

R&D	Research and Development
SAIC	State Administration for Industry and Commerce
SCNPC	Standing Committee of the National People's Congress
SIPO	State Intellectual Property Office
SME	Small-Middle Enterprises
SPC	Supreme People's Court
STMA	State Tobacco Monopoly Administration
TRAB	Trademark Reexamination and Adjudication Board
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TSB	Technical Supervision Bureau
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
VIN	Vehicle Identification Number
PoA	Power of Attorney

CHAPTER 1

An Introduction to Trademark Protection and Enforcement in China

Western culture and approach to business issues and challenges is different from that of the Chinese. Western companies have shown a certain degree of understanding when making "local customization" one of the driving forces behind their penetration of the Chinese markets.¹ At the same time, a less open-minded attitude has characterized the strategic approach to intellectual property (IP) and in particular, trademark challenges in China. Foreign investors seem in most cases to assume that Chinese laws and legal/business culture are similar to those in the West. Little efforts have been made to explain that this is not the case. The result is that most foreign brands trademark strategies in China were based on inaccurate, if not utterly wrong, legal and business premises. This has resulted in most, if not all western companies of all sizes, committing and often repeating legal mistakes. What is most interesting though, is that in spite of the emergence of clear "blunder patterns" repeating no matter the size and type of the foreign companies, their reactions do not appear to have changed, thus making the repetition of such mistakes look like the work of the devil. In practice, though, it seems that foreign rights holders may not have wanted to accept that in many instances they were the primary cause of a trademark theft or a counterfeiting action, and rather preferred loading the blame onto the Chinese legal system. This erroneous, post-colonial approach to China IP and business challenges continues to the date this book is being written.

Western companies have come to play the IP game in China without knowing or understanding the rules, and once they started losing the game, they began complaining that the rules were wrong! If that happened to kids playing some board or role games, it would likely end up in a quarrel! It is not the task of this book to find an explanation for such a strange contradiction in the Westerners approach to doing

1. Michael Silverstein, *The \$10 Trillion Prize, Captivating the Newly Affluent in China and India* (Harvard Business Review Press 2015).

business in and with China. However, this uncontested fact is one of the reasons why we are still having severe IP problems in China. In practice, the contradiction is there and continues to produce mistakes, which in turn continue repeating themselves in almost identical patterns. So, who is wrong here? It cannot only be China's fault. In defense of western investors, it can be stated that part of the problem has been caused by the legal profession. Why were we attorneys not able to convey the right message to our western clients? It could be objected here that lawyers, especially foreign lawyers specialized in China IP laws have been writing and communicating a lot about the Chinese legal differences. They have surely learned to loudly repeat some mantras, such as "file your IP rights in China timely" to avoid theft or be tough and enforce your IP rights in China because "courts are not as bad as they say." However, such messages are really slogans without a real body if taken outside a more strategic analysis of what China IP really looks like, when you put away the "western lenses."

In sum, either we have decided to ignore the rules and expect China to apply our own from the west, or the legal knowledge we got was not contextualized in a business approach to trademark challenges, which deprived us the opportunity to correctly exploit such law in our clients' favor.

It is time that trademark issues and challenges in China are treated within a comprehensive strategic approach, i.e., similar to the IP management approach most large companies have adopted for patents. More systematic approaches, where the legal is but one of the components of a complex solution, will be the best way for companies to overcome the current deadlocks, thus improving their business in China overall. This book wants to make two things clear: One is that there are rules in China. They may not be perfect and certainly they may be applied somewhat inconsistently, but there are rules nonetheless. It is every western company's duty to learn these rules before playing the game! Second, once the rules are learned, as well as the methods for their effective legal interpretation and application, it is important to place them in a strategic context, where these rules become functional to the realization of concrete business strategies.

It is in fact important to understand that trademark challenges are fore and foremost business rather than legal issues. If a supplier or distributor has appropriated himself of the principal's trademark, that is fore and foremost a business problem. It is first an issue of whether the right holder has chosen the right business model for the distribution of his products in China, and it concerns the relation between two companies and how they have set up their distribution business, before becoming as well a legal issue regarding the violation of the trademark law. If the foreign company in the examples gets a legal solution, this alone may not solve the underlying business problem. Therefore, the legal solution can only be part of a bigger strategic approach to the business challenge. Seen under a broader strategic point of view, a legal solution that could make sense legally may not be viable from a business point of view.

This is what this book is about. It helps foreign practitioners in China get it right when approaching business challenges involving trademark rights. To do this, the book will look at typical trademark challenges, how they have been traditionally approached, why they failed, and how they can be tackled today by using a strategic comprehensive approach in which business and law come together as integral part of

the solution. It is hoped that certain "metropolitan legends" about China and its IP system will be partly refuted and effective knowledge channeled to the readers as well as the awareness to be better prepared when facing China trademark challenges.

The result of this multidisciplinary approach to trademark challenges like trademark grabbing and trademark counterfeiting, produces a set of rules of conducts to be observed by foreign right holders when dealing with trademarks in China. These rules are not just the rules of law. Knowledge of the rules of law is but one of the rules of engagement to succeed over trademark infringers. Rules of engagement are more generally strategic rules of conduct that provide guidance as to how to learn, understand and approach trademark challenges in China in an objective and more correct manner. They will help obtaining a correct knowledge of facts, assess the dangers and risks, and help design the legal and business reaction strategies that will reduce or eliminate the risks connected to trademark theft and counterfeiting in China. Knowledge and mastery of these rules of engagement will help foreign investors to be better prepared when doing business in China, thus preventing or reducing the risk of trademark theft, while tackling more efficiently and with longer lasting effects the issues of trademark infringement and trademark counterfeiting.

§1.01 A BRIEF HISTORY OF IPR INFRINGEMENT IN CHINA

The mention of protection of IP in China evokes in most foreign practitioners a feeling of frustration and resignation. It is like talking of breathable air on the moon, it just does not exist. The 2015 American Business in China White Paper and the related 2014 Business Climate Survey of the American Chamber of Commerce in China seem to support the assumption that most foreign business operators believe that the Chinese Intellectual Property Rights (IPR) system is inefficient and ineffective.² The cited reports list IP protection as seventh out of the nine greatest risks facing United States (US) businesses in China. IP ranks ahead in importance of deterioration of bilateral relations and behind the global economic slowdown. The people taking the survey saw IPR protection not as much as a macroeconomic or political problem, but rather as a pure legal concern. However, the author believes that other nonlegal factors, such as corruption are viewed also as a negative factor affecting IPR protection inefficacy in China. The fact that this is not reflected directly by the survey is because corruption is normally treated as a business topic of its own, rather than a practice affecting businesses horizontally, all other concerns being legal, economic or political. Another interesting set of data emerging from the survey are those reporting that 54% of respondents rated China's IP enforcement "ineffective" in 2014 and 14% rated it "totally ineffective." Also, there were fewer respondents answering "don't know" compared to 2009. This means that the perception and negative direct experience have become more widespread among the American business operators.³ European Union

2. AmCham China, 2015 American Business in China White Paper (16th ed., AmCham China 2015); see also AmCham China, 2014 China Business Climate Survey Report (AmCham China 2014).

3. Mark Cohen, Going Sideways on China IP...?, <http://chinaipr.com/2014/05/11/going-sideways-on-chinese-ip/> (accessed May 30, 2016). For more information on this point, see also U.S.

(EU) surveys mirror those of the Amcham and confirm that most westerners doing business in China have negative views of its IPR system.⁴ By reflection, the information about China IPR conveyed to the general public in the west, including all those businesses that have not as yet started to move to China but are in the process or are planning to do so, will also receive mostly negative views and reports.

