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Six Common Mistakes Brand Owners Make in China

Although the Chinese government has improved its intellectual property system, China still has a bad reputation for protecting intellectual property rights, particularly trademark rights. A common story amongst western entrepreneurs is of a western company having its trademarks infringed upon in China and consequently learning its lessons the hard way. The Chinese market is the world's biggest consumer market and thus the opportunities are enormous if the right approach is taken. The protection of trademarks is not as bad as it may seem. There are precautions brand owners can take to protect their brand and to make infringement less likely to occur. One can take measures to stop another company or person stealing your trade mark.

Below is a list of common and avoidable mistakes when registering and using trade marks in China:

- not aware of the "first-to-file" system
- not aware of trademark squatters
- not getting enough protection because of China's unique system of sub-classification
- failure to register a trade mark in Chinese
- not familiar with what can be registered as a trade mark
- failure to file an assignment agreement with the China Trademark Office ("CTMO")

No.1 Mistake – Not Aware Of The "First-To-File" System

The most commonly used system around the world is the "first-to-use" system. Under this system the first person to use a trademark will generally have more rights to the mark than an applicant who files an application for the same mark at a later date. China uses a different system, the "first-to-file" rule, which means the first person to file a trademark application will generally have priority over an earlier user of the mark. Article 3 of the Trademark Law of the People's Republic of China ("TML") states "*Registered trademarks refer to trademarks that are registered with the approval of the Trademark Office*" and "*The owner of a registered trademark shall enjoy the **exclusive right** to the use of the trademark, which shall be protected by law.*" Article 4 of the TML states "*Any natural person, legal person, or other organization that needs to acquire the exclusive right to the use of a trademark for the goods he produces, manufactures, processes, selects, or markets shall file an application for registration of the trademark of the goods with the Trademark Office.*"

Hence a company with a recognized trademark in Australia may infringe on the same trademark in China when entering the Chinese market if another company has registered the same trademark with the CTMO. This also means that the other

company, who has registered your trademark, can stop you using that mark in China.

As a member of the Paris Convention, China has to protect “well-known” trade marks, even if they are not registered. However, the threshold for being “well-known” is high; in the majority of cases owners fail to prove that the disputed trademark has obtained sufficient recognition within the relevant markets in China even though the mark is well-known outside of China.

Article 13 of the TML states *“Where the trademark of an identical or similar kind of goods is a reproduction, imitation, or translation of another person's well-known trademark not registered in China and is liable to cause public confusion, no application for its registration may be granted and its use shall be prohibited. Where the trademark of a different or dissimilar kind of goods is a reproduction, imitation, or translation of another person's well-known trademark not registered in China and it misleads the public so that the interests of the owner of the registered well known trademark are likely to be impaired, no application for its registration may be granted and its use shall be prohibited.”* Article 14 of the TML states *“The following factors shall be considered in determining whether or not a trademark is a well-known one: (1)the degree of public recognition in its trading areas; (2)the duration in which it has been in use; (3)the duration and extent of its advertising, and the geographical areas the advertising has covered; (4)the records of protection it has gained as well-known trademark; and (5)other factors serving to make it well known.”*

In practice, to seek protection of a trademark under articles 13 and 14 of the TML, the owner has to prove that the trademark:

- is well-known in the country of origin;
- is well-known internationally; and

- is well-known in China prior to the filing date of the identical or similar trademark with the CTMO

Large companies who have learned hard lesson in their trademark battle in China include:

- Hermès (the Chinese version of Hermès, “爱玛仕” (pronounced as “Ai Ma Shi”))
- Pfizer (the Chinese version of Viagra, “伟哥” (pronounced as “Wei Ge”))
- Chivas Brother (Chivas Regal in class 25)
- Adidas (“Y-3” vs “Y3”)

Tips: It is highly advisable to apply to register your trademark as early as possible, and preferably well before you enter the Chinese market. Your failure to file early not only leaves the door open to other parties to file before you do but also increases the possibility that your products may be excluded from entry to the Chinese market because of pre-existing registrations by other parties. Once this happens the remaining options include:

- pay money to buy your own mark, which can be frustrating
- launch litigation against the other party to fight for your rights, which can end up being a long-term battle with unpredictable results
- rebrand your products, which can be costly

No.2 Mistake – Not Aware Of Trade Mark Squatters

According to the official report by CTMO and Trademark Review & Adjudication Board (“TRAB”), in 2011, 1,416,785 trademark applications were filed in China; and in that year there were approximately 6,651,000 valid registered trademarks in China. That is approximately three times more than in USA,

the runner-up. Although it is unclear how many recent Chinese applications were for established Western brands, trademark squatting is high on the list of problems faced by foreign companies who are in or want to enter the Chinese market. Large companies who suffer from trademark squatting in China include:

- Dixons – a Chinese company has registered “Dixons” in both English and Chinese in class 9 in respect of phones and cameras and is entitled to the exclusive right to use the mark “Dixons” until 2020.
- Theo Fennell – a Chinese company has registered “Theo Fennell” in class 25 in respect of clothing, shoes, gloves and ties and is entitled to the exclusive right to use the mark “Theo Fennell” until 2016.

