



presents

Protecting and Licensing Trademarks in China

Safeguarding Brands and Marks in the Global Marketplace

A Live 90-Minute Teleconference/Webinar with Interactive Q&A

Today's panel features:

Edward Xu, Registered Foreign Lawyer, **Winston & Strawn**, Hong Kong, China

Benjamin P. Fishburne III, Partner, **Winston & Strawn**, Hong Kong, China

Paul D. Jones, Principal, **Jones & Co.**, Toronto, Canada

Yitai Hu, **Alston & Bird LLP**, Palo Alto, Ca.

Wednesday, November 18, 2009

The conference begins at:

1 pm Eastern

12 pm Central

11 am Mountain

10 am Pacific

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China's Trademark Law: An Overview

Edward Xu
Registered Foreign Lawyer
Winston & Strawn LLP
in association with Luk & Co

The Legal Framework

Domestic Source:

- The PRC Trade Mark Law - enacted in 1982, amended twice in 1993 and 2001 respectively;
- The Detailed Implementation Rules of the Trade Mark Law (“Trade Mark Rules”) – enacted in 1983, amended three times in 1988, 1993, 1995 and 1999 respectively.
- Numerous other regulations, interim measures or circulars issued by government authorities of concern. and
- Judicial interpretations by the Supreme People’s Court of China.

International Conventions on IP:

China is a member of

- The Paris Convention (joined in 1984);
- The Madrid Agreement (joined in 1989);
- The Nice Agreement (joined in 1994);
- The TRIPs Agreement (joined in 2001).

Regulatory Authorities

- The China Trade Mark Office (TMO)
the only body responsible for the registration of trade marks and related matters in China, a centralized regime, administratively subordinate to SAIC, located in Beijing.
- The China Trade Mark Review and Adjudication Board (TRAB)
a built-in quasi-judicial body administratively subordinate to SAIC and parallel to the TMO, operates independently to review the decisions made by the TMO at the different stages of the trade mark registration process, located in Beijing.
- The State Administration of Industry of Commerce (SAIC) and its local branches
SAIC and its local branches are responsible for the enforcement of trade mark law and regulations.

Registration Process

Key principles:

- “First to File” – as opposed to “first to use”, trade mark rights go to the company that registers first, not that uses first; exception of well-known marks; what if file on the same day.
- One application per class – 34 classes of goods, 11 classes of services, 45 classes total; must file application for each of the class for which the mark is to be registered.
- What can be registered as a mark? – words, letters, graphics, numerals, 3-D symbols and combination of colors, basically any visible signs or combination of such signs with distinctiveness. Prohibitions.
- Registration of the trade mark license – for recordal purpose, not affect the validity or effectiveness of the license, to make a license enforceable against third parties.
- Use a trade mark agent – a foreign entity/individual must use a trade mark agent with proper qualification to handle trade mark registration and related matters.

Registration Process (Cont'd)

Registration Process:

1. Application with TMO;
2. Preliminary examination, approval by TMO and public notice for 3 months;
3. Objection in the notice period;
4. Ruling over the objection;
5. Issue of the Registration Certificate

Overall timeline, 18-24 months from the application date.

Protection of Well-Known Marks

- First written into Trade Mark Law in the 2001 amendment; together with the issuance of the Well-Known Trade Mark Regulations issued by SAIC.
- Recognition authority: TMO, TRAB and courts

Special protection includes:

- recognition before registration;
- revocation of a registered mark if confuse with a well-known mark, upon application, 5 year time limit (bad faith exeption);
- prohibition of the registration of any reproduction, imitation or translation of the well-known mark as a mark in other classes that may cause confusion;
- prohibition on using the well-known mark as company name or domain name that may cause confusion.

Company Name, Domain Name Vs. Trade Marks

- Company name Vs. trade marks
protected under different legal regime; prior rights shall not be infringed; well-known mark protection
- Domain name Vs. trade marks
the legal framework for domain names is still under development worldwide; well-known marks are better protected; unfair competition law is often cited to settle dispute.