In the last decades, Western countries have been reacting against these perceptions by initiating government led pressure activities (political pressure,⁵ threat of trade sanctions⁶) or by starting institutionally sponsored cooperation programs with the main aim of changing the China IP system to comply with their own standards.⁷ Institutions have been created to increase external pressure on China to change the system to a more western format.⁸ These approaches may have brought about critical legislative improvements in China.⁹ However, they have not had any major influence on the enforcement of the laws and their application and have not brought about much concrete benefits to foreign investors so far. This explains why industrial groups of interests and Multi-National Companies (MNCs) have since long started parallel lobbying efforts to obtain better trademark protection in China on a one-to-one basis. This lateral kind of pressure has also mostly focused on enforcement and has indeed succeeded in pushing Chinese authorities to double their enforcement efforts in these past years. However, in both cases, the result has been the same. Higher volumes of enforcement have not brought about the end of counterfeiting, as sovereign pressure has not been able to prevent trademark theft and counterfeiting. In practice, and in

Department of State Bureau of Economic and Business Affairs, 2015 Investment Climate Statement, <http://www.state.gov/e/eb/rls/othr/ics/2015/241518.htm> (May 2015). See also the Office of the United States Trade Representative, 2015 Special 301 Report, <https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf> (April 2015).

4. European Commission Staff Working Document, *Report on the protection and enforcement of intellectual property rights in third countries*, SWD (2015) 132, <https://euiipo.europa.eu/ohim-portal/documents/11370/0/Report+on+the+protection+and+enforcement+of+intellectual+property+rights+in+third+countries> (July 1, 2015).
5. The US have used negotiating pressure with China in relation to the US support to China's becoming part of the WTO. For an overview of the intergovernmental relations concerning China's access to WTO and the TRIPS agreement, see Mikahelle Schjappacasse, *Intellectual Property Rights in China: Technology Transfers and Economic Development*, Vol. 2, Buffalo Intellectual Property Law Journal, 164, 176 (2004). For an overview of the WTO dispute between the US and China on the latter's failed implementation of the TRIPS agreement, see Donald P. Harris, *The Honeymoon Is Over: Evaluating The U.S.-China WTO Intellectual Property Complaint*, Vol. 32, No. 1, Fordham International Law Journal, 96 (2008).
6. Ellen Nakashima, U.S. Developing Trade Sanctions against China for Cyberthefts, Washington Post https://www.washingtonpost.com/world/national-security/administration-developing-sanctions-against-china-over-cyberespionage/2015/08/30/9b2910aa-480b-11e5-8ab4-c73967a143d3_story.html (August 30, 2015). See also Charles Baum, *Trade Sanctions and the Rule of Law: Lessons from China*, Vol. 1, Stanford Journal of East Asian Affairs, 46, 54 (2001).
7. Reference can be made to the recently established "IP Key," a joint IPR cooperation effort between the EU Commission, the Office for Harmonization (OHIM) and the Chinese Ministry of Commerce. IP Key is the continuation of an older cooperation project between the EU and China known as IPR2 project. For more information, see www.ipkey.org, www.ipr2.org.
8. *Ibid.*
9. The effect of external sovereign pressure on China has been disputed. Most Chinese will deny that legislative changes were imposed by foreign governments, and rather sustain that they were the natural consequence of the changes of China's economic policies and structures.

spite of such external forms of pressure on China, foreign companies have continued to suffer from trademark theft, trolls and counterfeiting. Actually, as we shall see below, the phenomena of trademark theft and counterfeiting have more and more extended from larger foreign companies and reputed brands to businesses of any form and size.

The typified reaction from the West starts with the assumption that there is something wrong with China. China IP has to be changed to look like and work as the IP systems in the west. The first problem with such an approach is that it ignores the fact that IP is not just a legal issue. IP rights are first and foremost a business issue. The abstraction of the IPR dialogue from its natural business context may just result in sterile discussions. There is in fact no doubt that in practical terms, years of IPR unilateral threats and dialogue initiated from the West have brought little to fruition.¹⁰

More serious, and with negative consequences for foreign businesses, is the fact that such an approach will prevent them from learning more about how business is done in China and how its legal system works. This governmental or MNC pressure on China's authorities has rather encouraged scapegoating China as a way to justify the failure of such lobbying attempts or their enforcement strategies. The legal profession is also to be blamed. The messages we have given to foreign companies were political, rather than business oriented. We have been often carried along by the blame game, thus failing to inform and guide businesses through China's legal and business peculiarities. When it comes to protecting trademark rights and more in general all IP rights in China, we should abandon the political lenses, learn the rules and play the game according to the laws and practice we have in place here, rather than those we would like to have.

If we narrow this discussion down to trademark protection in China, an overview of the recent history of trademark theft and infringement, read without biased lenses, shows that the first reason for the failure of western companies to secure proper trademark portfolios was due *in primis* to their lack of knowledge of Chinese trademark laws and practice, their naivety when doing business in China, the blind trust in local partners without understanding the Chinese ways and thus taking the needed precautions. If foreign companies deny they have made mistakes, then they will be bound to repeat them again, and this is what has often happened to our businesses here in China. Therefore, the fundamental lesson here is "knowledge-first." Chinese IP and civil laws are all well translated into English and are quite accessible in addition to the relevant case law. There are plenty of examples from which others could learn. Nonetheless, we still nowadays continue to repeat the same mistakes and to blame China for it. Phenomena such as trademark theft and trademark trolls have repeated themselves in the last decade with increasing frequency. However, in the West, instead of wondering whether we foreigners were maybe doing something not quite right, we have spent most of our energy blaming China. Such common negative experiences have indeed contributed to create a shared perception that all that was wrong was the Chinese legal

10. Andrew C. Mertha, *The Politics of Piracy, Intellectual Property in Contemporary China*, 4 (Cornell Paperbacks 2005). One of the reasons for such failure is that local economic interests in China tend to prevail over foreign trade pressure.

system. This has prevented companies from doing some critical work, consider mistakes and adjust their strategies to concrete business and legal parameters.

The author is not here to justify China at all costs. As the readers shall see through this book, there are plenty of examples of bad legislation and bad decisions, all attributable to a less than ideal legal system. The goal of this book is to concretely help foreign businesses get it right with IP in China, based on the legal system as it is. It is not the goal of this book to discuss the system in itself and how it can be improved, but rather to help others understand and use it more efficiently as it is, thus reducing such a critical risk factor of doing business in China. A brief history of trademark protection in China over the last 20 years shall be an introduction to the major topics of this book which are trademark theft, trademark infringement and counterfeiting. A historic perspective will also put such topics in context with the ever changing business environment in China.

[A] On the Origins of Trademark Theft

Trademark theft, also referred to as trademark squatting, grabbing and hijacking, occurs when a Chinese party files and registers a trademark identical to that of a foreign right holder who did not timely register or has completely neglected the registration in China of that trademark right. A review of a number of trademark theft cases involving famous foreign brands, starting at the end of the nineties and continuing to this very day, has brought this phenomenon to global attention. Outraged western media reports and popular reactions mostly blamed Chinese thieves and the Chinese legal system as solely responsible for such occurrences. Meanwhile, the spread of the internet in China allowed Chinese thieves to extend their reach to less famous brands, all the way down to completely unknown and new foreign brands not even yet present in China. Again, the critical reaction to this phenomenon has been political and directed towards the Chinese government for not taking measures to prevent it. The latest effects of such debate are reflected by some new provisions of the trademark law of 2014 which are aimed at reducing the economic incentives of stealing trademarks with the purpose of filing troll lawsuits as a move to pressure the legitimate right holder to buy back the stolen trademark at a very high price. Practically, the only reform that could stop this phenomenon, which requires the trademark system to switch the determination and award of trademark ownership and exclusivity from a first to file ownership to first to create/use model is not foreseeable anytime soon in the near future. Therefore, the protection of trademarks in China against theft is left to an array of legal tools actionable by the usurped right holder after the stolen trademark has been applied for registration or has been already registered. In this context, the same outraged reactions have accompanied many decisions of the Chinese trademark authorities denying, for example, recognition of well-known status to foreign trademarks, or to resort generously to presumptions of bad faith intent by the grabber as ground for oppositions and invalidations.

