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Trademark Litigation Involving Foreign Business in the Republic of Korea

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Introduction

The idea behind this article is to examine the workings of the Korean judicial system in the area of international commercial transactions. The author, an American lawyer, is interested in seeing how foreign companies fare when they try to cash in or defend their legal rights in the courts of the Republic of Korea. The method used was to search the published decisions of the supreme and high courts of the Republic of Korea for recent decisions involving foreign companies doing business in Korea.

Reported cases involving foreign companies are few, but, of such cases, the greatest number involves trademark litigation. Therefore, the scope of this article is limited to trademark litigation involving foreign companies doing business in the Republic of Korea, and the conclusions drawn are limited and tentative.

Although the area of trademark litigation was chosen for study by default, it may not be a bad place to start. This area holds interest both for foreign businessmen who wish to see their industrial property rights protected and for the Koreans who have chosen to accumulate capital for development by attracting foreign investment. Tension is created by the conflicting goals of inducing foreign business while trying to encourage and protect indigenous industry and commerce.

By way of introduction, the reader might want to know that the Republic of Korea has formed two major strategies to accumulate capital for modernization. The legal expressions of the first were the land reforms of 1948 and 1950,[1] designed to solve two problems at once: to defuse incipient rural rebellion by conveying land title to the tillers, and to put capital in the

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[1]B.Y. CHOY, KOREA, A HISTORY 354 (1971).

hands of the former landlords, generally the educated class, so that they could become the new class of entrepreneurs.[2] It is difficult to say whether this scheme would have worked, but the Korean War intervened, and, although a major portion of the land was transferred, the entrepreneurial class didn't produce much enterprise. Wartime inflation wiped out most of them.[3]

If not local capital, then foreign capital would have to be the answer. South Korea induced foreign countries to invest heavily, setting up a comprehensive system of regulations under a series of new statutes: the Foreign Exchange Control Law, Foreign Capital Inducement Law[4] and export and import controls. The success of this second strategy is well documented,[5] but it has put the Koreans in the ambiguous position of trying to protect their own businessmen and consumers while encouraging foreigners. The Koreans have sound reasons for being sensitive to the issue of foreign domination. We might expect this attitude to influence the workings of the legal system.

For one thing, the new statutes and regulations were laid over the Civil Code which had been left behind by the Japanese.[6] This code itself rested on the surface of the Korean polity. Because the modern legal system lacks anchors in Korean experience, lawyers and scholars wonder to what extent foreigners should rely on the legal process. Donald Meyer, an American lawyer who has spent time in Korea, warns us that industrial property rights enjoy diminished protection in Korea, in part because of unpredictability of interpretation of the laws. He asks us to study the *Bayer Aspirin* case.[7] And a Korean legal scholar, Dr. Alexander Kim, gives us the following analysis:

> While complex commercial laws and regulations exist, designed to shape virtually all aspects of commercial life, neither laws nor administrative regulations have yet developed the function that they serve in the more highly institutionalized commercial systems of developed nations. This can be both a disadvantage and an advantage to foreign investors and others doing business in Korea. On the one hand, it means that there is a certain degree of unpredictability, since the specific wording of laws and regulations will often be ignored by those delegated to enforce and administer the regulations.
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> On the other hand, it also means that if a certain investment or transaction is desired by Korea, no legal provision will be interpreted so as to bar or hinder successful arrangements. Indeed, the major factor which prevents the system

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[2] J.H. Cho, Post–1945 Land Reforms and Their Consequences 22 (Indiana University Ph.D. dissertation, 1964).

[3] *Id.* at 86.

[4] Available in English, LAWS OF REPUBLIC OF KOREA (1975).

[5] *See, e.g.*, C.J. Kim, *Legal Problems of Doing Business in Korea*, in CURRENT LEGAL ASPECTS OF DOING BUSINESS IN JAPAN AND EAST ASIA 384 (J. Haley ed. 1978).