Trademark Licensing in China

Benjamin P. Fishburne, III
Winston & Strawn LLP
in association with Luk & Co
Resident Partner, Hong Kong

First Steps

- Use a good form. Use as a checklist of issues
- Simplify the language if necessary
- Do your due diligence, know your partner
- Remember - you will need a Chinese version of the Mark

Basics

- Be clear exactly what is licensed
- Grant-exclusive, non-exclusive, geographic area (approval issues), transferable
- Who, exactly is licensee. Affiliates (probably no). Right to sub-license?
- Restrictions; Conditions Precedent (Regulatory Approvals)
- Ownership remains with licensor; use inures to the benefit of licensor. Licensee will not take any inconsistent action

Financial Arrangements

- Running royalty – paid up. Pay attention to logistics and ability to verify. Be realistic. Consider penalties for false information
- Pay attention to tax – minimize withholding via treaty network

QC

Still a huge issue in China

Terms of Use

- Agreed form
- Not in conjunction with other marks
- Pre-approve sample

Term and Termination

- Term with Renewals gives more incentive and control
- Termination for breach – notice and cure
- Consequences of Termination – Licensee can no longer use the Mark
- Wrap up procedures; final report; return inventory of Marks

Other Issues

- Registration of licenses (Article 40 TM Law)
- Compliance with law; FCPA clause
- Choice of law – likely China
- Dispute Resolution
 - FIE’s “Chinese” when dealing with Chinese entities. Go to courts or CIETAC. Consider injunction
 - Inject foreign element to get foreign dispute resolution (HK, Singapore). Consider injunction
- Language – pay attention to the Chinese version

Trademark Litigation in China: Lessons Learned

商标案例在中国： 经验教训

Paul Jones

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人民法院 – The People's Courts



人民法院 – The People's Courts



商标案例 Trade-mark Cases

Lego Case - 英特莱格公司 (INTERLEGO. AG) v. 可高 (天津) 玩具有限公司, Beijing 2002

Lego was successful under design patent and copyright law

Beijing Higher People's Court stated:

可高公司的产品确有抄袭之嫌，但同时也应看到英特莱格公司的上述玩具积木块艺术创作程度确实不是很高，与典型的实用艺术作品在艺术创作程度上尚有一定差距，一审法院出于平衡利益关系的考虑，作出上述认定是合理的，本院予以支持。

(While the Kegao Company's products really have the **smell of plagiarism**, we should also consider that the **level of artistic creation** in the English Interlego Company's products **is not really very high** and there is a certain disparity between it and typical practical works of art. The court of first instance struck a balance a reasonable balance of the interests and we will support it.)

商标案例 Trade-mark Cases

星巴克 – Starbucks

- heralded in 2006 by foreign press
- Starbucks had registered an impressive portfolio of marks
- in Shanghai and Qingdao – local entrepreneurs incorporated businesses using 星巴克
- Courts held that this was infringement

商标案例 Trade-mark Cases

- Ferrero- Rocher – in Tianjin - 2005

意大利费列罗公司(FERRERO S.p.A.) v. 蒙特莎(张家港)食品有限公司

- Ferrero-Rocher had not registered their Chinese character name and had allowed infringing use by a Chinese dairy for well over 15 years.

- Ferrero-Rocher lost at trial and won on appeal and at the Supreme People's Court

商标案例 Trade-mark Cases

- Ferrero-Rocher – cont'd
 - Commenced action in 2003 under Anti-Unfair Competition Law - 反不正当竞争法
 - Grounds for win in Tianjin Higher People's Court:
 1. In determining whether a mark is well-known regard to be had to foreign and domestic market – Paris Convention
 2. Chinese infringer could not prove independent creation of packaging
 3. Infringer failed to prove that the mark was not well-known in China
 4. Court cited Article 10bis (2) of the Paris Convention in support of the proposition that Article 5(2) of China's Unfair Competition Law should be read liberally.

商标案例 Trade-mark Cases

- Ferrero-Rocher – cont'd

3. 根据诚实信用和公认的商业道德准则，知名商品应当是诚实经营的成果。因此，在法律上不能把使用不正当竞争手段获取的经营成果，作为产品知名度的评价依据。

(Based on the principles of good faith and recognized business ethics, “well-known” status for a product must be achieved through management’s own efforts. Therefore unfair competition as specified in law cannot be used as a method for management to achieve “well-known” status for a product.)