Tips: file as early as possible.

No.3 Mistake – Not Getting Enough Protection Because Of China’s Unique System Of Sub-classification

Although China has adopted the Nice Classification of Goods and Services (“**Nice Classification**”) (10th Edition, as of 1 January 2012) in the examination of trade mark applications, the CTMO has created its own unique “Book of Classification of Similar Goods and Services” (“**Book of Classification**”) for Chinese examiners’ reference. In accordance with the Book of Classification, each class as per the Nice Classification has been sub-classified into sub-classes. Goods that belong to different sub-classes (even in the same class) are not deemed to be similar and/or closely related goods for examination purposes. For example, clothing under sub-class 2501 is not deemed similar to footwear under sub-class 2507 or headgear under sub-class 2508. This means that identical or substantially similar marks covering goods in different sub-classes can coexist in the register.

It is strongly recommended that applicants refer to the Book of Classification when specifying the goods covered by the trade mark to ensure adequate protection of the mark. For example, class 25 “clothing, footwear and headgear” as per the Nice Classification has been sub-classified into 13 subclasses as follows:

- clothing (2501)
- textiles for babies (2502)
- specialty sports apparel (2503)
- waterproof clothing(2504)
- costumes (2506)
- shoes for special purpose (2506)
- shoes (2507)
- hats (2508)
- socks (2509)
- gloves (2510)
- ties, scarfs, mantillas and veils (2511)
- girdles and belts (clothing) (2512)
- single product (2513)

For each sub-class, there are various descriptions of goods. These descriptions are used to specify goods in an application. Class or sub-class headings cannot be used to describe goods, unless the words coincide with words used in the various descriptions of goods.

A common mistake in respect of the scope of coverage of specifications is that some specifications are not as broad as they sound for registration purposes. For example, “clothing” sounds generic and applicants may believe it covers all the goods under class 25. However this is not true according to the Book of Classification. Clothing only covers goods specified in class 2501; goods such as raincoats, gloves, socks and swimsuits are considered to be different goods. Therefore, if one registers a trade mark for clothing, that mark cannot prevent other applicants registering exactly the same mark for goods such as raincoats, gloves and swimsuits.

Case: Adidas, owner of the “Y-3” mark, failed to stop registration of “Y3” in China after a 6 year battle. On 16 December 2002, Adidas successfully registered its “Y-3” mark through

the Madrid system in respect of clothing, shoes and hats in class 25 in China. According to the Book of Classification, Adidas registration obtains exclusive right to use “Y-3” mark in sub-classes 2501, 2502, 2507 and 2508. Exxel International Corp (“Exxel”), a company based in Taiwan, applied, on 14 October 2003, to register “Y3” in class 25 in respect of swimsuits, socks and gloves, which fall into sub-classes 2503, 2509 and 2510 respectively. On 14 July 2006, the CTMO preliminarily approved the application and published it for opposition. On 13 June 2006 Adidas opposed the application. The CTMO and TRAB ruled in favour of Exxel on the basis that swimsuits, socks and gloves are goods dissimilar to clothes under sub-class 2501. Adidas failed in the appeal of this case to Beijing No.1 Intermediate Court, which upheld the decision that the goods are dissimilar as the function, usage, key materials, targeted consumer groups are different. Adidas is now appealing this decision to Beijing High People’s Court.

Tips: It is important to understand the Book of Classification. In addition to the goods and services on which the trademark is being/will be used and marketed in China, it is recommended that the applicant pick at least one item from each sub-class in the same class to obtain a wide scope of protection.

No.4 Mistake – Failure To Register A Trade Mark In Chinese

The majority of Chinese consumers in mainland China do not speak or understand English. Those consumers often find that a Chinese version of a western brand is much easier to pronounce and remember. It is highly recommended that you create at least one Chinese version of your brand and register it with the CTMO. If you don’t create one, the local market might create one for you. The Chinese version of your brand name may become more recognised than the original non-Chinese name. As registration of your non-Chinese brand does not grant you

protection for a locally developed Chinese version of your brand, a trade mark squatter might register it. This can have a long-term negative effect on the value of your trademark.

