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Risks and precautions

Foreign companies seeking to license or assign trademarks in China should be aware of the country's idiosyncrasies – such as the need to obtain the authorities' approval for an assignment to be valid

Trademark licensing and assignment can reflect the value of the trademark to a certain extent, as it can bring great benefits to trademark holders. Licensing and assignment are becoming increasingly common in China, thanks to the development of the country's economy. However, businesses, especially foreign corporations, need to pay more attention to the legal risks inherent to these activities, as litigation stemming from licensing and assignment activities is often the direct consequence of ignorance of the relevant Chinese legislation.

This article analyses the risks associated with licensing and assignment in China.

Legal framework

Trademark licence

A trademark registrant may license its registered trademark to another party by entering into a trademark licence agreement. According to a judicial interpretation of the Supreme Court, a trademark licence can fall into one of the following three categories:

- an exclusive licence, under which the rights holder grants a licence to a single licensee for use of the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is prohibited from using the registered trademark itself;
- a sole licence, under which the rights holder grants a licence to a single licensee for use of the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is permitted to use that registered trademark itself, but prohibited from licensing the mark to another party; and
- a non-exclusive licence, under which the rights holder grants a licence to

any other party to use the registered trademark for an agreed time period, within an agreed territory and in an agreed manner, and is permitted to use and grant licences to further parties to use the registered trademark.

Parties to a licence have different rights and obligations with regard to litigation, depending on the type of licence entered into. In case of infringement of a registered trademark:

- licensees under exclusive licence agreements may file a lawsuit;
- licensees under sole licence agreements may file a joint lawsuit together with the rights holder or independently if the rights holder fails to file a lawsuit; and
- licensees under non-exclusive licence agreements may file a lawsuit if such licensees are demonstrably authorised to do so by the rights holder.

Similar provisions apply when a licensee seeking to prevent the infringement of a registered trademark applies for the preservation of evidence (Interpretation of the Supreme People's Court on pre-litigation to stop infringement of registered trademark rights and the law applicable to the preservation of evidence).

A trademark licence agreement shall be filed with the Trademark Office for recordation. The recordation is not a prerequisite to the commencement of the agreement – failure to record a licence shall not affect the validity of the agreement, unless the parties agree otherwise.

Trademark assignment

To assign a registered trademark, the assignor and the assignee shall sign an assignment agreement and file an application with the Trademark Office jointly.

Upon verification and approval of the assignment of a registered trademark, a publication shall be made. The assignee shall be entitled to the exclusive right to use the trademark from the date of publication – not before.

To assign a registered trademark, the assignee must transfer all similar or identical trademarks registered for similar or identical goods; otherwise, it will need to make a rectification within a specified timeframe. Failure to make the rectification within the timeframe shall be deemed as abandonment of the application for assignment of the registered trademark and the Trademark Office shall notify the applicant accordingly in writing. The Trademark Office shall not approve any application for assignment of a registered trademark that may be misleading as to the identity of its owner, or may cause confusion or have other adverse effects; the office shall notify the reasons in writing.

Assignment of a registered trademark shall not affect the validity of a trademark licence agreement that has become effective before the assignment, unless otherwise agreed in the licence agreement.

Licensing risks

Certain risks may arise from licensing trademarks in China.

To be valid, a trademark licence must be in writing and include:

- the trademark name and registration number;
- the approved scope of use;
- the duration of the licence;
- the mode of providing trademark identification;
- provisions enabling the licensor to supervise the quality of the goods using the licensed trademark; and
- a provision governing the way that

the licensee's name and the origin of the goods should be displayed and described.

In addition, trademark licences must comply with contract law. Under Article 52 of the Contract Law, a contract is invalid if it falls within any of the following categories:

- One party signed the contract by deceit or coercion and has harmed the country's interests;
- Two parties were in malicious collaboration and have harmed the interests of the nation, a collective group or a third party;
- The contract covers illegal purposes even though in legal form;
- The contract has harmed the public interest; or
- The contract has violated mandatory legal and regulatory requirements.

