

# Making sense of China

**Problems, recurrent and new, hindering the enforcement of rights continue to obscure the horizon for mark owners operating in or wishing to enter the Chinese market. However, positive developments are brightening the landscape and should also be acknowledged.**

Ask trademark owners what concerns them most about China, and you will find their responses fall into one of three categories:

- inadequate protection;
- ineffective enforcement; and/or
- inadequate deterrent value.

In fact, besides the known shortcomings to the protection of trademarks in China (eg, bad-faith trademark registrations and counterfeiting), new problems that have recently emerged contribute to create a bleak prospect for mark owners in China.

## **Problems at the CTO**

New problems include delays in the examination of trademark applications at the China Trademark Office (CTO). Despite examining all applications on the merits, the CTO had until 2005 managed to keep the period between filing and publication of a trademark application down to between 18 and 20 months. However, the tremendous growth in the number of trademark filings (in 2003 there were 450,000 – including both national and international applications; in 2004 that number had increased to over 580,000) has led to a growing backlog of applications awaiting examination. An application filed in 2006 is not likely to be examined for at least 24 months. Worse still is the growing backlog of trademark opposition and cancellation proceedings – a factor that would-be infringers will not fail to notice and exploit. Opposition and cancellation proceedings filed in 2006 are not expected to be considered earlier than 36 months from the date of filing.

These delays mean that it will be essential for rights holders to rethink their filing strategy, in order to assess:

- in which situations it is essential to file locally in China (eg, where the applications involve Chinese characters or relate to unusual marks);
- in which situations it would make sense to search and obtain advice locally, but file via the Madrid system (in an ideal situation, securing registration in 12 months and obtaining a

Chinese language certificate from the CTO in another four months); and

- in which situations a simple Madrid filing will suffice.

## **Pending administrative decisions**

More visible are the obstacles to enforcement. In a reply to the Jiangsu High Court's request for guidance in the trademark infringement case of *Jiangsu Zhen Tai Machinery Textile Manufacturing Company v Taixing Tong Xin Textile Machinery Co Ltd*, the Supreme People's Court (SPC) stated that the Jiangsu Court could refuse to hear the case on the basis that the trademarks in issue were the subject of an opposition or cancellation action, and until such time as the CTO or Trademark Review and Adjudication Board (TRAB) has made a determination regarding these marks. This has been widely criticized because, even though the reply does not have formal force of law, it has been interpreted by courts in such a manner as to grant protection to infringers that are working under the cover of a bad-faith trademark application that is being opposed by holders of legitimate prior rights. This means that if an infringer's application successfully proceeds to publication (which can occur, especially with marks in stylized script or device marks) and is then opposed, a court could refuse to hear the rights holder's civil action pending the outcome of the CTO determination of the opposition. Considering that a trademark application that is opposed is formally not yet a registered trademark, the SPC reply represents a backward step.

The SPC reply puts the onus on rights holders to maintain a watch on trademark filings, and especially those of suspected/known infringers, to ensure that these bad-faith registrations are detected before they are published. Alternatively, as the reply is not formally binding on administrative authorities such as the Administration for Industry and Commerce (AIC) and the Technology Supervision Bureau (TSB), which is in charge of enforcing various provisions of the Products Quality Laws (see box on page 7), rights holders may have to make best use of administrative remedies. The decisions of the administrative authorities can, in return, support an opposition that the rights holder may file at a later stage.

## **Non-infringement declarations**

Also in 2004 the SPC issued a reply on non-infringement declarations. The non-infringement declaration, which it was hoped would be used to counter spurious patent infringement claims, is now being used more frequently by infringers in trademark infringement cases as a tactic to gain control over both the timing of

### The view from Philips

“The problems are there for us in China and they are not going to go away; in addition, we are finding that a lot of counterfeit goods are leaving the country and ending up in places such as South America. But on the enforcement side, we generally get good support from the Chinese authorities and now that local companies are beginning to make their own intellectual property we would expect this to increase over the coming years.

There are big cultural differences and it remains the case that copying in China is generally not viewed in the same way as it is in Europe and the United States. This is a question of educating people – a better understanding of IP will result in more respect for IP rights.”

*Jef Vandekerckhove  
Manager of Trademarks, Designs and Domain Names at Philips  
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a case and its jurisdiction. According to the non-infringement reply:

- a party who receives a notice of infringement or warning letter may file a suit with the intermediate people's court of the city where the notice or warning letter is received, and request that court to issue a determination of non-infringement; and
- if the rights holder subsequently files an infringement suit with a different court, the later case must be transferred to the court that accepted the non-infringement declaration suit.

