

Trademark: A Comparative Look at China and the United States

By Patricia Marquez*

I. Introduction

Trademark law has become an increasing concern in the modern era of global economies; it is essential that businesses protect their valuable intellectual property but achieving and maintaining secure intellectual property rights are far from easy. China is one of the most recent up and coming global markets. Many business people, from entrepreneurs to large corporations, want to take advantage of the ever expanding market in China. Many see vast opportunities for developing not only in the Chinese markets but also in basing manufacturing and production facilities in China. In order to seize the prospects that China presents, it is necessary to have a working understanding of the intellectual property protections that are available in China and how to obtain such protections. China has made great strides in recent years in the area of individual intellectual property rights. The laws, for the most part, are in place but enforcement is still weak.

In section II, this paper will provide a brief overview of the current IP laws that have been enacted in China and the enforcement in place for such laws. Throughout it will also highlight a selection of the most influential intellectual property cases in China. Section III will detail Chinese trademark law, focusing on well-known marks. Section IV will explore the obstacles that non-citizens face as foreign IP right holders. Section V will enumerate steps that

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U.S. companies can take in order to avoid or mitigate IP infringement of their goods or services. Finally, section VI will outline the U.S. governments involvement in Chinese cases which involve American citizens.

II. China IP Law Background

In the years following its membership in the World Trade Organization (WTO), China has made strides to bolster and modify its laws and regulations. Although it has enacted stronger laws on paper, China is still a land where infringement thrives.¹

In the recent past there is evidence that high government officials are willing to take on the problems of IP infringement but the actions they have pursued have not fully addressed the widespread infringement. Many reasons for the ineffectual enforcement of these new laws, such as China's society not realizing the harm caused by counterfeiters; the fact that IP infringements are most often handled administratively and not with criminal consequences; corruption and a gangster-like protection system; and inadequate training for policing officials all contribute to weak IP enforcement in China. In 2006 it was estimated that counterfeit goods accounted for 8% of China's gross national product; infringement and counterfeiting business has a large impact on the economy of China which substantially reinforces infringing behavior.²

A. Patent Law

¹ United States Embassy Beijing China, *China IPR Toolkit* (2008), available at <http://beijing.usembassy-china.org.cn/ipr.html> (hereinafter *China IPR Toolkit*).

² Daniel C.K. Chow, *Counterfeiting and China's Economic Development* (June 8, 2006), available at http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_08wrts/06_06_7_8_chow_daniel.pdf

Enacted in 1984, China's patent law has been amended twice, once in 1992 and then in 2000, to broaden the scope of protection. These amended protections include a broadening of available patents in chemical, pharmaceutical, food, beverages and flavorings; it also extended the length of patent protection to 20 years. Where the U.S. follows a 'first to invent' form, China follows a 'first to file' rule which is consistent with certain European countries. Since China is a signatory of the Patent Cooperation Treaty (PCT) the State Intellectual Property Office (SIPO) will conduct an international patent search and preliminary examination of patent applications. Any foreigner, without the assistance of a Chinese office, can prepare the paperwork for filing but the filing of the patent paperwork must be done through an authorized patent agent. Patents are filed in Beijing at SIPO. The Beijing office receives all of the filings and the local offices handle the administrative enforcement of the patents.³

B. Trademark Law in China

China first passed its trademark law in 1982 which was revised twice, first in 1993 and again in 2001. In order to comply with the World Trade Organizations (WTO) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), the latest amendment allows the registration of collective marks, certification marks and three-dimensional symbols. Members of the Madrid Protocol, including China, are required to recognize reciprocal trademark registration. Unlike the U.S., China employs a first to file system and does not require any evidence of ownership; this allows for the wrongful registration of popular marks from foreign countries by people other than the owners. The first-to-file system is used throughout Europe. Because China employs a first to file system, it does not usually recognize unregistered marks.⁴

³ China IPR Toolkit, *supra* note 1.

⁴ Stephanie M. Greene, *Protecting Well-Known Marks in China: Challenges for Foreign Mark Holders*, 45 AM. BUS. L.J. 371, 375 (2008).

However, the Paris Convention and TRIPS requires China to recognize unregistered well-known marks. TRIPS also requires a minimum of a five year window from the registration date in which to request a cancellation of the infringing mark.⁵ There have been instances in which a mark that was not fairly registered was cancelled.⁶

In *Jiaxiang v Zhongyifan*⁷ the court considered whether the holder of an unregistered trademark could use its previously used mark against a later registered mark. “Where a registered trademark has been cancelled the exclusive right to use that mark shall be deemed not to have existed from the beginning.”⁸ Jiaxiang used ‘Niuniu’ as a commodity name and then registered ‘Niuniule’ in 1996. Zhongyifan registered ‘Niuniu’ in 1998. Jiaxiang sued and on appeal the court found that Zhongyifan had intentionally imitated Jiaxiang’s mark. The court cancelled Zhongyifan’s mark which meant that the trademark rights are deemed never to have existed for Zhongyifan and so any claims it brought were baseless on the facts and the law.

Any company that foresees expanding its market to China would be well advised to seek registration of its mark and also its internet domain name and Chinese versions of these names. When applying to register a mark, the Chinese government requires foreigners to use a certified Chinese agent, but a foreign lawyer may prepare the application documents. Currently the regulations allow for a local office or a subsidiary of a foreign company to register their trademark directly with the office without using a Chinese agent.⁹ The principal law guiding trademarks in China are the Trademark Law of the People’s Republic of China¹⁰ and the

⁵ *Id.*

⁶ China IPR Toolkit, *supra* note 1.

⁷ *Shishi Jiaxiang Foodstuff Co., Ltd. Et al. v. Zhangzhou City Zhongyifan Foodstuff Co., Ltd.*, The Supreme People’s Court’s Civil Judgment No. Zhizhongzi (2000).

