications, geographical indication collective marks, homonymous geographical indication collective marks, certification marks, geographical indication certification marks, etc.

The Trademark Examination Guidelines are unique in that they require examination on any matters related to the quality, etc., and any matters related to the applicant's control of the quality, etc. For instance, Article 49, paragraph (4) of the Korean Trademark Examination Guidelines specifies examination of the articles of incorporation and requires particularly strict examination of the quality-related part of the articles of incorporation.

One of the unique provisions of the Korean Trademark Act is Article 22bis (Request etc. for Inspection of a Trademark by a Specialized Searching Agency), paragraph (3), which specifies that "Where the items of an application for a collective mark for a geographical indication are subject to the Agricultural and Fishery Products Quality Control Act, the Commissioner of the Korean Intellectual Property Office shall obtain an opinion as to whether the mark can be considered a geographical indication from the Minister for Food, Agriculture, Forestry and Fisheries." On the other hand, Article 32, paragraph (4) of the Agricultural and Fishery Products Quality Control Act concerning registration of geographical indications specifies that "the Minister for Food, Agriculture, Forestry and Fisheries shall obtain an opinion from the Commissioner of the Korean Intellectual Property Office in advance as to whether the geographical indication claimed in an application infringes another person's trademark (including geographical indication collective marks; hereinafter the same) under the Trademark Act." This can be seen as an important provision to maintain harmony among sign systems.

## **V Quality-Guarantee Function under Other Sign Systems and the Quality-Guarantee Function of Other Objects**

There are many other sign systems including the Unfair Competition Prevention Act, the Act against Unjustifiable Premiums and Misleading Representations, and various consumer

administration systems. These laws and regulations have provisions concerning quality. These provisions as well as the provisions of the Trademark Act affect brand formation.

There have been some arguments that the objects of protection provided under the trademark law are increasing in some countries. Many of these are related to quality. This is one of the important issues addressed in the argument concerning information incompleteness.

## **VI Proposals for the Trademark System from the Perspective of the Function of Dynamic Factors**

### **1 Analysis of Relevant Court Judgments**

In Japan, the "Ethiopian Coffee case" raised the issue of interpretation of Article 3, paragraph (1), item (iii) and Article 4, paragraph (1), item (xvi) of the Trademark Act.<sup>40</sup> The court found that there was no likelihood of misunderstanding of quality under the "plaintiff's quality management." This trademark, which is registered as a regular trademark, could be assigned or transferred without limitations. If this trademark is transferred from the Ethiopian government to another party, it would inevitably cause misunderstanding about the quality among the public due to the nature of the designated goods. This is because the quality of the designated goods, Ethiopian coffee beans, can be maintained only under the quality control by the Ethiopian government, and the disputed registered trademark functions as a medium to convey such information.

On the other hand, in China, there is a court precedent about two similar signs that were registered under two different systems respectively, i.e., a trademark registered with the State Administration for Industry & Commerce and a geographical indication registered with the General Administration of Quality Supervision, Inspection and Quarantine.<sup>41</sup> The plaintiff and the defendant (Jinhua ham companies and the local government) continued this dispute for more than twenty years, damaging the regional brand, Jinhua ham, which has at least an 800-year history.

### **2 Examination of the Purposes of the Trademark Law and Analysis of Hypotheses**

In Japan, China, and South Korea, the trademark law clearly aims to protect the



interests of consumers including end consumers. The purpose of said law is to prevent the occurrence of or reduce the likelihood of misunderstanding and confusion about the quality, characteristics, etc., of Goods, etc., among consumers including end consumers. The trademark law established for this purpose functions as a medium of information and remedies the information incompleteness between consumers and companies so that consumers can make appropriate consumption decisions.

On the other hand, from the perspective of the interests of companies, since the factors concerning the quality and characteristics of Goods, etc., are constantly changing, the function of such dynamic factors could cause information incompleteness, which will result in instability such as trademark rescission. Coordination between different systems is necessary in order to promote effective use of signs and other information goods and registration of stable trademark rights by companies.