A recent discussion with senior members of the IP judiciary indicated that non-infringement declarations are being sought for all manner of IP cases. At the same time, courts are seeking to limit the potential abuse of such declarations – it is understood that the judiciary would like to see: (i) the requirement imposed that the party seeking the declaration first contact the respondent/rights holder, and (ii) the declaration suit transferred to the court where the subsequent infringement case is being heard. In the interim, however, rights holders should be cautious about sending notices and warning letters as these could inadvertently determine the jurisdiction of a non-infringement declaration suit, and file infringement proceedings promptly to ensure they are not forced to litigate in the infringer's preferred jurisdiction.

### Corruption

In January 2006 the central government announced its latest crack-down on corrupt officials and by the end of March it could claim to have charged over 400 officials with corrupt practices. Yet it remains that payment – whether termed a 'consultancy fee' or a 'support payment' – must often be provided, in particular to lower and mid-level officials, in order successfully to enforce trademark rights. On the flip-side, infringers continue to cultivate strong relationships with local authorities – particularly in cities where infringers form industry clusters and can as a result amplify their influence on local authorities.

### Lack of training

Another problem remains the lack of adequate training of officials. China has made substantial strides in training and providing guidance to its judiciary on understanding and enforcing IP laws and dealing with infringements. However, a lack of resources has meant that the training of administrative enforcement officials is lagging and it is often the case that those on the first line of defence know little about the significance of a 'well-known mark', 'three-dimensional (3-D) mark', or 'colour mark' – let alone how to make consistent infringement assessments where they are dealing with lookalikes rather than counterfeits.

### Interpretation of IP infringement laws

The Interpretation of the Application of Relevant Laws on Criminal Cases of IP Infringement, which came into effect on December 22 2004, has had a negative impact insofar as:

- it has withdrawn the special protection previously enjoyed by well-known trademarks and trademarks on pharmaceutical products – before the interpretation, any act of counterfeiting well-known trademarks and pharmaceutical product marks could be pursued by criminal enforcement; under the interpretation such enforcement is tied to the value of the illegal operations; and
- it has repealed what was colloquially known as the 'three-strike rule' whereby repeat offenders that had had two previous administrative punishment decisions issued against them could automatically be pursued for criminal enforcement.

### Changes to the Domain Name Dispute Resolution Policy

Amendments to China Internet Network Information Centre's Domain Name Dispute Resolution Policy (DNDRP), which took effect on March 17 2006, will also be unwelcome to trademark owners, even though the changes intended to reduce uncertainty in domain name disputes. The amendments with significant impact on trademark owners are that:

- domain name disputes under the DNDRP must be commenced within two years of registration of the disputed domain name;
- registration of domain names for the purpose of selling or leasing will no longer of itself be considered to be made in bad faith; and
- it will no longer be presumed that domain names belong to the owner of a registered trademark that forms a significant part of a domain name.

While these changes do not have an impact on the trademark owner's ability to bring civil actions for domain name disputes, it does limit their ability to do so under the cost-effective dispute resolution procedure offered by the DNDRP.

With these notable limitations to, and derogations from, trademark owners' rights, it is easy to believe that it is all doom and gloom for mark owners in China. Many positive recent developments should be noted which may help disperse the clouds.

### Developments in the protection of non-traditional trademarks

Countering claims that it has been difficult to (i) determine whether 3-D marks and single colour or colour combination marks will be accepted for registration, and (ii) secure protection for such marks, the State Administration of Industry & Commerce (SAIC), the CTO and the TRAB have made efforts to assimilate international best practice and issue guidance to trademark owners.

**International best practice** – Senior officials from the CTO and TRAB,

### Trademark registration:

Trademark applications are filed with the China Trademark Office (CTO), which examines applications on both absolute and relative grounds, issues decisions on preliminary refusals, oppositions and non-use cancellation requests. The CTO also deals with other day-to-day transactions relating to trademarks. An appeal lies from any of the decisions of the CTO and bad-faith cancellation actions to the Trademark Review and Adjudication Board, including where the CTO has refused to register, grant an opposition or cancel a mark on the basis of non-use.