It is certainly true that the Chinese system, especially by adopting the first to file principle, exposes itself to the risk of grabbing. However, we cannot blame China for

making such a choice. It is a legally available form of rights acquisition, common to Western countries as well, such as the US for patent rights for instance. It is actually a choice that provides a certain degree of certainty as to trademark ownership in the country with most trademark filings per year in the world.¹¹ It is in fact disputable that there would be less trademark grabbing in China if we had no first to file system. First, switching to a first to create/use system will also not prevent the grabbing of trademarks. Trademark thieves can still file other's brands in China. Again, the focus is on reaction rather than prevention. In this context, it is therefore disputable again whether the usurped right holder will have the ability to prove his prior use. The critical issue here is the fact that ownership can only be disputed before a Chinese civil court. Such a procedure is longer and surely more expensive than a trademark opposition or invalidation. Also, due to the peculiarities of the Chinese civil procedure in the matter of acquisition of evidence formed abroad. Evidence of use outside China would have to be acquired in legalized form, i.e., through a complex process involving notaries in China and abroad as well as the Chinese consular authorities in the country of evidence formation. Only such formally assumed evidence can enter a civil dispute on trademark ownership. If we consider this current situation, it makes little economic sense to switch to a first-to-use system in China.

Other tools such as screening of applicants and filed documents are already in place but, as in other trademark systems, play only a marginal role in prevention. No trademark system has an interest to dry out trademark filing by putting too many obstacles in front of the applicants. No legal system wants to make the exercise of a right practically difficult, without nullifying the effective existence of that right. Trademarks are important tools in all economies, and restricting the access to trademarks based on the identity of people or other filtering tools may in the end prejudice more the applicants in good faith than the ones in bad faith.

The focus switches therefore to the efficacy of the legal tools provided by the Chinese law to recover stolen trademarks. This topic will be analyzed in depth in the chapter dedicated specifically to trademark theft and remedial strategies. Here it is sufficient to say that remedies such as opposition and invalidation require certain amount of evidence, also in a given form if acquired outside of China, and that bad faith cannot be easily presumed unless certain evidentiary burdens have been met by the opposing or invalidating party as to the existence of at least a certain reputation of the stolen brand or that of certain links between the prior right holder and the grabber. Foreign brands have since long complained that the law was not clear and surely insufficient to protect trademark rights, and that trademark authorities have misused it to protect Chinese economic interests. The trademark law is far from perfect, but that is true for all legal systems in the world. Until a few years ago, we may have with reason criticized the Chinese authorities for being too slow in adapting the law to the changes of business practices. However, this is no longer true. Laws have been changed and

11. According to WIPO in 2014, the trademark applications in China amounted to two million two hundred thousand, of which 1,997,014 filed by Chinese resident, 107,520 by nonresident and 140,355 by abroad applicants. See WIPO Statistical Country profiles http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=CN (2014).

now more and more judicial interpretations by the Supreme People's Court (SPC) have been issued in clarification of many disputed legal interpretations. Also, administrative regulations are constantly updated to face new challenges and improve the protection of trademark rights. Recently, the trademark administrative bodies have utilized corrective interpretational tools that have increased the number of successful recovery actions by foreign right holders against trademark thieves.

In this very first chapter, a number of cases and trends in the history of trademark grabbing will be presented in order to isolate certain common patterns and prove that aside from certain malfunctions of the trademark system, a substantial amount of responsibilities for such historic failures laid with the brands, which had not properly anticipated the risks and dangers of the Chinese legal system and had adopted ineffective strategies and reactions to the theft of their rights.

This overview will highlight a number of critical issues and errors affecting the trademark strategy of many foreign companies in China. It will also be evident that such critical errors are not attributable to the Chinese legal system, and could have been avoided had the foreign parties obtained good knowledge of the Chinese law, its application, and more generally, the way business is done in China. More and better knowledge of these features will surely help foreign brand owners to prepare strategy that realistically consider and elaborate the risks of the Chinese legal and business landscape, without assumptions or wishful thinking, as has been so often the case in the past.

It is important to notice that the following is only a selection of a large number of cases that involved famous foreign brands in China since the nineties. We selected a number of examples with the aim of introducing some relevant concepts and issues that will later be covered by the book. The list is therefore not exhaustive of all the stories of trademark theft still circulating in the west. At the end of the chapter, we will mention some more cases for the sake of completeness and reference them for those who wish to research them in more depth.

Ultimately, the information about each case can be collected from many newspaper articles and online publications in both Chinese and English. For this reason, we did not quote all of them here.

[B] The 1990s

At its very beginning, the phenomenon of trademark was characterized by cases of trademark theft implemented by Chinese competitors, often small and medium enterprises operating in the same industry as the foreign company, producing the same kinds of goods. This type of trademark theft has thereafter remained a constant, with hundreds of Western companies facing such challenges right up to the current decade.

Ferrari – 1995

On January 4, 1995, Jiajian Business Department applied to China's Trademark Office for the registration of the "Graphics of Running Horse" mark. Within the legal contestable period, FERRARI Corporation submitted an opposition application to the

Trademark Office against the "Graphics of Running Horse" application, claiming its similarity to the famous "FERRARI and Running Horse" graphic logo. However, such logo had not been registered in China and the China's Trademark Office and the State Trademark Review and Adjudication Board (TRAB) rejected the opposition. Not satisfied with the ruling, FERRARI Corporation took the State TRAB to the No. 1 Intermediate People's Court in Beijing.

FERRARI Corporation claimed that the "FERRARI" and "FERRARI and Graphics of Running Horse" trademarks both constituted its famous logo, enjoying a good reputation on the world scene, and being very familiar to the relevant consumers in China. The "Graphics of Running Horse" trademark owned by Jiajian Business Department was to be seen as similar to the above-said trademarks owned by FERRARI Corporation in respect of the same goods.

After a hearing, the No. 1 Intermediate People's Court in Beijing judged that FERRARI Corporation did not provide evidence proving the above trademarks' use in China and the establishment of a well-known reputation. It just submitted the certificates of the registration of relevant trademarks in China and abroad, and the catalog of products in foreign countries, which was insufficient to prove that these trademarks were popular to the relevant public in China or enjoyed a good reputation. Therefore, the court dismissed FERRARI Corporation's request for recognizing "FERRARI and Graphics of Running Horse" trademark as a "well-known trademark."

In such early decisions, both the TRAB and the administrative judges adopted a very formalistic approach to the law. They required a very high degree of notoriety for the brand to be considered well known and hinged this notoriety on intensive use of the brand during a long period of time. We must not forget the rules for the determination of well-known status of trademarks at that time. Today, any administrative body dealing with opposition or invalidation matters, as well as civil court, can declare a trademark to be well known. However, back in the nineties, the determination of well-known trademark could be made only by a special administrative body at the end of a lengthy procedure. This explains the high formalistic approach by the trademark authorities in this case. It was rumored in those years that the trademark authorities were considering well known only those foreign brands that had been intensively used in China for over a decade.

In such a case, the brand owner should have first considered whether it should have occupied the class of goods coming into question in this case by his own timely application. This would have prevented the act of theft and the following embarrassment of the running horse of Ferrari being considered unknown to the relevant Chinese public. A brand owner should know the law and its application at any time. The situation of the recognition of well-known status in 1995 should have been considered by Ferrari as a factor in determining the construction of its portfolio. Blaming the Chinese authorities for applying the law to the extent known at that time seems to only serve the purpose of covering up internal planning mistakes. A careful knowledge and China focused planning of the filing strategy, use and enforcement of that trademark adapted to the peculiar circumstances is a must in order to avoid such mistake. It is also important to observe that the Chinese legal peculiarities as to the application of the law, the level of evidence required to obtain well-known recognition and how this was to be

first obtained, were not kept secrets and could have been known and correctly appreciated by Ferrari as by any foreign company coming to China.