⁸ Art. 25, ¶ 5, of the Regulations for the Implementation of the Trademark Law.

⁹ China IPR Toolkit, *supra* note 1.

¹⁰ WIPO, <http://www.wipo.int/about-ip/en/trademarks.html>.

Implementing Regulations of the Trademark Law.¹¹ Written into the Chinese Constitution is the provision that the international treaties will carry the same weight as its domestic laws and the international treaties will be supreme where the subject matter is within their scope.¹²

In China, a trademark is defined as “a distinctive sign which identifies certain goods or services as those produced or provided by a specific person or enterprise.”¹³ A trademark can be very dear to a company and in most cases becomes its identity to the public. The trademark is a way to separate one product from another. As global travel has become more accessible, the markets have expanded and IP protection has kept pace. But even though there have been world-wide agreements and treaties, the enforcement of these treaties is usually left to the country, as a separate entity, to enforce.

In comparison, a trademark as defined by 15 U.S.C § 1127 is:

“Any word, name, symbol, or device, or any combination thereof-
(1) used by a person, or
(2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”¹⁴

A trademark can be a trade name, a service mark, certification mark, a collective mark, or a trade dress.¹⁵ A person is not obligated to register a trademark to establish the rights in the mark. The mere action of using the mark in association with products, a service or advertising is enough to vest the person with trademark rights but not enough to entitle the holder the protection given by

¹¹ *Implementing Regulations of the Trademark Law* (promulgated by Decree No. 358 of the State Council, Aug. 3, 2002, effective Sept. 15, 2002) (P.R.C.), available at <http://sbj.saic.gov.cn/english/show.asp?id=53&brn=flfg>.

¹² Weiqui Long, *Intellectual Property in China*, 31 ST. MARY'S L.J. 63, 67 (1999).

¹³ WIPO, <http://www.wipo.int/about-ip/en/trademarks.html>. The purpose of a trademark is to prevent consumer confusion.

¹⁴ 15 U.S.C. § 1127.

¹⁵ J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* vol. 1 § 4:19, at 4-19.

the principal register registration.¹⁶ The main purpose of a trademark is to protect the consuming public from being confused as to the source of the product or service that is being purchased.¹⁷

Under the Trade Mark Law of China, a trademark is defined as “any word, design, or their combination, used as a trademark,” the mark “must be distinctive so that it will be distinguishable and carry the indication ‘Registered Trademark’ or a sign indicating that it is registered.”¹⁸ Markedly, the Trade Mark Law of China has no provisions excluding the use of a “name, portrait, or signature identifying a particular living individual” or head of State, whether living or deceased.¹⁹ Also, there is no restriction on using geographically descriptive marks or geographically deceptively misdescriptive marks.²⁰

C. Unfair Competition Law

China’s Fair Trade Bureau, a part of the State Administration for Industry and Commerce (SAIC) analyzes, explains and applies China’s Anti-unfair Competition Law. The law gives a measure of protection for unregistered trademarks, packaging, trade dress and trade secrets; it also protects the names of companies. Under TRIPS, China is required to protect information that is given to Chinese agencies in order to gain regulatory approval for pharmaceuticals or chemical companies and in so doing protect those companies from the dissemination of their confidential information for unfair commercial use.²¹

D. Copyright Law

¹⁶ William M. Borchart, *A Trademark Is Not a Copyright or a Patent* (Cowan, Liebowitz & Ltman, P.C. 2008) available at http://www.cll.com/files/2010_PTC.pdf.

¹⁷ *Id.* at 5.

¹⁸ Trade Mark Law (adopted by the Standing Comm. Nat’l People’s Cong., Aug. 23, 1982, effective Mar. 1, 1983) art. 7 (P.R.C.).

¹⁹ 15 U.S.C. § 1052(c) (2009).

²⁰ 15 U.S.C § 1052(e) (2009).

²¹ China IPR Toolkit, *supra* note 1.

China's copyright law is somewhat newer than its patent and trademark law. It was first enacted in 1990 and amended in 2001. Registration of copyrights is not required for protection and China grants rights to entities from the countries that are party to the treaties or agreements for such protection. Even though it is not a required, it may be beneficial to register with China's National Copyright Administration (NCA) which may be put forth as evidence of ownership of the mark, if there was ever a need to prove intellectual property rights.

E. IP Enforcement in China

In 1998, China created the State Intellectual Property Office (SIPO) which was envisioned to be the umbrella office under which the patent, trademark and copyright offices would be subject. As of yet this has not been realized; today SIPO handles the granting of patents, registering semiconductor layout designs, enforcing patents and also managing foreign dealings concerning copyrights, trademarks and patents. The majority of Chinese trademark law is governed under the State Administration for Industry and Commerce of the People's Republic of China (SAIC).

There are two different systems in place to address infringement issues. The most widely used method involves the owner filing a complaint with the local administrative office of the relevant Chinese district; this is referred to as the administrative track. Alternatively, a complaint could be filed in a special IP panel court; this is the judicial track. The jurisdiction of IP protection is spread over several offices and it can be confounding when trying to establish within which court to file the complaint. Generally, each office oversees the protection granted by one statute or a specific area of IP law. Issues may arise due to geographic limitation or difficulties in multijurisdictional piracy or counterfeiting. There have been internal discussions

concerning how to handle these multijurisdictional issues. Some courts have guidelines when it comes to infringing and counterfeiting activities and the scope of court orders.

i. Administrative Proceedings

The Trademark Office is overseen by SAIC, which has authority over trademark registration, recognition of well-known marks, and enforcement of trademark protection. SAIC also has oversight over the Fair Trade Bureau which decides issues involving Anti-unfair Competition Law which includes trade secrets. SAIC has fairly broad powers of enforcement; it has the power to order that the sale of infringing products stop, order that the products be destroyed, impose fines, and confiscate any machines used to manufacture counterfeit goods. SAIC has a department called the Consumer Protection Bureau which has the wherewithal to investigate and punish “irregularities such as counterfeiting, faking and inferior goods.”²² SIPO is charged with the examination of domestic and foreign patents, it also oversees the branch offices which handle the administrative enforcement of patent complaints.