Case: Hermès, the French luxury group, lost a 12 year battle to take back the ownership of its Chinese brand “Ai Ma Shi”. Hermès filed its application to register the name “Hermès” and its logo in 1997, but failed to register the commonly used translation of Hermès in Chinese. In 1995, Dafeng, a clothing company based in Guangdong, China applied to register two Chinese versions of Hermès:

- 爱马仕 (Chinese pronunciation: Ai Ma Shi; Chinese meaning: *officials who love horses*) in respect of neckties. This is also the official Chinese version adopted by Hermès.
- 爱玛仕 (Chinese pronunciation: Ai Ma Shi; Chinese meaning: *officials who love agate*) in respect of clothing, neckties, shirts, etc.

“爱马仕” and “爱玛仕” have the same pronunciation. The Chinese characters “马” and “玛” look very similar. In 1997, Hermès opposed both applications but failed. In 2009 Hermès filed a cancellation application with the TRAB but was denied. In 2011 Hermès appealed to the Beijing No. 1 Intermediate Court, and in 2012 the court denied the cancellation request of Hermès on the basis that Hermès could not prove:

- Hermès used the unregistered Chinese version of Hermès prior to the application filed by Dafeng; and
- the unregistered Chinese version had acquired a reputation before Dafeng’s application.

Tips: Create a Chinese version of your brand as soon as possible and register it with the CTMO. Use the Chinese mark together with your original mark on your products, with your services and advertising materials. This

will result in Chinese consumers being able to identify your brand in Chinese.

No.5 Mistake - Not Familiar With What Can Be Registered As A Trade Mark

As in most countries, a trademark application could be rejected in China on the grounds of a lack of distinctiveness or the existence of conflicting trademarks. China also has its own particular requirements for registrability. When selecting a trade mark it is important to choose a mark which does not belong to signs not allowed to be registered as a trade mark ("**Prohibited Signs**") as per the TML. In accordance with article 10 of the TML, signs that may not be used as trade mark include but not limited to signs:

- identical with or similar to the national flag, national emblem or military flag of the People's Republic of China;
- identical with or similar to the national flag, national emblem or military flag of a foreign country;
- identical with or similar to the name, flag or emblem of an international intergovernmental organization;
- identical with or similar to the name or symbol of the Red Cross or the Red Crescent;
- having the nature of exaggeration or fraud in advertising goods;
- detrimental to socialist morality or customs, or having other unhealthy influences

Article 11 of the TML also prohibits adopting the following signs as trademark:

- signs which consist exclusively of a generic name, design or model of the goods;
- signs which consist exclusively of direct indications of the quality, primary raw materials, functions, intended purposes, weight, quantity

or other characteristics of goods and services; or

- signs which are devoid of any distinctive character.

Case: on 17 December 2007, Audi AG filed an application with the CTMO for registering "R8" in class 12 in respect of automobiles, cars, trucks, etc. On 7 April 2009, the CTMO rejected Audi's application on the ground that "R8" consisted exclusively of the model name of the product. Audi filed a request with the TRAB to review the decision and TRAB ruled against Audi on the same grounds. Audi appealed the decision to Beijing No.1 Intermediate Court and lost the case.

Tips: As China has its own particular requirements, if China is your major market, it is highly recommended to seek professional advice regarding whether the proposed mark might be rejected in China.

No.6 Mistake - Failure To File An Assignment Agreement With The CTMO

Article 39 of the TML states "*to assign a registered trademark, the assignor and an assignee shall sign an assignment agreement and jointly file an application with the Trademark Office*" and "*After the assignment of a registered trademark is approved, it shall be announced. The assignee shall enjoy the exclusive right to the use of the trademark starting from the date the announcement is made.*"

Case: Apple recently paid \$60 million to settle its dispute with Proview Technology (Shenzhen) Co. Ltd ("Shenzhen Proview") over ownership of the iPad name as a trade mark. Although lots of media have associated the iPad case with trade mark squatting in China, the dispute actually centred on whether Apple acquired ownership of the iPad trademark in China when it bought rights in various countries from Shenzhen Proview's affiliate in Taiwan, Proview Electronics Co. Ltd ("Proview

Taiwan”) for 35,000 British pounds. It turned out that Shenzhen Proview was the true owner of the “iPad” trademark in China. It is surprising that Apple was not diligent in investigating and verifying the seller’s ownership before entering into a purchase agreement. Apple was also not diligent in investigating the legislation in China in relation to trademark assignment. Apple should have known that even if the assignment had been signed with the true

owner, Apple would still not be able to enjoy exclusive rights to use the “iPad” trade mark until the assignment was officially recorded by the CTMO.

Tips: It is important to get professional advice to assist with drafting the assignment agreement and get the assignment agreement recorded by the CTMO.