Hermes – 1995

A 15-year famous trademark battle started in 1995 when Guangdong-based clothing company Dafeng Garment Factory applied to the Chinese Trademark Office for the registration of the trademark “爱玛仕” (AI Ma SHI) for clothing products. The application later passed the board’s preliminary review and was announced to the public.

Hermes had registered its English name and pattern in China back in 1977, but it never registered its Chinese name as a trademark. The French company filed opposition against the trademark board in 1997 over the trademark “爱玛仕,” claiming its similarity to the Chinese name of Hermes “爱马仕” based on both visual and phonetic similarity. Indeed the two trademarks have the same pronunciation and differ only for the central character. Even that one is actually almost identical in both names. The trademark board rejected Hermes’ appeal and approved the Chinese company’s registration in 2001.

In 2009, Hermes once again took action against the registered hostile trademark by filing a request for its invalidation, arguing that its Chinese name had enjoyed a high reputation around the world since the 1970s and asking the board to cancel the disputed trademark. However, Hermes’ application was rejected for a second time. At the time of filing the invalidation, the sole argument left to Hermes was that of filing invalidation grounded on the assumption that its trademark had been well known prior to the date of filing of the hostile mark back in 1997. In fact, trademark invalidation is subjected to a five-year statute of limitation counting down from the date of registration of the hostile trademark. The only exception is an invalidation based on an unregistered well-known trademark, which is not subjected to any statute of limitation. In this case, Hermes had decided to move back against the hostile trademark well over eight years after its registration and had thus no choice but using well-known ground as the main and only argument to support its invalidation request. Also, it argued that the disputed trademark was an imitation of its Chinese name and was obtained through “deceptive means.” With retrospective insight, it was an action doomed to failure for several reasons. It hinged the whole success on the weakest of its arguments, the well-known status of its Chinese trademark. It was indeed a weak argument because back then, as most brands did and many still do today, Hermes had failed to really effectively use and establish its Chinese name in the Chinese market. It was not realistic to expect the trademark examiners to believe the contrary. The action lacked also perspective, likely due to the poor knowledge Hermes had collected of its counterpart. The resorting to the argument of bad faith registration by deceptive means, confused means with intentions and was a very weak argument. It would likely be a weak argument today as well. We will amply discuss these legal issues in the following chapters.

Therefore, it was no surprise that the invalidation was rejected. The decision stated that most of the evidence presented by Hermes took place after the disputed

trademark had been registered. I think this is self-explanatory of the very bad legal judgment of Hermes in planning this action. Also, the evidence consisted mainly in media reports about the Chinese name of Hermes in Hong Kong, and therefore this was failing to prove Hermes was well known among consumers on the Chinese mainland. Besides, Hermes also failed to provide evidence showing the disputed trademark had been acquired illegally. It is evident from this short summary that Hermes response to the theft had been mostly a gut reaction based on mere legal considerations. Hermes had failed to properly assess and apply the three main rules of engagement we will discuss here in this book. It did not properly assess its own alleged prior right’s strengths and weaknesses (First Rule of Engagement: Know yourself). It failed to properly assess the status and weaknesses/strengths of the infringer (Second Rule of Engagement: Know Your Enemy), and eventually, it also missed several legal points (i.e., delayed invalidation, use of illicit means to determine the bad faith intent), which turned in the presentation to the trademark authorities of a rather weak case (Third Rule of Engagement: Know the Battlefield).

Castel – 1998

This case is an example of a troll action based on a stolen trademark. Although this case will be dealt with in more details in the following chapters, we provide an outline of the facts here.

In this case, a trademark infringement lawsuit was filed against the notorious French winemaker “Castel Frere” by the Chinese wine distributor Panati Wine (Shanghai) Co., Ltd regarding the Chinese trademark Kasite (卡斯特), a phonetic rendition of Castel in Chinese.

The origin of the case dates back to the late 1990s, when Wenzhou-born entrepreneur (and allegedly famous trademark-squatter) Li Daozhi, started the wine distribution company Panati Wine to introduce initially Spanish, then French wines to the Chinese wine market. He also started applying for the registration of trademarks like the Chinese name Kasite in 1998. Castel began bottling to China in 1999, and the Chinese translation of its name was known as Kasite by Chinese wine consumers. In reaction to the theft, the French company successfully submitted nonuse cancellation request in 2005, nevertheless losing the appeal filed by Li.

The trademark infringement lawsuit was filed by Li in 2009, claiming a compensation of CNY 40 million (over USD 5 million) from Castel for its unlawful use of the trademark Kasite, and the case ended up with the landmark judgment coming from the Wenzhou Higher People’s Court, according to whom Castel had to stop using the Chinese trademark Kasite on its wines and, more important, to pay a fine of CNY 33.73 million (over USD 5 million) to Panati Wine and its owner Li Daozhi.

After the initial verdict, both plaintiff and defendant submitted appeals, and the case was brought before the Zhejiang Provincial Higher Court, which upheld the first instance judgment, ordering to Castel to publish an apology. The case was then brought to the SPC for a retrial. Meanwhile, Castel not only had lost the use of its established Chinese name but also had continued suffering economic losses related to the theft. In 2016, the SPC issued a judgment cutting down the damage awards from the

original CNY 33 Million to merely CNY 500,000 (equivalent to USD 90,000). Although the attorneys of Castel claimed this to be a victory, in practice it was Pyrrhic one: the damage to the brand had long since been made and damages had been suffered independently from the liquidation of the original damage award. Most harmful however, was the loss of the trademark "Kasite" along with its good will. All this simply because Castel had not registered its brand or identified the existence of a trademark with that name in a timely manner. Doing either of these things could have helped the wine maker to choose another one long before "Kasite" had turned into a company asset.

Land Rover – 1999

In 1999, Geely, a large Chinese car company registered three trademarks covering the phrase "陆虎" (Lu Hu) in class 12 covering goods such as cars, sports cars and motors. The characters literally mean continental tiger. Land Rover claimed to have been using them since the early 1990s, and that Geely had registered them in bad faith, openly challenging the first to file Chinese system. While one of these marks had been registered in the meanwhile, two were opposed by Land Rover.

After a failed attempt to reach an agreement for the transfer of the trademarks to Land Rover, the latter also filed an invalidation action against Geely's mark in 2004 based on bad faith and likelihood of confusion. In July 2010, after a six-year battle and a first instance rejection of Land Rover's claims in the opposition, the invalidation was also rejected by the TRAB. Land Rover brought evidence of use of the trademark 陆虎 trademark, but it was not sufficient to support the claim that their "continental tiger" trademark was well known before Geely registered it in 1999.

Geely's mark had previously survived two nonuse cancellation actions in 2004 and 2006, and a lawsuit filed to overturn the TRAB decision is now still pending.

This case is a typical example of trademark theft by a large competitor with preventive aims. Geely had thus hampered the further expansion of Land Rover by forcing the latter to give up the use of a trademark that was gaining foothold in the Chinese market. It is also typical of such cases, where the thief was a large competitor, to see attempts at negotiated solutions. It is easy to see now how such negotiations never had a chance to succeed because there was no amount of money Land Rover could have paid that would have convinced Geely to remove a far more valuable commercial advantage. Maybe, only the offer of a joint partnership could have persuaded Geely to give up its prey. However, that was not the wish of Land Rover, which was not ready to give in to such business blackmail. In the end, negotiation served the purposes of Geely more than the interests of Land Rover, which had thus weakened the following invalidation action. Such an action should have been filed before opening negotiations, so that it could have been used as a sort of leverage for Land Rover to obtain some concessions.