[6] For an analysis of the introduction of the Japanese legal system into Korea, see E.J. Baker, *The Role of Legal Reforms in the Japanese Annexation and Rule of Korea*, STUDIES IN ASIAN LAW (1979).

[7] D. Meyer, *The Legal Process in Korea*, CURRENT LEGAL ASPECTS OF DOING BUSINESS IN JAPAN AND EAST ASIA 343 (J. Haley ed. 1978).

from operating in a chaotic manner is that *the policy purposes behind the regulations are broadly and generally understood* by administrative personnel, so that these purposes, rather than the specific wording of the regulations, are what is actually administered. [Emphasis added.]

It should be noted that we are dealing here with the administrative aspects of laws and regulations in Korea rather than judicial enforcement and interpretation. This is because in Korea, as in other East Asian countries, it is usually unwise to try to enforce legal provisions through court action. While the courts will enforce the law quite honestly and explicitly, the very act of going to court tends to create antagonism, so that business dealings may be considered at an end. Therefore, it is much more important to predict what the administration will do than to consider possible judicial remedies.[8]

But the Koreans and the foreigners do take their disputes to court, and selected decisions of the supreme and high courts are available for analysis. Let us look to see what happens in one area of law when the old Japanese code, the new statutes, and free-floating ideas of policy, "broadly and generally understood," are applied to disputes involving Korean and foreign businesses. We will be looking to see if rights can be identified and if rights can be enforced. We will look at the *Bayer* case, but, before we discuss it, we should examine the legal framework in which it arose.

Trademark Law in Korea

There are different answers to the question, "Why does the law protect trademarks?" To protect the public against imitation goods which may be of inferior quality, is one answer; to protect a property right of the manufacturer, is another. To protect both in varying degrees is the common compromise. The more a legal system stresses protection of the public, the more restrictions one would expect to find on transfer of a trademark. United States law allows assignment of the mark together with at least part of the goodwill of the business associated with the mark.[9] The U.S. statute is almost silent as to licensing, but case law tells us that licensing is allowed with proper supervision by the licensor.[10]

The Japanese code language, retained in the Korean statute until 1974,[11] was similar to the language in the U.S. law, that is, a mark could be assigned with the business. Japan amended its trademark law in 1959 to specifically provide a mechanism for licensing,[12] but Korean law did not address this issue until 1974. Therefore, before 1974, the foreign investor who wished to license the use of his trademark to a Korean enterprise or to his own subsidiary in Korea, couldn't be sure that his right would be identified or protected under Korea law. Or could he? The Foreign Capital

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[8] J.A. Kim, *South Korea: A Summary of the Existing Legal System*, CURRENT LEGAL ASPECTS OF DOING BUSINESS IN THE FAR EAST (Allison ed. 1972).

[9] 15 U.S.C. § 1060.

[10] Sheila's Shine Products v. Sheila's Shine, Inc., 486 F.2d 114 (5th Cir. 1977); Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978).

[11] Laws of Republic of Korea, Trademark Law, art. 16 (1969).

[12] ROPPŌ ZENSHŌ, Shō hyō hō 24 jō (Japanese Code, Trademark Law, Art. 24) (1980).

Inducement law appeared to permit trademark licensing as part of a technological inducement contract approved by the Economic Planning Board.

> The importation of a cash loan, capital goods or technology under the cash loan contract, capital goods inducement contract authorized under paragraph 1, shall be deemed permitted by such authorization.[13]

At least one commentator assumed that this provision permitted licensing, at least in the case of a foreign company.

> However, the Foreign Capital Inducement Law sets up a provision that license from foreigners to Koreans may be made without the transfer of business. This law opened up a new vista to foreign investors as well as to Koreans.[14]

The original Foreign Capital Promotion Law contained a clause which gave it supremacy over other laws which might limit foreign investment,[15] but this provision was repealed in 1966 with the enactment of the Foreign Capital Inducement Law.[16]

In 1974, the Trademark Law was amended to permit licensing of a trademark in certain circumstances when approved by the Patent Bureau and the Economic Planning Board.[17] The question of licensing appeared to be answered, but the doubts created by the old statutory scheme remained for technology inducement contracts concluded before 1974.