In Japan, the indications of the quality, characteristics, etc., of Goods, etc., based on multiple systems have caused information incompleteness due to the difference in their theoretical grounds. In some cases, a trademark is placed side by side with a sign whose main purpose is to convey information on the primary quality. In other cases, such sign is incorporated into a trademark. Consequently, the conventional trademark functions have become dysfunctional, causing such problems as a discrepancy between the objective quality of Goods, etc., and the quality guaranteed by a trademark. Incorporating a sign concerning the primary quality, etc., which is subject to change, into a trademark causes instability in trademark rights, which are designed as semipermanent rights.

Based on the findings mentioned above, an analysis has been conducted on the Working Hypothesis I, i.e., the hypothesis that signs have caused information incompleteness beyond national boundaries. A comparative study of the sign systems in Japan, China, and South Korea has revealed that this hypothesis is obviously correct as described above.

An analysis has also been conducted on the Working Hypothesis II, i.e., the hypothesis that, from the perspective of the protection of consumers, who are the recipients of information, the conventional System-based Functions that sign systems are expected to provide could become dysfunctional due to the information

incompleteness caused by signs. When a trademark conveys information on Goods, etc., including the factors concerning the quality and characteristics of the Goods, etc., particularly the factors concerning the objective, fundamental quality, etc., of the Goods, etc., if the trademark conveys information similar to the information conveyed by another sign and receives overlapping protection, it would cause information incompleteness or instability in trademark rights. This problem could be remedied by taking such measures as establishing a provision that coordinates different systems. However, in the case of a trademark that incorporates another system's sign into itself as a component, such trademark is a product of the current interpretation of the Trademark Act including the interpretation of trademark functions. Such trademark needs to be studied separately.

Based on the two working hypotheses, the basic hypothesis has been analyzed. The analysis has revealed that the function of dynamic factors as defined in this research causes qualitative changes to the conventional trademark functions such as the quality-guarantee function within the framework of the trademark system. However, further analysis would be necessary in order to prove the hypothesis (Working Hypothesis III) that the overlaps of similar functions of signs cause information incompleteness. In order to analyze the Working Hypothesis III, the signs used as indications of Goods, etc., are divided into two groups, i.e., the multiple mark type and the incorporated type.

The multiple mark type may be defined as the case where information conveyance functions are concurrently performed based on multiple sign systems including the Trademark Act. This case raises such issues as the issue of interaction among the multiple signs based on the idea that the goods, etc., as a whole comprise one intellectual property package and the issue of harmonization among the multiple systems that are used to convey similar information. In order to solve these issues, it would be important to coordinate systems based on a clear understanding of the relationship between sign systems and the Trademark Act.

On the other hand, the incorporated type may be defined as the case where the information conveyance function is performed by one trademark containing a component that conveys information based on another sign system. In this case, a trademark that incorporates another mark

or indication into itself as a component raises some issues. Consumers, who view such trademark as an official guarantee by the nation, believe the information conveyed by the trademark and take action accordingly. However, if the information conveyed by such component is incomplete, it would negatively affect consumer interests. Furthermore, it would be impossible to establish a stable trademark right based on a constantly changing component.

An analysis of the Working Hypothesis III based on the aforementioned ideas has revealed that, in the case of the multiple mark type, information incompleteness is likely to be caused by the multiple marks used based on multiple systems that provide similar System-based Functions (such as the quality-guarantee function). In the case of the incorporated type, System-based Functions are likely to be qualitatively changed by the function of dynamic factors, which is likely to decrease trademark stability.