In conclusion, during this first phase in the nineties, grabbers appeared to be legitimately registered companies with competing interests, largely motivated by the intention of free riding famous brands for quick illicit profit or to prevent foreign brands from further expanding their business in the Chinese market. They targeted the portion

of foreign brands that had not yet been registered or used intensively as trademarks in China in the same classes of products and services occupied by the corresponding foreign brand.

[C] Trademark Theft Evolves

Since the beginning of the twenty-first century, trademark theft sees the emerging of even more "ruthless" cases of trademark theft, not only perpetrated by competitors using other's trademarks to increase sales or launch their own products, but also from companies which were not apparently competitors of the foreign brands. For instance, in some cases, famous brands were registered in classes which were not traditionally related to the famous brands products or services. This resulted not only in the theft of such trademarks, the Chinese name or parts of logos, but also in the theft of the official foreign name in different classes, concerning totally dissimilar kinds of products, and regardless of the danger of nonassociation between trademark and product made by the consumer. The intent of these new wave of thefts seemed to be aiming at exploiting the "less-prudent" part of the public, a large group of the population which trusts more the trademark itself (or more in general, something which "sounds familiar") than the kind of goods to whom such brand is normally associated.

Moreover, an additional new trend seems to find roots in the very beginning of the new century – trademark thefts coming from individuals ("serial" thieves looking for a profitable agreement rather than a real commercial exploitation of the trademark) rather than companies. By 2005, this trend will become the predominant for of trademark grabbing.

Pfizer – 2001

Pfizer, Inc. hit it big with its blockbuster drug, Viagra, in the US and many other countries. It had also been targeting China as a large market for Viagra for years, as it is shown by the investment of over 500 million dollars in the People's Republic of China (PRC) for production facilities as well as the opening of a research and development center in Shanghai. In spite of such investments and expansion plans in China, Pfizer had neglected applying the Chinese name of Viagra, Weige (伟哥) (which means "Great Older Brother"), for trademark registration in China. Such name was coined and accepted spontaneously by the Chinese market as the official Chinese name for Viagra, in spite of the effort of Pfizer to impose WaiAike (万艾可) as the official name of the medicine. Pfizer registered the Chinese name WaiAike (万艾可), a transliteration of Viagra, but it never reached the popularity and appeal of Weige. On the other hand, Weige was owned by a Chinese pharmaceutical company, who first registered the mark when the Chinese media coined it as a transliteration of Viagra. Despite many attempts to challenge the Weige mark, Pfizer has been unsuccessful in gaining ownership of the mark. Pfizer's difficulties illustrate a method that is frequently used by trademark squatters to infringe on a trademark owner's rights. Because English

CHAPTER 3

Trademark Protection: Hostile Trademarks and Trademark Theft

Trademarks are the legal embodiment of brands. They are assets and important business vehicles in today's global market. There is no company today who is not aware of the importance of investing resources to build up brand value and protect it. However, this awareness does not necessarily combine with the appropriate legal knowledge. This leads to misperceptions and prejudices about the Chinese legal system and the protection of trademark rights.

Most foreign brand owners perceive the Chinese trademark system as unjust, and the trademark law inadequate to protect their brands – all to the advantage of aggressive Chinese competitors and criminal organizations. There are indeed reasons for such a negative perception of the trademark law and, more in general, the legal and enforcement systems of China.¹⁸⁸ In particular, foreign companies view trademark filing in China as too expensive when compared with the low rate of success in winning hijacked trademarks back from the Chinese trademark grabbers. The first-to-file principle that characterizes the Chinese trademark system – a system that gives little or no legal value to pre-use, save for few exceptions such as well-known trademarks – has indeed contributed to the proliferation of hostile trademark filings and theft by Chinese individuals and competing enterprises. At the same time, remedies have only occasionally been effective, while they are always expensive and time consuming. For

188. Turgut Guvenlu, Rajib Sanyal, Perception and management of legal issues in China by US firms, Vol. 32, Issue 2 *The Journal of Socio-Economics*, 161-181 (May 2003): "A survey of senior managers of American-owned firms in China about their experience with China's legal system and with intellectual property rights violations indicates that none of them found the system efficient and few found it fair. Chinese business ethical standards were perceived to be lower than in the US. Certain types of firms and business strategies were more prone to product piracy and patent violations. A variety of methods were used to address them. Foreign managers with experience in China have insights into the functioning of the legal system and are more satisfied with it than less experienced managers." See more recently EU Chamber of Commerce in China, *European Business in China-Position Paper 2014/2015* <http://www.europeanchamber.com.cn/en/publications-position-paper> (2014).

instance, lack of clear laws on bad faith and preventive registrations coupled with inconsistent jurisprudence by smaller provincial courts in trademark infringement cases, have contributed to the skepticism on the real possibility of protecting IP rights in China. This often creates in foreigners the impression that there must have been a political will behind the insufficient protection of foreign trademarks and more in general, IP rights in China, prompting for instance the US to file legal actions against China at World Trade Organization (WTO) level.¹⁸⁹

However, not all the perceived disadvantages are attributable to malicious political will, as many foreigners seem to believe. Lack of knowledge of the Chinese legal system, but more importantly of the Chinese way of doing trademark business is one of the main reasons why foreign brands come to China committing always the same mistakes. It cannot be all blamed on China. It would be absurd to blame the Chinese legal system for having chosen a "First-to-File" trademark system, or that foreign right holders usually neglect the existence of such rule when structuring their worldwide trademark portfolio. Unbiased knowledge of a legal system is a basic must for any foreign trademark lawyer or manager who serves foreign enterprises in China. Trademark portfolio and strategies encompassing China must therefore be based on solid knowledge of its legal system as it is and not as they would like it to be. Reliance of local Chinese partners has in many cases revealed insufficient to bridge this knowledge gap. It is not just a language, but fore and foremost a cultural issue. A foreigner does not understand China, but Chinese often cannot explain China to foreigners so that the latter can understand it. This knowledge gap must be filled up. Considering the importance of China for any company IP portfolio, foreign lawyers and trademark practitioners must be helped to gain more in-depth knowledge about the Chinese law, the Chinese business and the way to combine them according to the Chinese way, in order to obtain maximized business and legal solutions to their China trademark challenges. This is why books like this are still worth being read.

Another factor to be considered as a contributor to western misperceptions of the efficacy of the Chinese trademark system is the swift evolution of commercial practices due to the ever expanding use of the Internet, which have often put the Chinese legislative and judicial system under the urgent need for quick adaptation to continuous and rapid changes. In this respect, it must be acknowledged that, since 2001 – the year of China's accession to the WTO – the IP field in China has seen one of the largest proliferations of new legislations, and has rapidly adapted its laws and legal practices to such changes. China has taken its WTO/TRIPS obligations seriously and has begun enacting laws and regulations which comply with the required international standards for trademark legal protection. At the same time, IP-specialized courts have been created in major cities and have set up their own websites where their jurisprudence is publicly available. Judges have joined in educational activities and information

189. In August 2007, the Government of the United States filed a request for World Trade Organization (WTO) dispute settlement consultations with the People's Republic of China over deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products (Case Dispute DS362) in http://www.wto.org/english/tratop_e/dispu_e/cases_e/1pagesum_e/ds362sum_e.pdf.

exchanges with the public, and exchanged experience with other judges from foreign jurisdictions within several cooperation programs.¹⁹⁰ This allows the SPC to collect knowledge and experience, and issue interpretations and opinions each year addressing disputed legal issues, thus allowing courts to interpret and adapt the trademark law in a more consistent fashion.¹⁹¹ In most cases, the result is that amendments to the law have been somewhat anticipated by judicial practice. Though some gray areas remain – inasmuch as real life business practices and technology normally outpace the law – the Chinese legal system now has the instruments and the cultural means to adapt the written law to the evolving forms of infringement and enforcement.