One may say that the Trademark Law induces foreign technology and investment by permitting licensing of trademarks and protects the domestic economy by making each technology inducement contract containing a trademark license subject to review by the Economic Planning Board.[18]

The statutory remedy for illegal transfer or permissive use by another under Korean law is cancellation of registration of the mark. This is an administrative procedure which may be instituted by the Patent Bureau or by any interested party.[19]

Remedies for infringement include both civil and penal measures. Civil damages include loss of profits and triple damages.[20] Injunctive relief is available, not through the Trademark Law, but under the general provi-

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[13] Laws of Republic of Korea, Trademark Law, art. 17 (3) (1969).

[14] B.H. LEE, KOREAN PATENT AND TRADEMARK 58 (1968).

[15] Haptong, Jeongmilhwahag Jusighwoesa v. Bayer A.G., 24:2 Daebeobweon Pangyeoljib 89 (ROK Supreme Court, June 22, 1976), at 90 (text of statute set out in Korean).

[16] *Id.*

[17] Laws of Republic of Korea, Trademark Law, art. 29 (1975).

[18] It is interesting to compare this approach with the scheme of the new Mexican trademark statute which requires each foreign mark to be joined with a Mexican mark. Vargas, *Major Innovations Regarding Trade and Service Marks in the Newly Revised Mexican Law on Inventions and Marks—A Mexican Perspective*, 66 TRADEMARK REP. 188, (1976). But B.H. Lee reports that it is easier to get ministerial approval in Korea, too, when the foreign mark is combined with a Korean mark. *Licensing of Foreign Trademarks in Korea*, 1 KOREAN L.J. 10, (1980).

[19] Laws of Republic of Korea, Trademark Law, art. 23 (1969).

[20] *Id.* art. 30.

sions of the Civil Code.[21] In addition, infringement is punishable by imprisonment of up to five years.[22]

An applicant need not show prior use as he must under U.S. law, but continuous use after registration is required.[23] Marks are renewable at ten-year intervals.[24] In contrast, the term of an approved inducement agreement is usually three years.[25] So the additional question arises of the duration of protection for a trademark license under the old law.[26]

A Headache for Bayer Aspirin

Within this statutory framework, the case of *Haptong Chemical v. Bayer, A.G.*, arose.[27] Bayer of Germany had been doing business in Korea since the 1950s, and the Patent Bureau had approved registration of the mark, Aspirin, in 1959 and had renewed it in 1969. Under a technical assistance contract in 1971, Bayer of Germany had licensed the mark to Bayer of Korea with the approval of the Economic Planning Board, but the mark had not been registered to Bayer of Korea because no mechanism existed at that time for such a license.[28] After the new law came into effect in 1974, Bayer of Germany applied for and received registration of the license with the Patent Bureau. Bayer of Korea then successfully enjoined an infringer of the mark in a case decided by the High Court in 1975.[29]

Haptong Chemical challenged the registration of the trademark of Bayer of Germany, asking that the registration be cancelled. Haptong alleged that Bayer of Germany had allowed another, namely Bayer of Korea, the subsidiary, to use the mark. Bayer's response was that Economic Planning Board Approval protected the licensing arrangement, pointing to the language of supremacy in the original version of the Foreign Capital Inducement Law. The court stated that the issue of the term *aspirin* as a generic term was not before it.

So, the question was whether the Foreign Capital Inducement Law upon which Bayer said it had relied was firm enough to support its rights in the trademark, Aspirin.

The Supreme Court upheld the decision of the Patent Court cancelling the trademark for the reason that Bayer of Germany had permitted

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21 B.H. LEE, KOREAN PATENT AND TRADEMARK 46 (1968).

22 Laws of Republic of Korea, Trademark Law, art. 32 (1969).

23 *Id.* art. 45 (3) (1975).

