



Understanding Trademark Protection in China

With the continuous expansion of trade and investment scale, and in view of the abundant market resources, more and more foreign companies have chosen to import their products and services into China or cooperate with Chinese companies to boost profits. During the process, the protection of intellectual property has become a main concern to foreign companies in China. By protecting the intellectual property of the foreign companies, it not only stimulates the growth of domestic economy but also improves the business environment for market participants. In turn, this will attract more foreign investors.

As we all know, intellectual property includes patents, trademarks, copyrights, and trade secrets. This article will discuss the trademark protection related to foreign companies in China.

I .The common problems for trademark protection for foreign companies in China

1. Fail to register Chinese-language trademarks

A foreign company's trademark usually contains the original foreign language characters. The trademark is mainly used in the country where the company is located. However, in order to facilitate the development in the Chinese market, a foreign company usually uses its original language trademark as a basis and chooses a name in Chinese for promotion and advertising activities in China.

The current situation is that many foreign companies have neglected to register their Chinese-language trademarks. As a result, the Chinese-language trademarks are squatted by their distributors, collaborators or others in China. This creates legal obstacles for foreign companies in brand building and market development. In order to void the registration and prevent squatters from using the trademarks, the companies have to take legal actions including trademark opposition, invalidation, lawsuits, etc. The legal actions, however, will consume a lot of time and costs.

2. Trademark squatting

Trademark squatting is not only existing in China but also in other countries or regions. Trademark squatters even establish their own companies and earn profits by using the reputation of global well-known brands. In order to sell products of global well-known brands in the Chinese market, the foreign company has to replace the original trademark with a new trademark, which will result in un-estimated losses of intangible assets. Moreover, the

trademark squatters might put the squatted trademarks on their own products to confuse consumers and the market share of the original trademark of global well-known brands will then decreased. Thus, trademark squatting has strong influence on business activities and market orders.

Trademark squatting is occurred due to the imperfect regulations of the trademark application system. Since the trademark right is territorial, a company is allowed to register a trademark on one or more product attributes in different countries. In a country, by following the principle of "one single trademark for one single product attribute", a company is allowed to register one trademark on one single product attribute. Hence, in a country, a trademark squatter can register a trademark on a certain product attribute which is not registered by the global well-known company. Moreover, trademark squatting is occurred due to lack of trademark application strategies and planning. In turn, most of companies do not have adequate understanding of effect and importance caused by trademark squatting. As a result, the trademark application strategies and plans are not well prepared no matter in selecting product attributes and application countries.

3. Fail to monitor the quality of products of trademark licensees

The Chinese Trademark Law, Article 43 indicates that, "the owner of a registered trademark may, by concluding a trademark licensing contract, authorize another person to use his registered trademark. The licensor shall supervise the quality of the goods on which the



licensee uses his registered trademark, and the licensee shall guarantee the quality of the goods on which the registered trademark is to be used." A trademark licensor should supervise the quality of the goods sold by the licensee.

In general, a trademark is a company icon, recognized by public, and the product manufacture. The connection between the licensor and the product easily comes to the public's mind even the trademark licensor does not participate in manufacturing. Therefore, if a foreign company, as the trademark licensor, neglect to supervise the quality of the goods, the licensor and the licensee will be listed as co-defendants in infringement litigations.

4. Lack of understanding of the administrative law enforcement and judicial practices

A dual-track protection policy including administrative law enforcement and judicial practice is implemented in trademark protection in China. The dual-track protection policy provides a way of effective protection for trademark owner. However, most foreign companies are lack of understanding of the administrative law enforcement and judicial practices regarding Chinese trademark, and are not familiar with the corresponding procedures, evidentiary rules and protection policies. This impacts the effectiveness of their trademark protection in China, and may cause complaints toward the Chinese government in failing to protect intellectual property.

II. The best practice

1. "Intellectual property protection first" for trademark deployment in China

Foreign companies should possess the "intellectual property protection first" concept. It's highly advised that they consider about trademark registration in the early stage of their strategic planning, register the core trademarks with the Chinese authority before they commence their business, and thus create trademark barriers for the subsequent entrants. The kind of preemptive strategy can effectively prevent malicious trademark squatting and require the lowest cost. In addition, through various promotions and advertising, the trademarks of the foreign companies could become more and more well-known, and this brings advantage in fighting trademark squatters.

In short, trademark squatting can be circumvented to a large extent if the preemptive actions are taken.

Furthermore, foreign companies should pay special attention to the legal protection of their Chinese-language trademarks and register their trademarks as early as possible. This is of particular importance to the well-known Chinese-language trademarks. When signing the contract and/or agreement with their Chinese counterparty, the foreign company shall always specify its ownership as well as the right of use of the Chinese-language trademark. In the circumstance that the trademark is squatted by its counterparty, the foreign company can claim its ownership and its right of use of such trademark based on the contract/agreement, and its counterparty shall hence be liable for breaching the contract/agreement.

2. Enforcing trademark rights via administrative and judicial measures

The Chinese law allows trademark protection to be exercised via administrative and judicial measures. The policy has played a major role in expediting the investigation of trademark infringement and safeguarding the trademark right of the owner.

Administrative protection is more proactive and fast, applicable to stop large-scale and cross-regional trademark infringements. Judicial protection is relatively passive but has advantages in stopping new-type and complex trademark infringements. Moreover, the trademark owner can obtain higher compensation made by the judicial judgment. A foreign company should contemplate fully and choose the most suitable protection method or set of methods on a case by case basis.

3. Supervising the trademark licensees in various aspects

A foreign company, as a trademark licensor, should not only agree to a number of matters concerning the use of trademark in the licensing contract, but also stipulate the requirements toward quality of the licensee's goods as well as the terms of supervision, control and recovery. By doing so, one can control the quality of the goods. On the other hand, if an infringement is occurred, the trademark licensor can claim compensation from the licensee after taking



corresponding responsibility.

4. Seeking the assistance of a legal team specialized in intellectual property law

As mentioned earlier, foreign companies are usually unfamiliar with Chinese trademark legal practice, and this is unfavorable to the protection of their trademarks in China. Foreign companies cannot take it for granted to conduct their trademark protection in China in the same way they deal with such matters in their original country. It is very important for foreign companies to proactively seek the assistance of a local legal team specialized in intellectual property. When selecting a local legal partner,

companies should take into consideration the factors including the legal team's professional capabilities, experiences in dealing with similar case, etc.

III. Conclusion

This article only discusses the common problems in protecting trademark right for foreign companies in China. With the continuous improvement of judicial environment of intellectual property protection in China, trademarks of foreign companies will be well protected if foreign companies can proactively take actions mentioned in this article.

The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here.

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