Blaming the Chinese legal system for failing to protect their trademarks in China is only part of the story, and often becomes an excuse for managers to divert attention from their own responsibilities. A review of many trademark cases that have gained notoriety abroad shows how unprepared the foreign company actually was, and how ill-considered its actions in China. If there is indeed reason to put some blame on China's real political will to protect foreign companies' IP rights, there is as much reason to criticize foreign companies for their poor performance.

The new Trademark Law of China in force since May 1, 2014, and the most recent jurisprudence of the SPC have introduced a series of provisions and interpretations of the law which seem to finally provide more preventive tools and even more effective remedies against the plague of trademark grabbing, especially for all the trademarks that are not famous or have but little or no reputation in China. Strategic planning can now avail of more tactical choices. If the planning is done correctly and in accordance with the Rules of Engagements presented here, the chances to succeed will surely increase compared to the past. Failure is still possible, but there will be fewer chances to blame it on China.

In the present Chapter, the author will explore the issue of trademark theft and trademark free riding and will try to apply the strategic approach presented in the first Chapter and summarized in the Rules of Engagement to real cases and instances, to show that even in difficult cases, the right approach can bring good results no matter what the law says and courts do! The key to a successful protection of trademark rights lies thus in the preparation work of the right holder, the adoption of sound strategic goals and the correct use of the legal tools as concretely provided by the Chinese law, not as those wished for, to each case.

§3.01 LESSONS FROM A TYPICAL CASE OF TRADEMARK HIJACKING

Trademark thieves are like buccaneers: ragged and sometimes colorful adventurers roaming the vast Chinese business seas in search of unaware and undermanned

190. *Supra* n. 7.

191. See Summary of the Annual Report of the Supreme People's Court on Intellectual Property Cases (2015) <http://www.pkulaw.cn/CLI.3.269028>; see also Summary of the Annual Report of the Supreme People's Court on Intellectual Property Cases (2014) <http://www.pkulaw.cn/CLI.3.247219>; see also Summary of the Annual Report of the Supreme People's Court on Intellectual Property Cases (2013) <http://www.pkulaw.cn/CLI.3.223958>.

galleons from the far away West. Buccaneers sail on light and very fast ships, have full knowledge of their backyard waters, they quickly hit and disguise themselves. When the western galleon is in need to anchor to patch the damages it finds itself in foreign waters and among unfriendly indigenous tribes, or worse at Tortuga, the island of the lawless. As picturesque and evocative this might sound, the reality is bitter and upsetting for the victims, as it emerges from the pirate story below.

On an August day of 2012, a US company informed his foreign lawyer in China that few of his trademark applications in the Middle Kingdom had just been rejected due to prior identical registration by an unknown third party. In fact, identical trademarks had been applied earlier by a company from the Sultanate of Brunei, since 2010! The US company's trademarks were first created in 1971 and had since then been registered as such in the US. Also, it was learned that the client had been doing business in China since the early nineties, when it had appointed a Chinese individual as its local distributor. Since 2010, the client had started losing money in China. Orders were down, millions of dollars in revenues quickly vanished. The distributor was suspected of wrong dealings and was fired after over 15 years of business relation. However, in August 2012, there was no hard evidence that the Chinese distributor had applied those trademarks in 2010, and that he had diverted business away from the US principal. The latter was upset and clueless as how to fix the problem of losing orders and money. Eventually, intense searches revealed that the former distributor had set up a bunch of Chinese companies using the principal's name and presenting themselves to the market as the principal itself. The principal started slowly to realize for the first time that there was a direct relation between these uncovered facts and their steady losses in China since 2010. It took another month or so of investigations to bring first evidence of a large infringement scheme orchestrated by the former distributor with the collusion of his close family. Experience and investigating instinct quickly brought the attorney on the right trail: a relation between the Chinese distributor and the Brunei's company was suspected. More facts were investigated, collected and analyzed so that the suspicions turned into strong hints. Trademark searches revealed that the Brunei enterprise owned over 150 of the principal's trademarks in China and Taiwan and many had been already registered back in 1994. This led the investigations to further trademark searches till a direct evidence of the relation between the distributor and the Brunei's entity was found. Once all the available facts were lined up, it emerged that the former distributor had been actually the first to apply the principal's trademarks in China in his own name without the principal's authorization since 1994. He had then begun assigning such older trademarks to the Brunei entity in 2009. Most important, evidence revealed that he had signed the trademark assignment agreements of 2009 both on his own behalf as the assignor as well as on behalf of the Brunei entity, the assignee! That was the smoking gun. From then on, all the later applications and registrations since 2009 were made directly in the name of this Brunei entity. Further investigations of other subcontractors had revealed important hints of the parallel business the former distributor had created during the 15 years of his work with the American principal.

Once the infringement had been reconstructed and evidence collected, legal actions were promptly taken. Hundreds of invalidations for registration by the agent in bad faith and oppositions on the latter ground were filed against the most recent trademarks (since 2008), while nonuse cancellations had to be filed for the older trademarks from the nineties because the limitation period for the cancellation of bad faith registrations expired after five years from the date of registration of the targeted trademarks. Eventually, evidence as to the shareholding structure of the infringer was obtained through a legal trap set forth by the attorneys of the US right holder in the nonuse cancellation procedures, that were supplied as evidence of bad faith in the other set of bad faith invalidations and oppositions. A complex case reconstruction was therefore followed by a massive legal action. Meanwhile, the infringer had turned his stolen trademarks into trolls by filing an infringement lawsuit in Wuhan, China against the principal and his local distributors. This in turn forced the principal to suspend the use of his old trademarks and launch a new brand in China and Taiwan and protect it by new trademark filings. Eventually, after four years of battle, decisions favorable to the US right holder in the nonuse cancellations as well as the agent bad faith registration begun to pour in, and the market has recognized that the usurper is not the legal entity entitled to use the stolen brand.

In spite of the good news after over four years of battles, still partly ongoing with some appeals pending, the damage inflicted to the US right holder will take a long time to be fully absorbed. In the flurrying of legal actions, the market has been confused for long stretches of time. Buyers were no longer able to discern between who is who. Trademark hijacking had cost million in lost orders and a hundred thousands of dollars in lawyers' fees. At the same time, if the US entity had duly registered its trademarks back since 1994, when they started an official distribution relation in China, it all would have cost a few thousand US dollars and this case would have never occurred.

Keeping in mind the basic facts described above, which are all but a little portion of the whole story, a number of relevant issues emerge which are worthy of remarks. The right holder, not well counseled and misled in thinking that prior use and a registration in the US could cover his rights in China, set about doing business in China from the mid-nineties with an individual person without taking steps to register his trademarks in China until 2012! Business developed quickly and profitably for over 10 years. Nobody at the US headquarter was even remotely concerned about trademarks in China, and no independent checks were ever conducted on the distributor, so that the US entity completely missed any sign of the distributor build up. Only after the company started losing money and dismissed the distributor in 2012, it started questioning its business model in China. Why had they let one single individual manage many dozens of millions of US dollars worth of business in China without any trademark protection and control? Why did not they ever check his trademark portfolio? How could they have failed in detecting the distributor companies shadowing the principal's identity in China?

The most crucial factor and the initiator of the whole matter was the failure of the principal to timely secure its trademark rights in China. China's trademark protection

is based on formal registration rather than prior use as in the US and to a certain extent Europe. The protection model for trademarks in China is based on the "First to File" principle. The first person or entity applying for a brand registration as trademark in China will be granted a 10 years exclusive right over that trademark, which is renewable for further 10 years *ad infinitum*.