24 *Id.* art. 17 (1969).

25 B.H. Lee, *Report on Current Trademark Practices in Korea*, 67 TRADEMARK REP. 46, 49 (1977).

26 B.H. Lee, in his *Korean Law Journal* article, *supra*, note 18, cites Economic Planning Board Rule 94 which proclaims that, when the technical assistance permit expires, the trademark also expires. Whether the EPB has this authority is a good question in light of the *Bayer* case, to be discussed later in this paper, and cited, *supra*, at note 15.

27 *Haptong v. Bayer*, *supra*.

28 67 TRADEMARK REP., *supra*, at 49.

29 Bayer Jusighwoesa v. Taepyeongyang Hwahag Gongeob Jusighwoesa, 23 Godeung Beobweon Panyejib 142 (High Court, September 5, 1975).

another, Bayer of Korea, to use the mark, even though the Economic Planning Board had approved the arrangement.

> . . . we do not disagree with the facts found by the lower court that the appellant allowed the trademark, "aspirin," to be used by another . . . and, since we cannot say that the lower court's decision is in error in not seeing the evidence as nothing but an indication of technical assistance, [we reject counsel's argument.][30]

Counsel for Bayer was understandably upset over this decision.[31] An American lawyer has cited this case for the proposition that industrial property rights enjoy diminished protection in Korea. It can't be denied that Bayer didn't get the protection it was seeking. But before we dismiss the Korean Supreme Court's decision out of hand, we should take a closer look at the case.

Had Bayer sought legal advice in 1971 when it was submitting its technical assistance contract for Economic Planning Board approval, what might it have heard? Of course, the advice depends in part on the attitude of the legal advisor toward the Korean legal system.

If the legal advisor were to ignore the specific wording of the statute in favor of policy purposes, "broadly and generally understood," he might tell Bayer not to be too concerned with the fact that the trademark law at that time offered no protection for licensing. Since the broad government policy was to induce foreign capital, one would expect a policy of protecting a trademark licensing arrangement once approved by the Economic Planning Board.

On the other hand, if the advisor were so nearsighted as to stick to the terms of the statutes, he would have to warn Bayer that it might be challenged by either "any interested party," or by the Patent Bureau since it was allowing another to use its trademark without registering this arrangement with the Patent Bureau. Remember that Bayer of Germany had registered the mark at a time when the Foreign Capital Inducement Law, by its own terms, superseded other statutes, but that, at the time when the licensing agreement was approved by the Economic Planning Board, the FCIL had been amended to remove the superseding provision, and that the Trademark Law, by its own terms, did not provide for licensing. One might conclude that Bayer of Germany had an identifiable right to use the trademark, Aspirin, but that no such right was created in Bayer of Korea under Korean statutes in effect at that time.

Looking again at the decision, can we say that the Court was influenced by nonlegal concerns such as the language purification movement[32] or the desire to protect domestic business against foreign domination? Whatever the political climate may have been at the time the case was decided, the decision rests on sufficient legal grounds, in this writer's opinion. The court's decision, although not in line with the "broadly and generally

[30] *Haptong v. Bayer*, *supra*, at 91-92.
[31] 67 TRADEMARK REP., *supra*.
[32] *Id.*

understood" policy of inducing foreign investment, is correct on the law. This may be the kind of decision which only a lawyer could love, but the result should not be totally unexpected. This was a case where the supposed right was not perfected according to the statutory law in effect at the time approval was received from the Economic Planning Board. The Economic Planning Board did not have the clear power, in a legal sense, to permit licensing otherwise clearly prohibited.

Other Trademark Litigation

Article 45 of the new Trademark Law provides that a mark shall be cancelled if it hasn't been used on the designated commodity within the country for one year or longer "without a legitimate reason." In the case of *Dae Han General Foods v. General Foods Corp.*, the Supreme Court was faced with the question of whether import restrictions preventing sale of goods bearing the mark were included within the term, *legitimate reason*.[33]

Dae Han brought an action seeking to cancel General Foods' trademark after import restrictions had kept General Foods out of the market for more than one year. The Supreme Court refused to cancel the mark, ruling that import restrictions, like force majeure, constituted a legitimate reason for not using the mark.