商标案例 Trade-mark Cases

Silk Street Market Cases – 2006

- ongoing sale of counterfeits in stalls by individuals
- Chanel, Prada, Gucci, Burberry and Louis Vuitton collected evidence and notified the landlord in writing
- When sales did not stop, they successfully sued the landlord, based on the written notice

商标案例 Trade-mark Cases

Sony Ericsson Case - July 2008— Bad Faith Registrations

- Sony Corporation is well-known in China as 索尼
- Ericsson also well-known under the name 爱立信
- In 2001 they formed a joint venture to manufacture and sell mobile phones
- Joint Venture incorporated in China as 索尼爱立信移动通信产品（中国）有限公司

商标案例 Trade-mark Cases

- Businessman in 广州 applied to register the mark 索爱 on March 19, 2003 – Sony opposed, but lost twice

北京市第一高级人民法院 – Beijing No. 1
Intermediate People's Court

- Applied Article 31 of the Trade-mark Law

商标案例 Trade-mark Cases

- Purpose of Article 31 – to prevent violations of the principle of good faith – 诚实
- Court said the joint venture was widely reported in the press
- so businessman is presumed to have known about it
- his actions 不正当性 – do have clear legitimacy

辉瑞商标的问题

Pfizer's Trade-mark Problems

Pfizer – VIAGRA



最出名的药物万艾可(伟哥、威而钢)

判案原则的发展- Development of Doctrine

H-D密执安公司诉北京哈雷商贸中心, 北京市第二中级人民法院, (2007)二中民初字第10758号 – November 25, 2008

Can the trademark be used by others to describe the product? (known as “nominative fair use”)

In China this case and others say – only if used as little as possible

Harley-Davidson won overall

In Canada the cases are not as clear

商标案例 Trade-mark Cases

重庆正通药业有限公司 诉 四川华蜀动物药业有限公司

(Chongqing Zhengtong Pharmaceuticals Ltd. v. TRAB and Sichuan Animal Pharmaceutical Ltd.) – Supreme People’s Court – 2007-08-31

- Shanghai Animal was a distributor for Zhengtong – registered the mark – kept using it after distribution agreement terminated
- Zhentong applied to expunge – issued was scope of Article 15 of Trademark Law – meaning of “agent or representative”
- SPC applied Article 6 septies of the Paris Convention and international practice
- Gave Article 15 a broader interpretation

商标案例 Trade-mark Cases

Danone v. 娃哈哈 (Wahaha)

- Chinese SOE developed the brand “娃哈哈”
- Entered into JV with Danone – its contribution was the brand
- applied to register transfer to JV – Trademark Office refused – questioned transfer as unauthorized transfer of state assets
- JV broke up – Chinese entity kept the brand

商标案例 Trade-mark Cases

浙江蓝野酒业有限公司 诉 上海百事可乐饮料有限公司
(Zhejiang Blue Wild Liquor Company v. Shanghai Pepsi Cola) May 24, 2007



商标案例 Trade-mark Cases

- December 14, 2003 Chinese co. applied for the trademark “蓝色风暴” (BLUE STORM) – registered January 24, 2006
- July – August 2005 Pepsi used the same mark in a promotional campaign
- Pepsi won in the court of first instance on grounds that use as a slogan was not used as a trademark
- On appeal Zhejiang Higher People’s Court awarded 3 million yuan (\$393,576.00 USD) to the Chinese company



LICENSING AND PROTECTING IP RIGHTS IN CHINA

ENFORCEMENT OF TRADEMARK RIGHTS

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Enforcement of Trademark Rights

- The Chinese Courts
 - Supreme Court
 - High Court (Provincial)
 - Intermediate Court (City)
 - Local Court (District and County)
 - Special IP courts to handle IP cases at certain cities and economic divisions
- Administrative Proceedings
 - AIC
 - Customs
 - Administration for Quality Supervision, Inspection and Quarantine (AQSIQ)



REMEDIES FOR TRADEMARK INFRINGEMENT

- Civil
 - Monetary Damages
 - Actual damages
 - Infringer's total profits from the infringement
 - “Statutory damages”
 - RMB 500,000
 - Destroy instruments used to manufacture the infringing goods
 - Injunctions
- Criminal



Judicial Enforcement of Trademark Rights

- Intermediate Court or Special IP Courts
 - Where the defendant resides
 - Where infringement takes place
- No ‘Discovery’ *Per Se*
 - By order of the presiding judge
 - Raids
 - Private investigators
- No Juries



RAIDS

- A Discovery Tool
- Effective intervention/suspension of manufacturing, distribution and sales of counterfeit products.
- Keys to a successful raid
 - Good investigators
 - Good relationship with the local enforcement agency
- One word of caution!



