

Law Institute of Victoria
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Intellectual Property

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“Doing Business in China: Helping your Client Navigate IP”

Introduction

There is a Chinese saying: *Nothing is impossible. Everything is difficult.*

This is the likely perception of many businesses thinking of engaging with the People’s Republic of China. The language and culture are different. The food is different. The legal system is different. Yet, one cannot ignore the economic power of China in its contribution towards the global Gross Domestic Product. ²

The differences in philosophies and values between the East and West often pose navigational challenges. In the common law jurisdictions there is a large body of intellectual property laws developed over a longer period of

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² China is listed as the 2nd largest consumer market in the world, next only to the United States, according to the United Nations Statistics Division (<http://unstats.un.org/unsd/>). It is currently Australia’s largest trading partner and export market.

time to enable businesses to have a greater level of certainty of their rights and obligations. China is still developing its intellectual property laws to consistently apply across all provinces in China. A decision handed down by China's highest Court may be differently applied by an Intermediate Court in a provincial city based on other applicable local policies relevant to the dispute.

When it comes to the protection of intellectual property rights, knowing the *Chinese* law and how it operates to protect intellectual property rights are only one part of the strategy.³ The other part is to put in place realistic intellectual property strategies at the earliest possible time.

Trademark Law in China⁴

The State Administration of Industry and Commerce is responsible for overseeing trademarks in China. Trademarks registrations are made through the China Trade Mark Office,⁵ which provides a convenient online search facility where its database records all trademarks applied for and registered in China.⁶

On 30 August 2013 the Revision of the Trademark Law of the People's Republic of China was adopted at the 4th Session of the Standing Committee

³ See for example <http://www.wipo.int/wipolex/en/details.jsp?id=13198>. Other than "well known trademarks, there is no common law protection of unregistered trademarks.

⁴ The author's remarks are confined to examples of trademark issues arising under the Chinese Trademark Law. A useful resource for other IPR issues can be found at <http://www.chinaipr.gov.cn/list/iplaw/1/cateinfo.html>.

⁵ See http://www.saic.gov.cn/sbjEnglish/sbcx_1/. Apple OS with Chrome or Safari browsers may experience display problems. Internet Explorer browser is recommended.

⁶ China follows the 10th edition of the Nice Classification (see <http://web2.wipo.int/classifications/nice/nicepub/en/fr/edition-20160101/taxonomy/>) but further divide trademarks into sub-classes.

of the 12th National People's Congress, and the new Chinese Trademark Law came into effect as of May 1, 2014. ⁷

Key amendments include the prohibition of using "well known trademarks" ⁸ for commercial activities; the recognition of prior use; the prohibition of hijacking another party's unregistered mark with prior use.

With the revised intellectual property laws in place, the Chinese Government has also stepped up its enforcement of intellectual property rights. However, while these amendments go in some way to strengthen the rights of trademark owners in China, for foreign businesses intending to launch or scale-up their enterprise in China the road is still laden with "pot-holes and pitfalls" even for the accustomed navigator of the "Great Wall".

A prime example is the recent decision by China's Supreme People's Court in *Focker Security Products Internationals Limited v Pujiang Ya Huan Locks Co. Ltd* on the question of whether an Original Equipment Manufacturer (OEM) is guilty of trademark infringement if goods manufactured in China are only offered for sale overseas.

The Supreme People's Court held that a trademark affixed on the OEM products exclusively designated for export does not function as a badge of origin of those products in China because the mark is not used as a trademark in China.

⁷ See http://www.wipo.int/wipolex/en/text.jsp?file_id=341321.

⁸ In 1987 the Chinese Trade Mark Office recognised Pizza Hut as its first well known trademark. China did not have a system of recognising such marks in place but a Chinese Court recognised the mark as well known when it sued an Australian company seeking to register the trademark "Pizza Hut" in China for its cake and powder products. Article 13 divides "well known trademarks" into registered and unregistered in China. Article 14 lists the factors to be considered in determining a "well known trademark". McDonalds, Starbucks, L'Oreal and Gillette are among those that hold the "well known trademark" status but Louis Vutton was unsuccessful in its application in China.

While this case has limited the reach by Chinese trademark trolls to hold foreign trademark owners ransom when seeking to manufacture their goods in China, its “unintended” consequence is also to allow anyone to manufacture an unauthorised branded product in China and avoid trademark infringement in China, provided the product is made for export.