This first-to-file has been the major legal con-cause of the proliferation of trademark theft and the emergence of a lucrative trademark hijacking economy.¹⁹² Individuals, alone or organized in gangs of serial trademark hijackers have exploited this provision of the Chinese trademark system to trade on stolen trademarks. In addition to the first-to-file rule, implementing regulations do not impose on individual applicants to prove they are conducting legitimate businesses. While this has been surely a serious problem for the many famous brands, and in some cases an utter nightmare, it has always been a real tragedy for small- and medium-sized companies from the West. For many, trademark hijacking meant the appalling perspective of being prevented from entering the Chinese market or paying absurd ransoms to recover their trademarks. At the same time, exploiting deregulation in the trademark agents market, myriads of small consulting companies have turned themselves into filing agents and many of them have soon realized that there was more profit in trademark thieving than prosecution in spite of regulations prohibiting such filings.¹⁹³ In some cases, agents slyly avoid professional liability by having their owners or employees filing stolen trademarks in their own personal names. In sum, the trademark filing system in China does not have any preventive filter or checks to reduce the risk of hijacking. The result is simple and clear: a trademark holder must move quickly to secure its trademark rights by filing them in China before others may do that.

Blaming the infringers or the law cannot eliminate the fact that such problems would not emerge if foreign brand owners were aware of such rules and acted consequently, by timely planning their portfolio filings in China and worldwide. In sum, we cannot make a principle of law such as first-to-file the sole responsible for trademark hijacking in China. On a scale, the negligent ignorance of the Chinese law by foreign brand owners and their legal consultants should bear thus more weight and responsibility for the continuous raise of trademark theft. It is evident that lacking knowledge of China business practices and Chinese law are one of the major reasons for the failures of western companies in the China IP arena. Evidence to this is the simple fact that in the last 20 years, scores of western companies have been affected by exactly the same problem and have all committed the same mistake! How can the repeating of the same mistake, devilish to a certain extent, be justified by just blaming it on the Chinese law? Ignorance is the answer. And this ignorance is not just limited to the first-to-file principle or to other basic law concepts. It is a deeper cultural issue, whereby foreign companies plan China IP business while wearing the lenses of their own countries' business and law practices. For example, China does not recognize

192. *Supra* n. 31, 264.

193. Article 32 Trademark Law.

explicit protection to trade dress. Therefore, signs, patterns and three-dimensional designs or marks must be registered either as trademarks (if distinctive and functioning to identify a product's origins), design (if their esthetic value is the object of protection) or both. Ultimately, if a work of high and original intellectual value, they could be protected by copyright as well. Also, such forms of protections can be cumulative. However, in case none of the above forms of protection is available, it will be difficult for a right holder to claim protection under trade dress for the lack of specific regulations. The fact that trade dress is protectable in other legal systems should not mislead the right holder when seeking protection in China. It cannot surely be blamed on China to have chosen a first-to-file rule for IP protection in the first place or for not having clear regulations on trade dress, when the former is also adopted in western countries for other IP rights (the US for instance), and the latter is not even available in some more modern western legal systems. Basing a strategy on wrong assumptions, without knowledge of the way the law and business work concretely in China can have far-reaching consequences. For instance, securing a trademark right but not a design for a certain shape or pattern may, in some cases, results in a flawed scope of protection. Ultimately, a misplaced right, i.e., a pattern registered as a trademark but used as a design right, may even lead to the loss of the trademark for nonuse, as it happened to the Haymarket trademark of Burberry.¹⁹⁴

Also, a good portion of the debate on trademark theft has concentrated on the cases involving famous western brands, such as those we listed in the opening chapter to this book. Little thought has so far been given of how much deeper wounds can trademark theft cause to companies other than MNCs. Many attorneys still suggest that right holders should file their trademarks in China in as many classes as they can, if not all 45 of them, to prevent the risk of trademark hijacking.¹⁹⁵ In case of theft, it is often and blindly recommended to try all available legal means to obtain the trademark back through the law. These recipes may work for MNCs with deep pockets (likely it will not work for them either); surely they do not work for the overwhelming vast majority of western companies. Even the premises of these debates and consulting focus merely on MNCs business problems. For instance, a number of stolen trademarks are often applied in classes which are not of direct interest for the targeted brand. This happens when a trademark is well known, and therefore has an attractive added value even when it is not related to the goods with which it is normally associated. It is in fact possible to find hijackers who apply the Italian famous fashion brand PRADA in class 1 in association with industrial resins. In spite of the apparent remoteness among the goods in question, the presence of such trademark may indeed pose a problem to a well-known brand, in that its use may contribute to the dilution of the former

194. Paolo Beconcini, Protection of Pattern Trademarks from Non-Use Cancellation in China, https://hk.lexisn.com/topic/legal.php?tps=pg_ls&act=detail&id=120044&newstype=3&isEnglish=Y (February 28, 2014).

195. Such recommendations are also not sound from other legal point of views. In fact, filing trademarks in all 45 classes without using them for the respective goods or services, may lead to a cancellation for nonuse and cause useless costs to the right holders.

exclusivity and association only with luxury goods. On the other hand, SMEs are not threatened of brand dilution in the first place, but to their immediate commercial survival in the Chinese market, if not abroad. If a western brand is not famous, at least in China, then hostile filings of the same brand by trademark thieves in totally unrelated classes will unlikely occur and even when it happens, it constitutes no case of hijack. In fact, the scope of protection of a normal trademark will be limited to the classes and subclasses of goods and services for which such trademarks should have been registered or has been registered. Its lacking of notoriety also delimits the boundaries of its protection to exactly those designated goods and services. If an identical or similar trademark is filed in a class of goods other than the designated one by the original trademark, it is evident that lack of the latter's notoriety will also mark the lack of any commercial proximity and risk of confusion among the relevant public. This explains why in case of normal trademarks, unlike that of well-known brands, trademark theft concerns the hijacking of the original trademark in the originally designated classes or in classes similar to the designated ones by the original brand. This is what hurts SMEs and proportionally, it hurts more than the issue of brand dilution suffered by MNCs, at least in the short term. Being prevented from using its own trademark in China, may result in the foreign SMEs' economical demise or market share downsizing in a very short period of time. Trademark grabbers or Chinese competitors want to make money or gain direct and immediate business advantages by the act of theft, and none of them would invest money on stealing a "nonfamous brand" in classes irrelevant to the original brand of the right holder. Which SME would in fact buy or request the return of a trademark identical or similar to their own unless it was registered by the usurper in the exact class covering the product and services of the brand of the original foreign holder? Trademark hijacking affecting the vast majority of brands focuses on exactly the classes of goods and services related to the stolen trademark. This hurts them a lot and in a very short time! That is why trademark theft is even more pernicious for SMEs than MNCs.

In this respect, the right holder could have always prevented the act of theft by the grabbers if he had duly registered his trademark in the relevant classes.

The same reasoning pattern can apply also to remedies for the recovery of a stolen trademark. Well-known brands have more tools and remedies available that can be put to good use, but are not available to SMEs. For example, opposition proceedings must be filed within a short time window of three months from the preliminary approval of the stole trademark application. While MNCs and well-known brands have monitoring systems in place to warn them timely of a potential case of trademark hijack, thus giving them the option to timely oppose the hostile application, small to medium enterprises do not normally possess a trademark monitoring system. They are thus rarely informed in a timely fashion of the possibility to file an opposition. In most cases, hijacked trademarks of SMEs and large enterprises will be registered without opposition. This leaves such companies, representing the majority of the world trademarks, not only with less available remedies (i.e., opposition is mostly unavailable for time reasons), but also exposed to the risk of trademark trolls, i.e., trademark

infringement lawsuits filed by the hijacker based on the stolen and now registered trademarks. Even for those that can file timely oppositions, thus preventing the risk of trademark trolls, opposition procedures used to stretch for years and the percentage of successful outcomes for the opponents has never been very high,¹⁹⁶ due to the difficulty of supporting with objective evidence the defenses such as "certain reputation" and "bad faith." There is therefore a disparity of treatment between MNCs and the rest of the business world when it comes to trademark protection in China. Although part of the differences are perfectly legitimate and justifiable by the fact that MNCs have better resources and lawyers, SMEs and large enterprises could benefit and reduce their business risks and exposure to trademark theft if they could access better information about China business and legal culture. So instead of blaming China and thinking how things should be, it is better for most foreigners to learn how indeed things are here in China, so that they can better manage their expectations and plan better and more effective business and IP strategies.