The National Copyright Administration (NCA) handles copyright administration and enforcement. NCA decides copyright issues throughout the country, investigates infringement cases, administers foreign related copyright issues, develops foreign related arbitration rules and supervises administrative authorities. Though administrative remedies are available, NCA usually encourages complaints to be filed with the court system in response to the inadequacy of personnel.

The Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) is the agency that sets standards within China and it is principally concerned with ascertaining whether

²² SAIC.gov.cn, available at <http://www.saic.gov.cn/english/aboutus/Departments/>.

Chinese product quality and standards are met. It also oversees alleged infringements of registered trademarks in cases where the infringing item is subpar when compared to the genuine article.

Customs bans the import and export of IPR infringing goods. For Customs to be able to enforce its regulations the IP holder must register its goods with Customs. The holder is then issued a certificate which is valid for seven years and is renewable for additional seven year time periods. When the holder deduces that an infringing good may be coming into or going out of the country, the holder may tender an application to Customs at the closest Customs office to the suspected entry or exit. If the Custom's investigation finds that infringement has occurred, it has the authority to take the goods into custody; it can destroy the goods, and also fine the infringer. There is scant evidence as to the numbers of IP holders who report suspected infringers to the Customs office.²³

ii. Criminal Proceedings

TRIPS has enforcement requirements which demand that China make available remedies through criminal avenues in which commercial scale pirating and counterfeiting exist. There is a system in place that allows the IP administrative authority and Customs to transfer any heinous IP infringement cases to the Public Security Bureau (police) and the procuratorate (prosecutors) so that criminal proceedings may be initiated. Even though these criminal regulations exist, most IP cases are funneled through the administrative system. Individuals have the right to prosecute criminal cases in China but this is a seldomly used procedure.

²³ It may be possible that the Customs office does issue a report and it is not translated into English.

The Supreme People's Procuratorate (SPP) is the highest prosecutorial body in China and the legal supervisory body of the State. It oversees all levels of prosecutors and guarantees that they are adhering to the law and enforcing them in a cohesively just manner.

In some regions IPR bureaus or IPR committees have been developed to locally synchronize IP enforcement. These bureaus have a limited effect on enforcement but they also disseminate to the public information concerning their IP rights and the routes available to those who have been infringed upon. They have become a good resource that local businesses may tap for information for provincial or municipal mechanisms for enforcement.²⁴

iii. Civil Enforcement

Companies have the option of pursuing a civil action against an infringer. Established in 1993, the Intellectual Property Tribunal in the Intermediate People's Courts and Higher People's Courts has been established throughout the provinces. The administrative litigation route is more frequently used than is the civil IP litigation. As the IP laws in China continue to evolve, it is thought that there will be an increase in civil litigation, though the administrative process may still be more favorable to small companies.²⁵ Typically, to appeal administrative decisions an entity must petition the Administrative Tribunals of the Supreme People's Court (SPC), alternatively the Criminal Tribunals of the SPC will most likely hear criminal cases.²⁶

III. Chinese Trademark Law in Detail

A. What Marks are Available for Trademark Protection?

²⁴ China IPR Toolkit, *supra* note 1.

²⁵ *Id.*

²⁶ *Id.*

Article 8 enumerates the types of marks that are protectable which include “words, designs, letters numbers, three-dimensional signs, and color combinations, as well as combinations of the aforementioned elements.”²⁷ There are several categories available for registration in China. First, product trademarks which are marks that are attached to and identify goods. Second, service trademarks which are used by service providers to identify the company, for example, a trademark for a bus company. Third, certification marks which are marks “that are controlled by an organization that has the ability to oversee certain products or services and which are used by companies or individuals other than the overseeing organization on their products or services to verify the original place of manufacture, the raw materials used, the method of manufacture, the quality or other specific features.”²⁸ The U.S. has an analogous law that allows that “certification marks, including indication of regional origin, shall be registerable...in the same manner and with the same effect as are trademarks.”²⁹

To be eligible, a mark must be “distinctive, easily distinguishable, does not conflict with the prior lawful rights obtained by a third party and is not otherwise prohibited by the Trademark Law.”³⁰ There is a laundry list of “symbols” that are not eligible for registration as a trademark in China.

“Symbols that are the same as or similar to the Chinese State name, national flag, national emblem, military flags or military decorations of the PRC, other country or intergovernmental or international organization, unless approved by such government or organization. Symbols that are the same as special names of places where Chinese government offices are located, or names or images of symbolic buildings. Symbols that are the same as or similar to official symbols or

²⁷ Trade Mark Law (adopted by the Standing Comm. Nat’l People’s Cong., Aug. 23, 1982, effective Mar. 1, 1983) art. 8 (P.R.C.).

²⁸ China IPR Toolkit, *supra* note 1.

²⁹ 15 U.S.C. § 1054.