The legal and regulatory framework for intellectual property protection have been ramped up in China and together with China’s ascension to international treaties on registered intellectual property rights⁹ there is now a greater measure of protection for Australian businesses when entering the China market or seeking manufacturers and suppliers.

So, what are some of the real traps to watch out for?

Intellectual Property Strategies

Get in Early

An Australian owner of a registered trademark or pending application may use the home registration of its trademarks or application as a basis to request registration of its trademark in China under the Madrid Protocol.¹⁰ It should be noted, however, that China is a *first to file* country.¹¹ Trademark trolls are active, and often take advantage of the *first to file* rule for obtaining trademark rights. They are also not afraid of litigation as can be seen from the increased foreign trademark disputes contested in the Chinese Courts.

⁹ See also Patents Cooperation Treaty and the Paris Convention for the Protection of Industrial Property. China joined TRIPS on 11 December 2011.

¹⁰ The Madrid Protocol is a treaty providing for the international registration of trademarks under the World Intellectual Property Organisation.

¹¹ Article 31 of the Chinese Trademark Law; cf Article 59 (prior use defence).

Businesses who are intending to manufacture and sell products in China should also register their trademarks in China the moment they conceive of the trademark otherwise they risk being prevented from entering the China market or have to buy or license the Chinese registered trademark at an exorbitant price. There are scores of examples of foreign trademark owners being held ransom by local trademark punters.

An example is the costly and protracted litigation brought by US company, Tesla Motors Inc, against a Chinese businessman, Zhan Baosheng. Tesla had set up a Chinese company Tuosule Motors Sales (Beijing) Co Ltd and established its motor showrooms, service centers and super charge stations in various major locations in China.

The problem is that Zhan had already registered the mark TESLA well before the US company entered into the China market. Zhan had applied for registration three years after Tesla was founded in the United States. Zhan also registered the domain name tesla.cn. Tesla sued claiming that Zhan had infringed its copyright in the logo TESLA with the T & Shield Device and trade name rights to TESLA and its Chinese name 特斯拉 (pronounced Te Si La).

At first instance, Zhan lost the case for revocation and appealed. Zhan also sued Tesla for trademark infringement and sought to stop Tesla selling its cars and shut down its operations in China. On 5 August 2014, the Beijing Third Intermediate People's Court successfully mediated the dispute between them. Tesla made a financial payment to Zhan.

Another example is Apple Inc's two year trademark dispute with Chinese company Proview International Holdings Ltd involving the use of the iPad trademark in China.

Proview's wholly owned subsidiary, Proview Technology (Shenzhen) Co, sought to block the iPad tablets from shipping to China despite its Taiwanese parent having done a deal with Apple regarding the use of the iPad name in China. Proview Shenzhen registered the iPad trademark in China back in 2001. Apple sued Proview Shenzhen claiming ownership of the iPad trademark in China and lost. Eventually Apple settled the dispute and paid US\$60m.

There are also successful cases brought against Chinese trademark trolls using prior copyright rights to invalidate trademark applications. One such case is the famous series of famous comic albums "THE ADVENTURES OF TINTIN" by the cartoonist HERGE and managed by Moulinsart. The Trademark Review and Adjudication Board found that the evidence showed that Moulinsart enjoyed copyright over the comic albums prior to the application of the mark in dispute, and thereby invalidated the disputed mark.

Another ultimately successful opposition involves the application to register the trademark "邦德007, BOND" in Class 10 by a Chinese citizen named Xie. DANJAQ, LLC owned the copyright, trademark and merchandising rights over the 007 and JAMES BOND marks. After several appeals, the Beijing Higher Court recognised the "first rights" of DANJAQ whose efforts, business value or business opportunity in building the

reputation and popularity in China amongst the Chinese public would be damaged by Xie's trademark application.

Trust no one

Careful planning prior to entering a foreign market is vital. Businesses might even consider applying for registration in China years before any actual engagement occurs. For those businesses looking for manufacturers or suppliers, it is imperative that all designs and trademark information are kept confidential as long as possible. Non-Disclosure and Confidentiality agreements with terms restricting the use of confidential information and trade secrets ought to be obtained prior to any formal engagement.

It may also be prudent to test the relationship between the parties as to the keeping of information confidential by disclosing a *placebo* trademark rather than disclosing the real brand.