### Trademark enforcement:

Enforcement of trademark rights may be secured via:

- administrative enforcement through either (i) the Administration for Industry and Commerce (AIC), which is empowered to enforce certain provisions of the Trademark Law as well as the Law Against Unfair Competition, or (ii) the Administration for Quality Supervision Inspection and Quarantine (at the local level acting as the Technology Supervision Bureau), tasked with the enforcement of various provisions of China's Product Quality Laws (eg, Article 8 of the Product Quality Law);
- civil litigation brought in one of the intermediate people's courts vested with special IP jurisdiction (in Beijing and Shanghai, there are additionally district courts vested with such jurisdiction);
- criminal prosecution by the Public Security Bureau and the People's Procuratorates (ie, public prosecutors); and
- general customs administration, which inspects inbound and outbound shipments and has the power to detain and seize goods infringing registered trademark rights.

and judges from Beijing's superior courts travelled in November 2005 to the European Union's Office for the Harmonization in the Internal Market and the UK Trademark Office where they took part in an exchange of best practice in order to discuss how single colour and colour combination trademarks are to be treated. As well as feeding this experience into the newly issued Trademark Examination Guidelines (see below), the knowledge gained is expected to be incorporated in a revision of the Trademark Law facilitating, among other things, the registration of single colour marks, which are presently considered to lack sufficient distinctiveness for registration.

**Trademark Examination Guidelines (TEG)** – Although the Trademark Law has recognized 3-D and colour trademarks since the amendments of 2001, clear guidelines have been lacking on how registrability of such marks is to be assessed. Moreover, the TEG had never been made available to the public. On December 31 2005 the SAIC, the CTO and the TRAB published the TEG on their website for the first time, and also incorporated clarifications on the registrability of 3-D marks and colour combination marks. This step has provided trademark owners with a valuable source of reference to how the CTO and the TRAB will deal with various issues – including those relating to 3-D and colour combination trademarks.

**The Coke bottle** – In an important decision accepting the shape of the glass Coca-Cola bottle for registration as a 3-D mark, the TRAB has further removed uncertainty in the registration of 3-D marks by setting out under which circumstances it is prepared to accept for registration a 3-D mark that is also functional in nature – thus providing clear guidance on the level of acquired distinctiveness required.

**Online access to registration information** – On December 26 2005 the CTO provided for the first time online public access to both pending trademark applications and registrations (see

<http://www.ctmo.gov.cn> or <http://sbj.saic.gov.cn>). It is now possible (albeit only in Chinese) to search for identical or similar marks, general trademark information (eg, obtaining further particulars of a known mark or application) and the status of a particular trademark application (ie, where the mark is in the CTO's workflow). While the information in the online database is two to three months out of date and is only updated weekly, it constitutes a significant step in granting insight into the records and workings of the trademark examination process.

### Judicial protection for well-known marks

China has made strides in complying with its international obligations to provide the requisite level of protection for well-known trademarks under Article 6bis of the Paris Convention for the Protection of Industrial Property and Article 16(2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights. Recent case law, of which the much publicized *STARBUCKS* case is a high profile example, reflects this effort.

In its December 31 2005 verdict in *Starbucks Corp v Shanghai Xingbake Café Co Ltd*, the Shanghai Second Intermediate People's Court found in favour of Starbucks on the basis, among other things, that Starbucks's marks STARBUCKS and XINGBAKE (Starbucks's Chinese character mark) were well known. The facts of the case will not be canvassed at this point. However, what is significant, is that the court found in Starbucks's favour (both on the basis of trademark infringement and unfair competition) notwithstanding that the defendant argued that its company name incorporating the name Xingbake had been approved (in October 1999) before Starbucks had secured registration of its Chinese character mark for XINGBAKE (in Class 35 in December 1999 and Classes 30 and 42 in February 2000). In the event, the court was not convinced by the defendant's arguments of prior rights, nor its explanation for selecting Xingbake as part of its company name. In finding that Starbucks's marks were well known, the court found that the defendant had registered its company name in bad faith and ordered it to:

- cease all infringing acts, including making further use of Xingbake;
- make a public apology to Starbucks, and
- pay compensation of Rmb500,000 (around \$62,000).

While it was not essential to the court's finding of trademark infringement or unfair competition that Starbucks's trademarks be recognized as well known, the case illustrates a readiness of Chinese courts to recognize international marks as such, and enforce them accordingly. The defendant has appealed the first instance ruling, and it is understood that the grounds of appeal include the arguments that Starbucks's XINGBAKE mark was not well known at the relevant time and that the defendant's rights pre-date those of Starbucks.