In a companion case involving the same parties, General Foods was unsuccessful in preventing Dae Han from using the name Korea General Foods Co., Ltd. The Supreme Court reasoned that the addition of "Korea" and "Co., Ltd." to the term "general foods" gave the mark sufficient distinctiveness and stated that since "general foods" just means "*jonghab sigpum*, [i.e., 'general foods,']" these two words were not considered to be the essential part of the mark.[34]

In a decision of the Patent Office Trial Court in 1978, Pierre Cardin, the French designer, was able to cancel the registration of the term "Pierre Cardin" as a trademark. Two Koreans had registered this term in 1973, obviously hoping to cash in on this famous name. The Patent Court relied on article 5 of the former trademark law which prohibited registration of a mark which is likely to cause confusion or mistake or to deceive.[35]

The other reported trademark cases involving foreign companies deal with linguistic quibbling of the type common in trademark cases throughout the world. Seven-up has not had much luck, at least in the cases of

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[33]Daehan Jonghab Sigpum Jusighwoesa v. General Foods Corp., 25:3 Daebeobweon Pangyeoljib 164, (Supreme Court, December 27, 1977).

[34]General Foods Corp. v. Daehan Jonghab Sigpum Jusighwoesa 26:1 Daebeobweon Pangyeoljib 1, (Supreme Court, January 10, 1978).

[35]Summarized at 69 TRADEMARK REP. 94 (1978).

record, in its efforts to prevent other beverages from using the word "up" in their names. Both Bubble-up[36] and S.C. Cider-up,[37] have been permitted. "Kelodin" was held to be too close to "Keflodin,"[38] "Buseupen" was distinguished from "Buscopan,"[39] "Arovit" was too close to "Arbid,"[40] and "P & H" was held to lack sufficient distinctiveness.[41]

Conclusion

Since the sample is limited and diverse, the conclusions must be limited and tentative. It has been said that the great discretion given to Korean administrative agencies makes it difficult, if not impossible to give sound legal advice to clients who want to know about their rights. Koreans and foreigners may be hesitant to try to cash in their rights in court, seeking to maintain good relations with their business contacts and with the government.

They may end up in court anyway, however. The limited sample analysed in this article indicates that when the litigants get to court, they shouldn't be surprised to find the court applying the law. A litigant should not expect to be saved by policy where a clear right does not exist in the statutes.

So a legal advisor, in addition to warning his clients of the vicissitudes of the bureaucracy, must be sure to anchor his clients' rights firmly in the law. The anchoring may not insure the recognition of rights in all cases, but it is a necessary prerequisite. One cannot presume that policies, broadly and generally understood, will suffice in litigation in the Republic of Korea.

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[36]Summarized at IIC Abstracts No. 387/72, Korea. (1972).

[37]Seven-up Co. v. Jusighwoesa Seoul Saida, 27:3 Daebeobweon Pangyeoljib 110 (Supreme Court, December 26, 1979).

[38]Eli Lilly and Co. v. Jusighwoesa Yuhanyanghaeng 27:1 Daebeobweon Pangyeoljib 14 (Supreme Court, January 23, 1979).

[39]C.H. Beringson [?] v. Samseong Jeyag Gongeob Jusighwoesa, 25:3 Daebeobweon Pangyeoljib 31 (Supreme Court, September 28, 1977).

[40]Director of Patent Bureau v. Toropen [?], Berikedin [?], Kurake [?] and Co., 25:1 Daebeobweon Pangyeoljib 28 (Supreme Court, March 22, 1977).

[41]Director of Patent Bureau v. Hanis Chipego [?], 27:3 Daebeobweon Pangyeoljib 105 (Supreme Court, December 11, 1979).