³⁰ China IPR Toolkit, *supra* note 1.

inspection imprints that indicate the implementation of controls or that give guarantees, unless authorized.”³¹

There are several marks that would not be registerable in the U.S. or China, but one of the more interesting restrictions of China is that no symbol that “harm[s] socialist moral behavior or ha[s] other undesirable effects” may be registered.³² China has similar restrictions to the U.S. in regard to generic names or marks that merely indicate the product’s function or main raw ingredient.³³

In *Italian Ferrero S.P.A v. Mengtesha (Zhangjiagang) Foodstuff Co., Ltd et al.*³⁴ the court considered whether it was probable that the Mengtesha packaging and trademark was likely to create confusion between the Mengtesha chocolate and the Ferrero Rocher chocolates. Confusion or mistake sufficient to cause the relevant sector of the public to misidentify the source of goods, including believing that there existed a connection or association such as having a license or being an enterprise particularly related to the business of famous goods. Chapter 2, Article 5 of the Law of the People’s Republic of China for Countering Unfair Competition reads:

Operators shall not adopt any of the following unfair means to carry on transactions in the market and cause damage to competitors:

1. Passing off the registered trademarks of others;
2. using, without authorization, the names, packaging or decoration peculiar to well-known goods or using names, packaging or decoration similar to those of well-known goods *so that their goods are confused with the well-known goods of others, causing buyers to mistake them for the well-known goods of others;*
3. Using, without authorization, the enterprise names or personal names of others on their own goods, leading purchasers to mistake them for the goods of others;
4. Forging or falsely using, on their goods, symbols of quality such as symbols of authentication and symbols of famous and high-quality goods, falsifying the

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ The Supreme People’s Court’s Civil Judgment No. Minsantizi 3/2006.

origin of their goods, and making false representations which are misleading as to the quality of the goods.³⁵

The court held that Ferrero is a famous good and that there would be or was consumer confusion. Therefore, Mengtesha's use constituted unfair competition.

In *Fujian Province Qiaodan Sports Goods Co., Ltd. v. Jinjiang City Yangxin Sports Goods Co., Ltd.*³⁶ the court reasoned that the two trade dresses and marks did not differ substantially, and so were not easily distinguishable to the average buyer paying average attention.

The Well-Known Trademark

In addition to China's standard categories, there is a special category for 'well-known' marks. This special provision was added in 1996. China is also required to protect foreign mark holders' well-known marks. But many foreign companies continue to complain of China's treatment of their rights. To be recognized as a well-known mark is desirable especially for large multinational businesses. If a mark is deemed to be well-known then it will have protection in different classes of use than it was originally registered in. A well-known mark may help companies in administrative and criminal enforcement of their IP rights against other businesses. This idea mirrors the anti-dilution laws of the U.S.³⁷ Although officials have, at times, listed certain trademarks for "enhanced enforcement" or judicially recognized a mark as being well-known which may occasionally have the same effect as having a mark that is declared well-known by the administrative body. A non-IP related reason that companies seek to have its

³⁵ Chapter 2, Article 5, Law of the People's Republic of China for Countering Unfair Competition, *available at* http://www.globalcompetitionforum.org/regions/asia/China/ch_unf1.pdf.

³⁶ The Supreme People's Court's Civil Judgment No. Minsanzhongzi 9/2002.

³⁷ 15 U.S.C. § 1125(c).

marks be declared as a well-known mark is that it has become a marketing tool and used to promulgate brand recognition.³⁸

At the end of 2005, Starbucks won a trademark infringement case against a Shanghai company, Xingbake Coffee Shop, Ltd. (Xingbake).³⁹ The court ordered Xingbake to stop using the name “Xingbake” which is a Chinese version of the word “Starbucks,” and also enjoined it from using its green and white logo which was found to be confusingly similar to Starbucks logo. Xingbake was ordered to pay the maximum amount in damages allowed by Chinese law. Many see Starbuck’s victory as a seminal case and an important step for multinational companies which are striving for IP rights in China.⁴⁰ Others view this as just another judicial ruling, with little backing to enforce the decision.⁴¹

Many things factor into the failure to enforce these laws and rulings; first of all, the judicial definition of a well-known mark is still somewhat vague. There seems to be a disjointed relation between who can and cannot obtain a ‘well-known’ designation. There is an ambiguous definition of ‘well-known’ but ultimately it seems as though it is at the mercy of the courts. At times, there is a bias against foreign companies and it is difficult to determine what the deciding factor is for the ‘well-known’ designation. Unless the courts or legislation give a more concrete definition of ‘well-known,’ foreign corporations will be very wary of breaking into a market where their intellectual property is perilous at best.⁴²

³⁸ China IPR Toolkit, *supra* note 1.

³⁹ Mary K. Alexander, *Symposium: Common Law Environmental Protection: Note: The Starbucks Decision of the Shanghai No. 2 Intermediate People’s Court: A Victory Limited to Lattes?*, 58 CASE W. RES. 881, 881 (2008).

⁴⁰ *Id.*

⁴¹ *Id.* at 883.

⁴² *Id.*

In the U.S. the equivalent of the “well-known” mark is the “famous” mark. A mark is famous if it is “widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark’s owner.”⁴³ In some cases, the federal government may grant additional protection to these very successful brands.⁴⁴ The United States “famous mark” is used to give broader protection to famous trademark holders via the anti-dilution statutes.⁴⁵ In China, to obtain the standing of a well-known mark, the bar is somewhat lower. The well-known mark must be recognizable to the consuming public of that product or service. It has less recognition than a famous mark and less protection as well. The Federal Trademark Dilution Act of 1995 as amended by the Federal Trademark Dilution Revision Act of 2006 is a form of additional protection accessible to the famous mark holder.⁴⁶ Under the 2006 revision, “dilution is the lessening of the identity of the famous mark so that the customers are unsure as to the source of the product or service,”⁴⁷ this is not confusion but a reduction in the famous mark’s identity and ability to distinguish its goods from others. The anti-dilution laws allow the famous mark holder to enjoin the use of similar marks in any and all trades and markets. This is a very strong anticompetitive remedy and gives protection “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”⁴⁸

In 1996, SAIC enumerated the Provisional Regulations, in which well-known marks were defined as “registered trademarks which are of high repute and well-known to the relevant sector

⁴³ 15 U.S.C. § 1125(c)(2)(A) (2008).