## VII Conclusion

As mentioned above, protection provided under each sign system including the Trademark Act needs to ensure the conveyance of information on the source, quality, characteristics, etc., of Goods, etc., bearing the sign. In this research, a study was conducted on Japan, China, and South Korea, respectively, in order to examine the current situation where these System-based Functions are being qualitatively changed by dynamic factors such as the primary quality of goods. Furthermore, in this research, analyses were carried out on relevant cases in the three countries in order to propose remedies suitable for the aforementioned situations. Consequently, this research concluded that, if a system is established based on the theory of the function of dynamic factors within the framework of the trademark system, it would remedy information incompleteness, help consumers make appropriate consumption choices, and attain the goal of the Trademark Act, i.e., the protection of the interests of consumers including end consumers.

Certification marks and verification marks that are administered by third parties properly provide consumers with information that the Goods, etc., bearing such marks satisfy certain standards. These signs promote appropriate consumption choices by consumers. However, the concurrent use or integrated use of the trademark

system and a certification or verification system could raise the issue of coordination between the systems, while it could remedy information incompleteness. In particular, information concerning the primary quality of Goods, etc., directly influences consumers and encourages consumers to choose the Goods, etc. However, it is necessary to coordinate among systems in order to remedy the information incompleteness caused by the function of dynamic factors.

Needless to say, aside from the issues described above, there are many other issues including the issue of how to remedy the information incompleteness that occurs when information is conveyed via the Internet, the issue of the use of certification systems and verification systems in the field of trade from the perspective of the Trademark Act, the issue of the protection of geographical indications from the perspective of the Trademark Act, and the issue of qualitative changes of the System-based Functions caused by the function of dynamic factors and the influence on brands. Further research needs to be conducted on these issues.

---

<sup>1</sup> In December 2002, the Ministry of Health, Labour and Welfare and the Ministry of Agriculture, Forestry and Fisheries jointly established the “Joint Conference on Food Labeling” in order to jointly discuss the information items on food labels and the labeling method specified in the JAS Act and the Food Sanitation Act. Consequently, improvements have been made such as better consistency in the information items on labels. (Noriyoshi Adachi, “JAS hou ni motozuku gensanchi hyoji to sanchi karano jouhou hasshin” (Indication of the place of origin and information dissemination from the production area under the JAS Act), *Nougyou to keizai*, vol. 71, no. 13, at 25 (2005)).

<sup>2</sup> Edited by Kishio Shimada, Yoshiro Iijima, *Kaitei shouhingu kougi* (Revised edition, Lecture on goods science), at 72 (Seirinshoin shinsha, Seirin kougi shirizu, 1981).

<sup>3</sup> *Id.* at 72.

<sup>4</sup> *Id.* at 73.

<sup>5</sup> Tatsuo Hatta, *Mikuro keizaigaku I - Shijouno shippai to seihu no shippai heno taisaku [Puroguresshibu keizaigaku shirizu]* (Microeconomics I - Measures to deal with the failure of the market and the failure of the government [Progressive economics series]), at 319 (Toyo Keizai Shinposha, 2010).

<sup>6</sup> *Id.*

<sup>7</sup> Kazuo Nishimura, *Mikuro keizaigaku nyumon (Dai 2han)* (Introduction to microeconomics (2nd edition)), at 319 (Iwanami Shoten, 1997).

<sup>8</sup> Masao Uno, Yoshiro Iijima, Goro Kawano, Kishio Shimada, *Kihon Shouhingu (Gakushu tekisuto ban)* (Basic commodity science (text version for studying), at 67 (Shunjusha, 1967).