### Exhibitions and Trade Fairs Measures

The Ministry of Commerce, in conjunction with the SAIC, the National Copyright Administration (NCA) and the State Intellectual Property Office (SIPO – that is, the Patent Office) promulgated the Measures for the Protection of Intellectual Property at Exhibitions and Trade Fairs on January 10 2006. The measures, which came into force on March 1, call on trade fair and exhibition organizers to introduce measures to prevent IP infringement at their events. For trade fairs lasting three or more days, organizers should, if called on by the Exhibition and Trade Fair Administration (ETFA):

- set up on site a complaints desk staffed by representatives of, among other organizations, ETFA, SAIC, SIPO and the NCA;

- specify a complaints procedure that should include (i) making a determination on a rights holder's complaint, and (ii) deciding how findings of infringement are to be dealt with (eg, ordering temporary removal of infringing products from the exhibition);
- refer matters to the appropriate enforcement authority within 24 hours of any infringement complaints being received; and
- if an exhibitor is found to have been infringing at the same trade fair on two consecutive occasions, ban the exhibitor from the next trade fair.

Alternatively, event organizers could set out prominently the contact details of all relevant administrative enforcement authorities that are empowered to act on rights infringements.

Although it is untested how far the ETFA will in practice seek to enforce the measures, these do grant ETFA the power to censure organizers, and even to refuse to re-issue licences to conduct fairs should organizers fail adequately to protect IP rights at their events. In any case, the measures signal a willingness of authorities to ensure that IP rights, such as trademarks, are offered adequate protection at exhibitions and trade fairs.

#### Increased cooperation between administrative authorities

In the last 12 months, there have been increasing efforts (both formal and informal) to foster cooperation between various administrative authorities. An example of a formal measure to foster cooperation is provided by the Interim Regulations on Strengthening Cooperation in Criminal Cases Concerning Trademark Infringement, which came into force on January 13 2006. The regulations aim to strengthen coordination and cooperation between the AIC and the Public Security Bureau (PSB) – in charge of criminal prosecution – by, among other things, requiring each to notify the other in relevant circumstances when they discover trademark infringements. They also set deadlines for taking up such notifications – that is, once notified by their counterparts of cases falling within their remit, each authority must commence investigations within three business days of receiving notification of trademark infringements.

At an informal level there have been a greater number of cases transferred from the AIC and the TSB to the PSB, often resulting in successful criminal prosecution. A high profile example of such transfer was the recent *Balei Mila Cosmetic Company Ltd* case. This case originated in an investigation and prosecution of Balei Mila by the Nantong TSB in March 2005 for infringing trademarks of 60 brands of personal care products of 11 trademark owners. Given the substantial volume and value of the products involved, the TSB transferred the matter for investigation by the PSB and public prosecutors, which culminated in a criminal trial before the Nantong Intermediate People's Court. On December 25 2005 the court handed down its judgment, finding one foreigner and one Chinese national guilty of criminal trademark counterfeiting of eight brands, sentencing them to four years' and three years' imprisonment respectively (with a mandatory custodial sentence), and imposing monetary penalties of Rmb500,000 and Rmb300,000. Had the case remained with the TSB, the most the trademark owners could have expected would have been monetary penalties. As a result of the criminal prosecution, however, the deterrent effect of the case has increased dramatically.

#### Greater effectiveness of authorities

A number of recent cases also illustrate that administrative authorities such as the AIC and TSB are finding new ways to apply their remit under the Trademark Law. In a recent (unreported) case,

a multinational lock manufacturer holding a portfolio of international brands undertook AIC enforcement action in March 2006 in Qingdao against a local import-export company. Although no infringing products were found during the AIC inspection, the authority seized papers and books of account documenting past infringements of over Rmb1 million. On the basis of this evidence, and with the assistance of the AIC, the trademark owner negotiated a settlement with the infringer resulting in Rmb200,000 compensation to the trademark owner (thereby more than covering the costs of the enforcement action), in addition to the AIC's penalty of Rmb300,000. A number of years ago, administrative authorities enforcing trademarks showed little interest in pursuing secondary evidence of infringement such as sales and shipping records. As this case illustrates, their position is changing.