⁴⁴ McCarthy, *supra* note 2, at § 24:67.

⁴⁵ *Id.*

⁴⁶ 15 U.S.C. § 1125(c) (2000).

⁴⁷ Federal Trademark Dilution Revision Act of 2006.

⁴⁸ 15 U.S.C § 1125(c)(1) (2001).

of the public.”⁴⁹ In the following years after the guidelines were enacted the SAIC office formally recognized eighty-seven domestic well-known marks but no foreign well-known marks.⁵⁰ The China Trade Mark Law contains separate provisions in regard to well-known marks. Protection of both registered and unregistered marks is provided by Article 13, nevertheless, unregistered marks are only protected when the alleged infringer uses the same or similar mark upon the same or similar product or service.⁵¹

Article 13 sets forth:

Where a trademark in respect of which the application for registration is filed for use for identical or similar goods is a reproduction, imitation or translation of another person’s trademark not registered in China and likely to cause confusion, it shall be rejected for registration and prohibited from use.

Where a trademark in respect of which the application for registration is filed for use for non-identical or dissimilar goods is a reproduction, imitation or translation of the well-known mark of another person that has been registered in China, misleads the public and is likely to create prejudice to the interests of the well-known mark registrant, it shall be rejected for registration and prohibited from use.⁵²

Article 14⁵³ lists several factors for determining the existence of a well-known mark. The Trade Mark Law is used in concert with China’s Unfair Competition Law, which in Article 5 bans the passing off of a registered trademark of another person; using a well-known mark without licensing from the holder; and fraudulently using the symbols of quality of another entity.⁵⁴ The *Kodak v. Keda*⁵⁵ case judicially established the ‘well-known’ mark. The

⁴⁹ Provisional Regulations on the Verification and Control of Well-Known Trademarks (promulgated by the State Admin. For Industry and Commerce of the P.R.C., Aug. 14, 1996), Art. 2, http://www.saic.gov.cn/english/LawsRegulations/Others/200603/t20060303_55265.html.

⁵⁰ Greene *supra* n.4.

⁵¹ Trade Mark Law, (promulgated by the Standing Comm. Of the Fifth Nat’l People’s Cong., Oct. 27, 2001, effective Dec. 1, 2001), art. 13 (P.R.C.).

⁵² *Id.*

⁵³ *Id.* at art. 14.

⁵⁴ Law Against Unfair Competition of the People’s Republic of China, Art. 5 (1993), <http://en.chinacourt.org/public/detail.php?id=3306>

requirements to obtain the 'well-known' label and the associated rights are: "(1.) Knowledge of relevant sector of public, (2.) Duration the mark has been in use, (3.) Range of mark (geography and degree), (4.) Any records recognizing it as a well-known mark, and (5.) Any other factors."⁵⁶

Keda manufactures elevators and affixed "Kodak" to their elevators. Kodak is associated with chemical and optical products, and services. Kodak has a good reputation and high market goodwill in China and abroad.

Keda argued that the products are not similar; "Kodak" was the English translation of its Chinese name; and the mark must be established as a well-known mark in order to have cross-class protection. Kodak presented voluminous evidence to support its assertion that it is registered worldwide and is recognized in China and abroad. Kodak also brought forth evidence indicating that the Kodak name has goodwill and a high quality associated with it.

The Court determined that Keda's use was trying to capitalize on the good will that was already established. Keda's argument that it was the English translation of its Chinese name was not in keeping with its pronunciation or translation practices in China; this prevented Keda from prevailing on a defense of fair use of the trademark. Therefore, the court afforded Kodak high-level, cross-class protection under the law. This case established the test for factors used to determine whether a mark is 'well-known.' The court recognizes that Kodak should be considered a well-known mark. Keda's fair use defense was not appropriate because the court judicially granted Kodak high-level, cross-class protection congruent with a well-known mark.

Foreign companies that attempt to establish a presence in China have had more problems in obtaining well-known status. Non-domestic companies have a harder time proving that they

⁵⁵ *Eastman Kodak Corp. v. Suzhou Keda Hydraulic Elevators Co., Ltd.*, The Jiangsu Province Suzhou City Intermediate People's Court's Civil Judgment, No. Suzhongminsanchuzi -213/2005 (2006).

⁵⁶ *Id.*

are well-known. Some other issues that can come up are choosing inadequate Chinese characters for the mark, poor tracking for infringing marks, or Party sway.

The Trademark Law imposes a condition on foreign mark holders to register their marks in Chinese. This means that companies must decide which Chinese characters to use in translating their name and which marks they will use in order to promote their brand in China. The business is not forced to use the Chinese name that they register but other companies may take advantage of this by using translations, transliterations, or using Chinese characters that sound the same as the registered mark. It is highly recommended that the company seek a native speaker who is versed in the area of business in order to choose an appropriate translation. Chinese courts may be critical of a petitioner who does not understand the intricacies of the Chinese language and how the tonal system affects the phonetic possibilities.