Violation of these provisions will automatically invalidate a trademark licence. Such was the case in *Wong Lo Kat v JDB*. In 1997 Guangzhou Pharmaceutical Group, the maker of herbal tea Wang Lo Kat, signed an agreement to license the mark WANG LO KAT to Hong Kong's Hong Tao Group. Subsequently, Hong Tao Group granted its subsidiary company, the JDB Group, a licence to sell Wang Lo Kat in red cans in China. Later, the vice chairman of Guangzhou Pharmaceutical Group accepted HK\$3 million from the chairman of Hong Tao Group. The two parties signed several supplementary contracts to extend the validity of the licence for WANG LO KAT to 2020. By doing so, the trademark WANG LO KAT was leased to Hong Tao Group at an unreasonably low price. The arbitration conducted by China's International Economic and Trade Arbitration Commission stated that the supplementary licence agreements between Guangzhou Pharmaceutical Group and Hong Tao Group were invalid, and that Hong Tao Group must stop using the trademark WANG LO KAT ((2012) China Maozhongjingcai 0240). The problems for the licensee in this case originated from the invalidity of the contract under Chinese contract law.

Lastly, the licensor shall submit the agreement to the Trademark Office for recordation within three months of the date on which the trademark licence agreement is executed (Article 43 of the Trademark Law Implementing Regulations). The purpose of recordation is to help the authorities to manage trademark licences and standardise such licences by supervising their contents and execution. Failure to file a licence shall



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not render the agreement invalid, but it can restrict its scope. In such cases, the agreement will bind only the licensor and licensee and cannot be enforced against a good-faith third party. In the case of an exclusive or sole licence, public scrutiny can prevent the licensor from licensing the trademark to a third party and thus infringe the rights of the licensee.

Assignment risks

A number of disputes relating to the assignment of trademarks arise from easily avoidable mistakes – for instance, the assignor is not the lawful registrant or the trademark is transferred without the consent of the rights holder. *Shenzhen Proviev v Apple* ((2010) Shenzhongfaminsan 208, 233) is an example of the former. In that case, Apple signed a licence agreement with Taiwan Proviev on the mistaken basis that the latter held the rights to the *IPAD* mark in China, rather than the actual rights holder, Shenzhen Proviev. In the latter case of transfer without consent, even if various measures can be taken to protect the interests of a rights holder, loopholes in trademark transfer procedures mean that risks exist and it is difficult to compensate

the infringed party's loss.

Parties should carefully consider what the assignment agreement covers. While such an agreement binds both parties, the transfer of trademark rights does not automatically follow. The parties must first obtain official approval of the transfer of the trademark, which must be publicly announced. The assignee enjoys exclusive trademark rights from the publication date. This shows that approval of the transfer contract is a precondition to assign trademark rights legally. In the *IPAD* case, Apple had signed a transfer contract with Shenzhen Proviev; however, Shenzhen Proviev remained the rights holder as long as the transfer was not approved and publicly announced by the Trademark Office. If Apple used the trademark without permission of Shenzhen Proviev before publication of the office's approval, such use may constitute trademark infringement. Thus, the court held that if Apple wanted to buy the trademark, it should sign an assignment contract and complete other trademark transfer procedures under Chinese law. This is essential and has practical significance for most foreign enterprises.

Last but not least, risk might arise from partial transfer – that is, when the assignor does not transfer the trademarks with the assignment contract and uses the marks after the transfer. Such transfers will be deemed invalid, but not before substantial damages are caused to the assignee. Although Article 25(2) of the Trademark Law Implementing Regulations clearly states that the Trademark Office should thoroughly examine any application for a trademark transfer, opportunists may still take advantage of legal loopholes.

Conclusion

Ignorance of local law can expose foreign companies wishing to license or assign a trademark to significant legal risks. The licensee or assignee of a trademark must submit the relevant documents and authorisations to the Trademark Office for recordation, to confirm the name of the rights holder and to improve the terms of the contract in order to prevent legal risks. "A guest does as his host does," the Chinese saying goes. This is good advice to follow in the case of trademark licences and transfers too, when foreign corporations should know and comply with Chinese law. Only thus can risks be truly avoided. [WTR](#)