#### Lower criminal liability thresholds

The Interpretation of the Application of Relevant Laws on Criminal Cases of IP Infringement, mentioned above, did not have negative effects only. Its benefits for trademark owners are as follows:

- it lowered the thresholds for criminal prosecution of trademark counterfeiting from, for example, an 'illegal operational value' of Rmb100,000 in the case of a natural person and Rmb500,000 for legal entities, to Rmb50,000 and Rmb150,000, respectively;
- it provides greater flexibility in reaching the criminal prosecution threshold including 'illegal operational value' (as set out above), 'illegal income' (where it exceeds Rmb30,000 and Rmb90,000), 'sales revenue' (Rmb50,000 and Rmb150,000) and 'quantity' (where the number of counterfeit trademark representations exceeds 20,000/60,000); and

#### The view from Microsoft

"I'm just a wide-eyed optimist! China is now a member of the WTO. China has an immensely huge economy growing at 9.5% a year last time I checked. You can't take an economy that big and have it grow that fast and allow it to ignore international norms on this. My opinion is that over time these issues will resolve themselves. You have to remember that China has competition from the United States and from Japan – which cares an awful lot about intellectual property – and now all of a sudden it has competition from India. And India, which is about the same size, has over the last few years become a very stalwart economic engine based on the rule of intellectual property: just like here in the United States. If I were China, I would be looking at how far India has come because and not in spite of IP rules. If you want the country to continue to attract investment and be competitive you have to take that into consideration and I think they will. China has pretty good IP laws, what they've got is lousy enforcement."

*Marshall Phelps*  
Corporate Vice President for IP at Microsoft Corporation

## IP criminal infringement statistics

On March 27 2006 China's State Council published statistics regarding IP criminal infringement in 2005. During that year, the Public Security Bureau, in charge of criminal prosecution (see "China's trademark protection and enforcement system" on page 7) accepted 1,799 criminal cases involving IP infringement (up 52% from 2004); the value of the infringing goods was about Rmb1.28 billion (\$160 million – up 366% from 2004); and 1,470 cases were concluded (up 46% from 2004) with 2,119 suspects arrested (up 56%).

Between 2000 and 2005, the bureau handled more than 6,700 IP criminal cases involving goods of a value of Rmb3.5 billion with more than 9,300 suspects arrested.

The State Administration for Industry and Commerce (SAIC), which is in charge of administrative enforcement, also announced on March 27 that between 2000 and 2005 it had handled about 174,000 trademark infringement cases and 559 suspected criminal cases, involving 560 suspects were transferred to the Public Security Bureau.

In 2005 alone about 39,000 trademark infringement cases were accepted by the regional offices of the SAIC, of which 236 cases involving 215 suspects were transferred to the Public Prosecution Bureau.

- it allows for more severe punishment, with imprisonment of between three and seven years, where the level of the counterfeiting exceeds five times the applicable threshold.

Criminal enforcement has a strong deterrent value, and the amendments brought in by the interpretation increase both the availability and impact of this deterrent to trademark counterfeiting.

## Other positive signs

Apart from the specific measures illustrated above, there are further positive signs that enforcement of trademark rights is heading in the right direction in China. In the well-documented *Beijing Silk Street* case (action by Burberry, Chanel, Gucci, Prada and Louis Vuitton against Beijing Xiushui Haosen Clothing Market Co and five market stall holders), the Beijing Second Intermediate People's Court, in finding for the plaintiffs, ruled that a landlord could be held vicariously liable for trademark infringement by "providing conditions which facilitate infringement" to vendors that it knows are selling counterfeit goods. By holding landlords accountable for infringing activities of their commercial tenants, courts are clearly providing trademark owners with less elusive targets than the shell companies that often operate the stalls, and increased chances to enforce their rights.

A final word should be spared for the bugbear of trademark owners throughout the world, located right in the heart of Shanghai. The infamous Xiangyang Road Fashion and Gift Market (operated by New Shanghai International Centre Development Co) is due to be shut by June 30 2006. Although the controversial market appears to many a disorganized tourist attraction, it represents substantial business interests – the 900 or so vendors pay reportedly over Rmb50 million in rent to New Shanghai International Centre Development Co. While shutting down the market will not cure the underlying trademark infringement and counterfeiting problems, taking such action against this Shanghai

institution perhaps signals that international pressure brought to bear by trademark owners is starting to make a notable difference.

## Conclusion

Protection and enforcement of trademark rights in China is clearly still a work in progress. Some would even argue that certain recent developments suggest that China is moving in the wrong direction. Certainly the increasing delays at the CTO and the TRAB in relation to examination of applications, oppositions and cancellations is a worrying development. However, there has also been positive movement via the judiciary and in supporting administrative enforcement remedies and interaction between various authorities. So while it is not all blue skies over China for trademark owners, at least the clouds have a silver lining. [WTR](#)

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