Dell and Bloomberg are two entities that have brought suit against their Chinese competitors for infringement on their Chinese names. The court was able to make distinctions that the petitioners did not see. Dell sought cancellation of a mark pronounced “de er.” Dell’s Chinese mark is pronounced “dai er.” The first character of each mark is different and they do not mean the same thing, but the second character is identical. Dell’s petition for cancellation of the allegedly infringing mark was denied because the court was not satisfied that Dell was a well-known mark in China.⁵⁷

In another instance in which Bloomberg, the global financial company, was denied a full remedy because the court stated that Bloomberg was not well-known in China. A Chinese company, of a similar function, was using the Chinese name and internet domain name that was

⁵⁷ *Greene, supra* note 4 at 388 (*citing*, Minter Ellison, Legal Update, <http://www.minterellison.com/pub/lic/connect/Internet/Home/Legal>).

identical to Bloomberg's registered mark. The court ruled that Bloomberg was entitled to receive damages of 300,000 RMB (US \$37,500) and an apology. The Bloomberg mark was not recognized as a well-known mark, therefore the Chinese company was not required to change their name.⁵⁸

In *Jiayu v. COFCO*,⁵⁹ COFCO sued Jiayu for infringing on its "Great Wall Brand" mark. The lower court held that Jiayu's use of the mark was infringing and Jiayu appealed to the Supreme People's Court. The court considered two questions: whether use of a mark similar to another party's well-known mark was infringement and how to calculate damages when it is impracticable to discover the unit profit made from the good that was infringing.

COFCO had registered the "Great Wall Brand" mark in 1974 and was established as a well-known mark in 2004. The Great Wall wine was a bestseller from 2001 to 2003 under the "The Great Wall" brand name. Jiayu argued that the Chinese characters meaning "Great Wall" were not distinctive and that their mark was not similar to COFCO's mark in shape, pronunciation, meaning, device, color, or the overall composition of the mark elements. The lower court held that the most distinctive part of the mark was the "Great Wall" and that "Jiayu Great Wall" infringed on COFCO's registered mark. Jiayu was ordered to pay 15.52 million yuan in economic losses. Article 52(1) of Trademark Law stipulates that "any of the following acts shall be an infringement of the exclusive right to use a registered trademark: (1) using a

⁵⁸ Why Bloomberg Sued Two Chinese Companies Over the Mark "Pengbo," China IP Law Blog (Nov. 22, 2005), <http://chinaip.wordpress.com/2005/11/22/why-bloomberg-sued-two-chinese-companies-over-the-mark-%E2%80%9Cpengbo%E2%80%9D/>

⁵⁹ *Beijing Jiayu Dongfang Wine Co., Ltd. v. COFCO*, The Supreme People's Court's Civil Judgment No. Minsanzhongzi 5/2005 (2006).

trademark that is identical with or similar to a registered trademark in respect of the same or similar goods without the authorization of the trademark registrant.”⁶⁰

The court reasoned that, according to their interpretation of the guidelines, whether the allegedly infringing trademark is similar to the claimed registered trademark should be determined upon the circumstances, such as the elements in the registered mark and its reputation in the public eye. The court took into account whether the mark as a whole or specific elements are likely to cause confusion. The Chinese court seems to take a similar approach in determining what is likely to cause confusion indicating a reasonable consumer is taking average care. If the mark is likely to cause confusion then it is seen as a similar mark.

It was determined that there would be confusion between the COFCO and Jiayu “Great Wall” labels and the consumer would be likely to think that the two companies were associated with one another.

Jiayu was ordered to pay damages to COFCO. The court uses the unit profit of the genuine article to calculate damages in certain situations. Where it is unrealistic to posit the individual product profit, the calculation is done on the basis of the unit profit of the goods having the registered trademark. The court said that the unit profit of COFCO’s product that had the registered mark on it, multiplied by the sales volume of the infringing product was 10.61 million yuan and this is what Jiayu was ordered to pay to COFCO.⁶¹ The court implies that this is a formula that is generally applicable in cases where the individual product profit cannot be calculated.

⁶⁰ Trade Mark Law, (promulgated by the Standing Comm. Of the Fifth Nat’l People’s Cong., Oct. 27, 2001, effective Dec. 1, 2001), art. 52(1) (P.R.C.).

⁶¹ *Beijing Jiayu Dongfang Wine Co., Ltd. v. COFCO*, The Supreme People’s Court’s Civil Judgment No. Minsanzhongzi 5/2005 (2006).

The Paris Convention and TRIPS provide international protection for well-known marks. The Paris Convention allows for the restriction of use or registration of well-known marks by entities other than the mark owner; this only applies to marks that are used in connection with the same or similar goods.⁶² TRIPS broadens the protection by allowing the denial of registration or use for goods or services that are not related to the goods or services produced by the well-known mark holder, if that use or registration would harm the well-known mark holder.

International protection of well-known marks is especially relevant in China where the draw to infringe is great and the risk of being caught, and the punishment, is less than in other countries.⁶³ Being recognized as a well-known mark in China has several advantages. Generally, China does not recognize unregistered marks because it has a first to file system. But because China is a member of the Paris Convention and TRIPS it is required to honor unregistered well-known marks, to have no time limit on challenging marks registered or used fraudulently, and to allow for the true owner of the well-known mark, at any time, to seek cancellation of an infringing mark that was registered by a bad faith competitor.⁶⁴

Treaty Protection

Under the Chinese Article 24 of the Trademark Law if an entity applies within six months, outside of China, and applies to register the same trademark for the same type of product in China, then it will receive priority registration in holding with the bilateral agreements between that country and China, or multilateral agreements to which both countries are

⁶² *Greene, supra* note 4.

⁶³ *Id.*

⁶⁴ *Id.*

members. China is a member of the following agreements in relation to trademark protection: Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)(2001); Berne Convention for the Protection of Literary and Artistic Works (1992); Madrid Agreement Concerning the International Registration of Marks (1989); Paris Convention for the Protection of Industrial Property (1985); and the Convention Establishing the World Intellectual Property Organization (WIPO) (1980).⁶⁵

In a 2005 report, the State Council of the People's Republic of China highlighted the advancement that China has made since the reinstatement of its trademark protection.⁶⁶ From 1980 to 2004 the rate of trademark applications is 100 times greater. In 2006, SAIC recognized well-known marks in proceedings in front of the China Trademark Office (CTMO) or the Trademark and Review and Adjudication Board (TRAB) and about 24 were foreign owned brand names out of the few thousand registered.