An example of how one company's confidential information was leaked, and got into the hands of a Chinese company who began to exploit the trademark is Farmer Brown's Dairy Company. Before any production had begun by the Australian company, the milk product was already being sold in China with the bespoke design of the company's getup and trademark.



Australian Trademark owned by Farmer Brown's Dairy Company



Chinese trademark owned by Putian City Federation Trading Company

Register in English and Chinese

English may be spoken in China by over 50 million people but the majority cannot read the English alphabets. It is therefore quite common for a foreign mark to be given a phonetically equivalent name in the Chinese characters. In addition to the English name, it is imperative to register the literal and phonetic translation of the foreign trademark in all classes and sub-classes of goods and services. Failure to do so will result in costly and protracted litigation.

US basketball legend Michael Jordan was not deterred to take on a Fujian based Chinese company who used a similar name and logo to his Nike manufactured brand. Michael Jordan sued the Chinese company called Qiaodan Sports Co ¹² for using his Chinese name and jersey number "23", and was unsuccessful at first instance and in a subsequent attempt to the Beijing

¹² Qiaodan (乔丹), pronounced "chee-ow dahn," is a Mandarin transliteration of "Jordan".

Municipal High People's Court.¹³ The case is not over yet as Michael Jordan has appealed the decision to the Supreme People's Court for a retrial.



Closer to home, Treasury Wine Estates is still embroiled in litigation in China over its trademark *Penfolds*. A rival wine company in China registered variations of the Penfold's Chinese name, *Ben Fu*. Others like Victorian producer David Blackmore of Blackmore Wagyu Beef has pulled out of China due to counterfeiting of its products.

Enforcement

The *last mile* of intellectual property protection is often the hardest. It necessarily begins with one party (usually the owner) initiating a process to resolve the dispute by negotiating a just and fair outcome with the other party (the alleged infringer).

For foreign businesses, however, it is more difficult to engage effectively in such negotiations with a Chinese citizen because of the

¹³ See <http://qz.com/467625/in-china-michael-jordan-does-not-hold-the-rights-to-his-own-name/>.

differences in culture, language, and philosophical attitudes toward intellectual property rights. It is not surprising that foreign businesses prefer to launch Court proceedings to obtain relief quickly and enforce it practically. This is the “shoot first, and talk later” approach.

Judgments obtained in the Chinese Courts by foreign businesses are, however, notoriously difficult to enforce. It is common for an infringer to evade enforcement¹⁴ by taking elaborate evasive measures including:

- Closing down the business and moving to another location.
- Disposing of assets either prior to or after proceedings have begun.
- Creating spurious debts and creditors.
- Contriving false legal proceedings to obtain judgment in order to create priority over other possible judgments.
- Using local authorities and relationships to delay enforcement.

To strengthen enforcement of the Court’s judgments, the Supreme People’s Court has issued guidelines as to sanctioning the behavior of those seeking to avoid the Court’s judgments.¹⁵

While the Chinese Courts have become more stringent in their approach to enforcement, finding a tailored and local approach is likely to lead to recovery and achieve a better outcome.

¹⁴ Changhui, C (2015), *Enforcement: the last mile of intellectual property litigation*, <http://www.chinalawinsight.com/2015/07/articles/intellectual-property/enforcement-the-last-mile-of-intellectual-property-litigation/>.

¹⁵ See <http://www.beijingeastip.com/en/NewsShow.aspx?p=2&id=98419a90-eb86-428b-80bf-8ba919b00a8a&nid=e857d586-b58a-4121-ac77-450e95094560>.

Conclusion

China is a culturally and linguistically diverse place. The legal system is still evolving. Everyone wants to do business with China. The rewards are great. The pitfalls are equally great. It is clearly not for everyone.

The measure of success ultimately depends on adopting a holistic approach in preparing to engage in the China market. This requires expenditure of initial capital to ensure that the correct legal information is provided and in a timely fashion. Using recognised experts in the field is crucial as it minimises the leakage of information, and ensures accountability.

Australian lawyers ought to take the time to build strategic relationships with Chinese lawyers and other service providers in China. Finding the right legal team in China is a crucial step in the implementation of workable strategies for effective protection of intellectual property rights in China.

China is a promising frontier of opportunities and rewards. Navigating the intellectual property landscape is no longer as murky as it used to be but the mud may still stick to those who do not have the right equipment!