- <sup>9</sup> William M. Lands & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 168 (Harvard University Press 2003).
- <sup>10</sup> Yoshiyuki Tamura, *Shouhyohou gaisetsu (Dai 2han)* (General introduction to the Trademark Act (2nd edition), at 4 (Koubundou, 2000).
- “Even if consumers expect the goods or services bearing a registered trademark to have certain quality, the satisfaction of such expectation is not directly guaranteed by the Trademark Act.”
- <sup>11</sup> Makoto Amino, “Shouhyou no houteki hogo o meggutte” (Legal protection for trademarks), *Hara Masuji hanji taikan kinen Kougyo shoyuken no kihonteki kadai (ge)* (Commemoration of the retirement of Judge Masuji Hara Basic issues concerning industrial property rights (vol. 2)), at 859 (Yuhikaku, 1972).
- “Today, it is separated from a particular personality and interpreted as a sign indicating that the goods have certain quality and were produced by a certain company; in other words, it has come to be interpreted as a pure property right. In sum, people do not care about the source-indicating function of a trademark as long as the quality-guarantee function is maintained.”
- <sup>12</sup> Masao Miyake, *Shouhyohou zakkan* (Miscellaneous thoughts on the Trademark Act), at 221, (Fuzambo, 1978), Edited by Shouen Ono, *Chukai Shouhyohou (Shinban) Joukan* (Annotated Trademark Act (New edition) vol. 1), at 71 (Seirin Shoin, 2005), Kanji Kudo, *Shouhyohou no kaisetsu to saibanrei* (Explanation of the Trademark Act and Court Cases), at 35 (Masterlink, 2011).
- <sup>13</sup> Shouen Ono, Shunji Miyama, *Shin shouhyohou gaisetsu* (New Overview of the Trademark Act), (Seirin Shoin, 2009), at 57.
- <sup>14</sup> Supreme Court judgment of February 27, 2003, Minshu vol. 57, no. 2, at 125, 2002 (Ju) No. 1100.
- <sup>15</sup> Trademark Law of the People's Republic of China (hereinafter referred to as the Chinese Trademark Law; the following tentative translations of relevant legal provisions, examination guidelines, literature, etc., of China and South Korea were made by the author.) Article 3, paragraph (3): For the purposes of this Law, a certification trademark refers to one that is controlled by an organization which is capable of exercising supervision over a particular kind of goods or services and that is used by a unit other than the organization or by an individual for its or his goods or services, and is designed to certify the indications of the place of origin, raw materials, mode of manufacture, quality, or other specified properties of said goods or services.
- <sup>16</sup> Article 7 of the Chinese Trademark Law: The user of a trademark shall be responsible for the quality of the goods on which the trademark is used. The administrative departments for industry and commerce at all levels shall, through the administration of trademarks, put an end to any practice that deceives consumers.
- <sup>17</sup> Article 10 of the Chinese Trademark Law: None of the following signs may be used as trademarks: (the middle portion is omitted) (4) those identical with or similar to an official mark or inspection stamp that indicates control and guarantee, except where authorized.
- <sup>18</sup> Article 11 of the Chinese Trademark Law: None of the following marks may be registered as trademarks: (the middle portion is omitted) (2) where it only directly indicates the quality, principal raw materials, function, use, weight, quantity or other features of the goods.
- <sup>19</sup> Article 16, paragraph (2) of the Chinese Trademark Law: The geographical indication mentioned in the preceding paragraph means the origin of the goods, the special qualities, credibility or other characteristics of the goods that are primarily determined by the natural factors or other humanistic factors of the place indicated.
- <sup>20</sup> Article 39, paragraph (1) of the Chinese Trademark Law: To assign a registered trademark, the assignor and assignee shall sign an assignment agreement and jointly file an application with the Trademark Office. The assignee shall guarantee the quality of the goods on which the registered trademark is used.
- <sup>21</sup> Article 40, paragraph (1) of the Chinese Trademark Law: The owner of a registered trademark may, by concluding a trademark licensing contract, authorize another person to use his registered trademark. The licensor shall supervise the quality of the goods on which the licensee uses his registered trademark, and the licensee shall guarantee the quality of the goods on which the registered trademark is to be used.
- <sup>22</sup> 吳漢東(Handong WU)・胡開忠(Kaizhong HU), 2001, 『無形財産権制度研究』 (Research on the system for intangible property), at 434 (Law Press China, 2001).
- <sup>23</sup> 劉春田(Chuntian LIU), “商標と商標権分析” (Trademarks and an analysis of trademark rights), *China Intellectual Property*, 1998, vol. 1, at 13 (1998).
- <sup>24</sup> 文学(Xue WEN), 『商標使用と商標保護研究』 (Research on the use of trademarks and trademark protection), at 31 (Law Press China).
- <sup>25</sup> 王蓮峰(Lianfeng WANG), “論對善意在先使用商標的保護 - 以“杜家鷄”商標侵權案為視覺,” (Study for Protection of Prior user Trademark in Good Faith: with “du jia ji” trademark infringement case in China) *Law Science*, 2011, vol. 12, at 134 (2011).
- <sup>26</sup> The requirements and effect of this Article are similar to those of Article 3, paragraph (1), item (iii) of the Japanese Trademark Act. This is the author’s opinion for your reference. Hereinafter the same.
- <sup>27</sup> The requirements and effect of this Article are similar to those of Article 4, paragraph (1), item (xvi) of the Japanese Trademark Act.
- <sup>28</sup> The requirements and effect of this Article are similar to those of Article 26 of the Japanese Trademark Act.
- <sup>29</sup> Seok-Jae, LEE, 『CREAM 商標法特講』 (CREAM Special lecture on the Trademark Act), at 17 (Hanbit intellectual property center Korea, 2008).
- <sup>30</sup> Sun-Hee YUN, 『11製版 知的財産権法』 (11th edition, Intellectual property laws), at 259 (Sechang Press Korea, 2010).
- <sup>31</sup> Kyung-Sik KONG, 『プラス 商標法』 (Plus Trademark Act), at 19, (Hanbit intellectual property center Korea, 2008), Chong-Tae PARK, 『理智 商標法〔第4版〕』 (Intelligence, Trademark Act (4th edition)), at 49 (Hanbit intellectual property center Korea, 2010).
- <sup>32</sup> Zentaro Kitagawa, “Kigyō torihiki to hinshitsu” (Corporate transactions and quality), *Hougakuronso*, vol. 83, no. 6 (1968) at 9.
- <sup>33</sup> *Id.* at 9.