The U.S. recognizes the steps that China has taken and their progress in advancing their IPR protections but it also points out that China's work is nowhere near being finished.⁶⁷ China has made several reformist steps in its IPR laws but major problems still exist in the enforcement. After talks with China failed, the U.S. filed a complaint with the WTO in 2007 concerning the egregious lack of enforcement in China. After the WTO dispute resolution settlement talks failed, the U.S. asked for a WTO panel to be formed. In 2009 the WTO Dispute Settlement Body (DSB) adopted the panel's report and the U.S. was favored in this decision. The board found that China had violated TRIPS by denying copyright protection to works that did

⁶⁵China IPR Toolkit, *supra* note 1.

⁶⁶New Progress in China's Protection of IP Rights, GOV.cn, Chinese Government's Official Web Portal (April 2005, Beijing), *available at* www.gov.cn/English/official/2005-07/28/content_18131.htm.

⁶⁷2010 Special 301 Report, USA, *available at* http://www.ustr.gov/webfm_send/1906

not meet its content review standards. Also, China is not allowed to seize counterfeit goods and resell them, with the only change being the removal of the counterfeited mark. With regards to another claim, the board agreed with the U.S. in that the enforcement response needed to closely track the actualities present in the commercial marketplace. The board indicated that it would need more evidence to decide whether or not China's requirements for filing criminal charges were too high. China told DSB that it would take its recommendations and implement them; the entities agreed that a one year period was a reasonable amount in which to enact the changes.

There are several parts of the TRIPS agreement that China could be violating: the "effective action" directive against infringement of IPRs stated in Article 41; a judicial made "effective deterrent" against infringers, found in Article 46⁶⁸; and the "imprisonment and/or monetary fines sufficient to provide a deterrent" requirement of Article 61, which involves the punishments for intentional trademark counterfeiting or copyright piracy.⁶⁹ The U.S. perceives China to be in violation of these Article provisions and urges China and the WTO to take steps to rectify the issues.⁷⁰

The U.S. would like to see China reform its criminal laws in order to be more effective. The U.S. prefers that the criminal thresholds be abolished and the instances where criminal punishment may be pursued clarified. For example, Article 21 of China's Unfair Competition Law says "Where an operator sells goods counterfeited or of inferior quality, which constitutes a crime, it or he shall be prosecuted according to law for its or his criminal responsibility." The law does not indicate how high the threshold must be for a sale of counterfeit goods or inferior

⁶⁸ See Omario Kanji, Note, *Paper Dragon: Inadequate Protection of Intellectual Property Rights in China*, 27 MICH. J. INT'L L. 1261, 1269 (2006).

⁶⁹ Peter K. Yu, *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China*, 55 AM. U.L. REV. 901 (2006).

⁷⁰ *Id.*

goods in order for it to constitute a crime punishable under the criminal system. Other ambiguities exist within China's Criminal Law, Article 213 sets out a maximum prison sentence of three years "if the case is of a serious nature" in counterfeiting cases and "cases of a more severe nature" the punishment is between three and seven years. The law does not give a definition of "serious nature" or "severe nature" which makes uniform enforcement virtually impossible. Another concern is the monetary punishment imposed on infringers. The 2001 Trademark Law, Article 56, enumerates the calculation of damages as the profit made from the infringing goods, this is problematic because it does not impact the financiers behind the sale of the infringing goods. There is also a minimum profit from infringing articles that must be made in order to qualify as an actionable claim, about \$6,200 to \$31,000 but amounts below \$6,200 do not meet the threshold.

IV. Impediments that Foreign IP Holders Encounter

China has complied with TRIPS as well as the other treaties that it is a party to, at least on the books, but its weak enforcement of IP laws still creates unease in foreign nations. The Starbucks and Kodak cases were very important cases for trademark protection in China but it also served to illustrate the difficulties that face foreign corporations.⁷¹ China has made great strides in lawmaking toward the protection of IP rights but there are factors which undermine this new course. Even though these laws exist, many of the Chinese people still do not trust a formalized system of laws. Another factor is the fluctuating way in which the Constitution and

⁷¹ Jessica C. Wong, *The Challenges Multinational Corporations Face in Protecting their Well-Known Trademarks in China*, 31 BROOKLYN J. INT'L L. 937 (2006).

laws are interpreted, this fuels the peoples' distrust and makes it difficult to determine how the laws should be followed. Finally, the Chinese legislature tends toward the opaque, which in turn leaves the law open to corruption and variable application of the laws by the local adjudicators.⁷² This unsteadiness within the trademark law is a detriment to those who enforce it and also for those who try to follow the law. The lack of certainty and an absence of a definite definition of "well-known" inspires the foreign company to hesitate when deciding whether to apply for well-known status in China. Though the most recent revision of the laws has endeavored to rectify this ambiguity, the definition remains broad and subjective. Even if the mark is registered, there is no certainty that the holder will prevail in an infringement claim.

China, historically, has not given the same status to IP holders that western nations do and this has hindered the evolution of their laws.⁷³ Confucianist and Marxist-Leninist principles have had an enormous impact on the state of IP rights in China. Confucianism values the good of the community over that of an individual's reward. And Marxist-Leninist principles thought of science and literary accomplishments as being owned by the state, in an effort to equalize the differences between classes.⁷⁴ Only after Mao's death in 1976 did China start to recognize IP rights, but Confucianism still holds sway over much of the public views.