Administrative Enforcement of Trademark Rights

- Administrations for Industry and Commerce (AIC): City or Provincial Level
 - Under SAIC (State Administrations for Industry and Commerce)
 - Raids
 - Confiscation and/or destruction of knock-offs
 - Criminal proceedings
- Decisions subject to judicial review



Administrative Enforcement of Trademark Rights

- Advantages over judicial proceedings
 - Faster
 - Cheaper
 - More effective!



General Administration of Customs

- Chinese Customs
- IPR Seizures
 - Patents, Trademarks and Copyrights
 - Registration with Customs not required but recommended
 - Advantages of recordal with Customs
- Trademark related seizures account for about 90% of IPR seizures



General Administration of Customs

- Bond is generally required
 - Difference with recordal vs. non-recordal
- Post seizures
 - IP owner pays for storage and destruction of seized goods
 - Costs may be recovered from the infringer through civil actions
 - Must “prove” infringement within 30 days of seizure
- Customs may also turn the case over to the police for further investigation



General Administration of Quality Supervision Inspection and Quarantine

- AQSIQ is a law-enforcement administrative agency in the field of, *inter alia*, quality, entry-exit commodity inspection, certification and accreditation, standardization.
- Local AQSIQs responsible for surveillance over products
- Local import/export inspection and quarantine agencies
- Has Jurisdiction over
 - Products with questionable quality, standard non-compliance and counterfeit certification marks.



Why AQSIQ?

- May levy penalties.
- May also stop shipment of products.
- AQSIQ v. AIC
 - Counterfeit products at factories versus counterfeit products in the market place.
 - “Local” influence.



Thank You!

Licensing and Protecting Trademarks: Best Practices

商标合同及保护： 最佳做法

Roundtable: Paul Jones (moderator)
Ben Fishburne, Yitai Hu and Edward Xu

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最佳做法 – BEST PRACTICES

Audits – Know What marks are Going to China

- What are the key commercial elements?
- For which marks is a Chinese version needed?
- For what classes?

最佳做法 – BEST PRACTICES

Register marks

- Register in as many classes as possible
- Consider use of design patents if 3-D
- Consider registering variations of the Chinese mark

最佳做法 – BEST PRACTICES

Monitor your Marks in China

- Especially the Chinese versions
- Inside and outside of China – some are now shipping labels and product separately for assembly in other countries.
- Register trademarks with General Administration of Customs. They can act ex officio in seizing suspected counterfeit goods.
- Visit trade shows, eBay, small commodities markets in key areas of China, wholesalers, key retailers, places where legitimate products are made and sold

最佳做法 — BEST PRACTICES

Find the Right Partner in China

- Retain advisors experienced in China
- Conduct searches through networks, look for introductions
- Attend trade conferences in China, get to know your options and the differences in your industry in China

最佳做法 – BEST PRACTICES

4. Find the Right Partner in China – cont'd.

Conduct Due Diligence:

- Insist upon the right to make background checks on key people and the company
- Conduct checks on the reputation of the local area.
- Hire outside investigators, and use them
- Audit the other side - Carefully evaluate any property contributions by your Chinese partner, disputes over property valuation have plagued joint ventures
- Some prefer partners with foreign trained key personnel

最佳做法 – BEST PRACTICES

4. Find the Right Partner in China – cont'd.

Conduct Due Diligence:

- Know if there is any state interest in the other party
 - Does the other party need higher authorization to enter into the contract?
 - Does the other party truly own the assets that it is contributing, or does the state still have an interest in the assets – e.g. Danone and the Wahaha trademark – “娃哈哈”

最佳做法 – BEST PRACTICES

Develop your 关系 (guanxi) or relationships

- Customs officials
- Provincial and city authorities
- Embassy
- Chinese and foreign based trade associations
- Local Administration for Industry and Commerce 工商行政管理局

最佳做法 – BEST PRACTICES

What to do when Counterfeits are discovered:

- assess economic impact
- determine desired outcome
- choose enforcement option
- plan preliminary investigation
- plan collection of evidence with notary (no discovery)

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