- 
- <sup>34</sup> Tomoyuki Katsuno, “Shin JIS maku hyouji seido ni okeru seihin ninshou” (Certification of products under the new JIS mark system), *Finex*, vol. 18, no. 107, at 3 (2006).
- <sup>35</sup> 郭禾(He GUO), 『商標法テキスト』(Text book on the trademark law), at 42 (Intellectual property press China, 2004).
- <sup>36</sup> Jeong,Yong-Soo Kang,Byung-Mo, “製造物責任と製品安全認証制度に関する研究” (Research on product liability and product safety certification systems), at 137 (Korea Consumer Agency, 2008).
- <sup>37</sup> This is a system unique to South Korea, which underwent a name change to “business emblem” in the 1973 revision. Until the revision, a similar system had existed under the Trademark Act of 1949.
- <sup>38</sup> Naho Ebata, “Chiriteki hyouji no shoumei shouhyou seido ni yoru hogo no kanousei ni tsuite -- Chiiki dantai shouhyou seido tonon hikaku no kantenkara --” (Possibility of providing protection to geographical indications under the certification trademark system -- in comparison with regional collective trademarks), *Chizaiken Forum*, vol. 86, at 7 (2011).
- <sup>39</sup> Edited by the Intellectual Property Centre, Chinese Academy of Social Sciences and the China Intellectual Property Training, 『「商標法」改正における若干問題』(Minor issues related to the revision of the Trademark Law), at 262 (管育鷹 Yuying GUAN) (Intellectual property press China, 2011).
- <sup>40</sup> Intellectual Property High Court, 2009 (Gyo-Ke) No. 10226, Judgment of March 29, 2010, a case to seek revocation of a trial decision.
- <sup>41</sup> China, “Jinhua Ham case,” Shanghai Second Intermediate People's Court, 沪二中民五, (知) 初字第 239.