The tradition of Confucianism is still ingrained in the psyche of the modern day Chinese people; these ideals still have a great influence over their culture and politics today.⁷⁵ These principles, which for the most part were adopted by the Communist Party, allowed the political climate to develop in such a way as to hinder the development of individual rights in intellectual

⁷² *Id.* at 960.

⁷³ *Id.* at 962.

⁷⁴ *Id.*

⁷⁵ Glenn R. Butterson, *Pirates, Dragons and U.S. Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement*, 38 ARIZ. L. REV. 1081, 1113 (1996).

property. Unless China is able to effect a political change, which is supported by the general public, it will continue to run up against roadblocks in IP protection advancement.

V. Steps Companies Can Take to Avoid IP Infringement

In order for IP rights to be enforceable in China, a company or individual must register the patent or trademark with the suitable Chinese entity. Registration of copyrights is not required in China but would be beneficial when filing enforcement actions.⁷⁶

As China's economy continues to expand and China implements its WTO commitments, the numbers of small and medium size U.S. companies that have sought and found opportunities to sell their goods in China are increasing. With U.S. exports to China having increased about 20% since 2001 and foreign investment on the rise, more U.S. firms are asking questions on how to succeed in the Chinese market. Since joining the WTO, China has strengthened its legal framework and amended its laws and regulations regarding IPR. But despite a stronger statutory protection, China continues to be a haven for pirates. Counterfeited products made in China are regularly finding their way into the international market. According to the CBP's website there has been an overall increase in the number of infringing articles seized from China but this rate may be slowing.⁷⁷ In the fiscal year of 2009 there was a 4% decrease in the seized articles from China, but this is a misleading figure because Customs collected 38% fewer infringing articles.⁷⁸

Proactive strategies have been suggested for companies that wish to minimize the risk of IP infringement on their goods or services. Some recommendations include educating every

⁷⁶ China IPR Toolkit, *supra* note 1.

⁷⁷ Customs and Border Patrol Trade Report: China, *available at* http://www.cbp.gov/xp/cgov/trade/priority_trade/ipr/pubs/seizure/trading/

⁷⁸ *Id.*

department of the business on the importance of IP protection and the potential consequences of infringement. For companies which have won infringement suits, a showing of goodwill is urged, for example, by buying counterfeiting factories and reinvesting the damage or penalty awards into the community in order to improve the companies' relationship with the local authorities and the neighborhood.⁷⁹

VI. The U.S. Government Role in Infringement Cases in China

A large number of companies, especially Small and Medium Enterprises (SME), which find that their articles are being infringed in China, often seek the U.S. Mission in China or the Department of Commerce in Washington for aid. The U.S. government can only provide a limited amount of direct help because IP rights are private rights. In both China and the U.S., once a treaty or agreement has been joined it becomes part of the federal law and supersedes state law. It is left to each country to enforce the treaties and agreements for instances that fall within their borders. In general, the U.S. government can provide support by notifying the company about how to navigate the Chinese legal system, furnish lists of firms that specialize in investigation and attorneys, and the U.S. government may also share experiences and knowledge concerning China. Our government is not authorized to impart to American companies legal advice or advocate on their behalf when the matter is in front of a court or administrative agency.

The first step a company should take when it discovers an infringement of its IPR is to hire local counsel and pursue a preliminary investigation. A U.S. company would be well-advised to acquire a Chinese investigative firm to conduct the investigation because there are

⁷⁹*Greene, supra* note 4.

laws concerning the scope of the investigation. The costs associated with pursuing an IP case should be evaluated and then it should be decided whether an action would be economically feasible for the company and if it is likely that a decision will be made in their favor. The holder of an IP right has the option to commence an action through the judicial system or the administrative system. Very few foreign IP right holders have had success in the criminal prosecution of infringing actions, especially where the infringement concerns copyright violations. It appears that the administrative track is the more successful action to take because it is where the most favorable outcomes are decided.

Once a company has decided on a course of action, the U.S. government may follow the case if the company so requests. Any IPR disputes that are reported to the U.S. government are tracked by a database maintained by the Department of Commerce. The U.S. government cannot participate in the cases but it may request the status of the case or it may reach out to Chinese government officials in relation to general concerns on the availability of the remedies available to IP holders. In commercial disputes, the U.S. government's involvement is restricted to ensuring a fair and timely resolution in keeping with international treaties and Chinese laws, and also concerning adequate legal and judicial protection for those involved.

VII. Conclusion

It may not be realistic to expect consistent and reliable enforcement of intellectual property rights from an economy that is just branching out in its development. This is especially applicable to China with its traditional views which are heavily influenced by Confucianism and communism, where the greater good is valued over the advancement of personal accumulation of

accolades. For the United States, the encroachment on our citizens' intellectual property rights by foreign nations was the catalyst in urging the demand for global protection. The fact that many foreign nations already have protections in place for non-domestic citizens could slow China's progression towards adequate intellectual property right protection.

One of the main reasons China has responded to Western pressures, with respect to intellectual property rights, is to obtain desirable trade relations. But it is one matter to have protection of rights codified into laws and a completely different matter to have effective enforcement of those laws. To be successful, the Chinese people will need to voice their demand for stronger protection; as their private business sector grows this may become a reality. Until the idea of capitalism overtakes the traditional view of community before the individual, there will be no push for stronger intellectual property rights. There is an indication that views are shifting, in the early 1990s the majority of Chinese patents were filed by foreign corporations but recently there has been a drastic increase in the number of domestic filings in China.⁸⁰ This trend shows that Chinese citizens are putting more stock into the intellectual property right protection measures and with the participation of the Chinese people it is more likely that these individual rights will advance.

⁸⁰ Scott J. Palmer, *An Identity Crisis: Regime Legitimacy and the Politics of Intellectual Property Rights in China*, 8 IND. J. GLOBAL LEGAL STUD. 449, 458-459(2001).