§3.02 TRADEMARK THEFT AND TRADEMARK TROLLS: CHALLENGES TO THE BUILD-UP OF BRANDS IN CHINA

Trademark thieves are Chinese entities or individuals who actively follow a strategy of registering IPR in China that arguably belong to their foreign competitors. Aware of the very strict First-to-File rule, they identify, apply and register trademarks belonging to others who have not yet taken steps to register them. Trademark trolls are lawsuits by which trademark thieves attempt to extort money and business advantages through judicial blackmailing. Trademark thieves can be moved by different aims and purposes. Therefore, not all trademark hijacks will result automatically in a trademark troll lawsuit. There are occasional trademark thieves who act based on opportunistic motives. They will normally try seeking a return of their investment in a very short term and will thus not contemplate civil litigation as a viable option to achieve their goals. Also, they are often unaware of certain legal risks and may in fact commit errors such as openly offering for sale the stolen trademark without having used it. As we shall see, such inconsistent and random trading behavior may be regarded by the law as a presumption of bad faith intent in the registration. Others are professional trademark squatters, also referred to as thieves or grabbers. These are people or entities engaging in systematic searches of unprotected foreign brands with the goal of applying them for registration in China. As outlined at the beginning of the book, professional squatters were born with the launch of the official trademark database in the Net and the fast spreading accessibility to internet in China, which allows professional grabbers to scout foreign companies before deciding whether to target them with a preventive trademark filing. Their goal is also economic. Unlike the

196. Mr Zang Bao Qing, <http://www.aiweibang.com/yuedu/66882752.html> (2013). Mr. Zang, director of legal affairs department of TRAB, reported that the total of fully or partially rejected oppositions from 2010 to 2013 amounted to 80%.

occasional infringers, professional grabbers act more systematically and are more careful when seeking to close deals on the stolen trademarks and register them with the main purpose of selling them back to the legitimate owners or any other interested party. In some cases, they may act as hired hitmen on behalf of legitimate competitors (including foreign ones) of the targeted foreign company. However, all grabbers act based on a business plan and must manage resources. If they see that there is no easy money to be made on a hijacked trademark, they will move on more profitable ones. In sum, a trademark thief will set time and priorities, will consider the right holder reactions in order to determine whether he still has a sellable item at hand or whether he should neglect it and focus on others in its portfolio. This also means that grabbers are rarely involved in economic activities using the hijacked trademarks. Different is the case in which the thief is a person or company competing in the same market of the foreign brand owner. In such case, there is indeed an obvious risk of a trademark troll lawsuit. A company hijacking a competitor's trademark has a clear intention: disadvantage the competitor in the Chinese market, thus gaining an unjust profit from the stolen right. Professional grabbers and competitors represent two clear distinctive constellations of trademark infringers that require different strategic approaches. Knowledge of the enemy is therefore critical and strictly functional to the goal setting as well as to the concrete planning of the trademark recovery actions. Investigations started since the very inception of the dispute are critical and will reveal the nature and intents of the infringer, thus helping the right holder to set up its rescue plan.

Particularly sensitive to trademark theft and trolls are the often neglected Chinese transliterations of foreign brands. Chinese consumers are indeed used to refer to foreign brands with their Chinese name. This is something a foreign company may not sufficiently be aware of. This tendency to create a Chinese version of a brand or product name is such that even in case a foreign company has not yet decided to use a Chinese name for its products, the Chinese consumers of that product will likely create one or more on their own. The name(s) will then spread to others through the internet, and one of them may quickly establish itself as the official Chinese name of that brand or product name, even without the right holder's knowledge. In such circumstances, failure to create and immediately register a Chinese name or to register the one coined and adopted by the relevant consumers, will likely result in others registering it as a trademark. Below is an example of this kind of trademark hijack.

Castel Group is one of the world leaders in wines, beers and soft drinks. An internationally recognized name, it has a wide range of brands and a presence worldwide. Castel Frères SAS entered the Chinese market first when it set up a filling center in China in 1998. In 2001, Castel started cooperation with Changyu, the largest wine maker in China, under the name "Ka Si Te - Changyu Chateau" and with a product for the Chinese market whose name was "Changyu Ka Si Te" (张裕卡斯特). Sales were going very well and the brand "Ka Si Te" gained more and more reputation amongst Chinese consumers. Bent on making profits and expand its market share, Ka Si Te - Changyu Chateau, did grossly neglect to file its trade as well as product name as a trademark with the Chinese Trademark Office. This did not go unnoticed. On

March 7, 2000, the name "Ka Si Te" in Chinese characters (卡斯特) had been registered as a Chinese trademark in class 33 by a company called Wenzhou Wujin Jiaodian Huagong Group. In 2002, it was then transferred to a certain Mr Li Dao Zhi, allegedly a Spanish-Chinese winemaker. It was only in 2005, almost 10 years after having started marketing the name "Ka Si Te" in the Chinese market, that Castel became aware of the hostile trademark "Ka Si Te" of Mr Li's. Castel had belatedly realized the need to protect its now established brand as a trademark in China. Only when its application was rejected, Castel had realized that its brand "Ka Si Te" had since long been hijacked by third parties. A battle for the recovery of the brand ensued. On July 8, 2005, Castel filed with the Trademark Office a request to cancel Mr Li's hostile trademark "Kai Si Te" for nonuse for three consecutive years.¹⁹⁷ This cancellation dispute lasted for six years and the final ruling came from China's SPC on December 17, 2011 rejecting the request for cancellation.

Meanwhile, in 2008, almost eight years after the original trademark registration, Mr Li established Shanghai Ka Si Te Wine Co. Ltd which imported into China French wines with the trademark "Ka Si Te." In October 2009, parallel to the cancellation action cited above, Mr Li together with Shanghai Banti Wine Company filed a trademark infringement lawsuit against Castel and Shenzhen Castel (its Chinese dealer) with the Wenzhou Intermediate People's court. In the civil complaint, Mr Li claimed compensation for CNY 40,000,000 (at that time over USD 6.3 million) by alleging that Castel and its dealers had illegally earned such an amount of profit by their unauthorized use of his trademark "Ka Si Te" from January 2007 to October 2009, including using the brand on wine products, advertisements and packaging.¹⁹⁸ This lawsuit is a perfect example of what we call a trademark troll.

The Wenzhou Intermediate People's court held three hearings, during which Castel argued that its use of the trademark "Ka Si Te" was in good faith as "Ka Si Te" is long known to be the official translation of the Latin name "Castel" and has served as a graphic illustration of the trademark "Castel," rather than being an indication of the origin of the wine sold in China. Castel also argued that it is their Shenzhen dealer who labels the imported wine with the trademark "Castel" together with the Chinese characters "Ka Si Te" (卡斯特) and therefore the dealer should be the only defendant in this case. The Wenzhou Intermediate People's court rejected Castel's arguments and judged that Castel had always had knowledge of the registered Chinese trademark "Ka Si Te" (卡斯特), and that the wine Castel produced in France would have been labeled with the infringing mark "Castel Ka Si Te" once arrived in China. Therefore, Castel and Shenzhen Castel were to be seen as joint infringers.

On April 10, 2012, the Wenzhou Intermediate Court issued the first instance judgment regarding the trademark infringement lawsuit between Li Dao Zhi and Castel

197. "Ka Si Te" Decision on cancellation [2010], Intellectual Administrative Decision No. 55 issued by SPC on December 17, 2011.

198. Another famous case, this time a patent troll, had been judged in 2009 and awarded a Chinese troll the equivalent of USD 50 million in damage compensation. This case was later settled by the parties for less than half that amount. See Harry Yang, *Chint v. Schneider on Patent Infringement*, <http://www.chinaipmagazine.com/en/journal-show.asp?id=258> (2008).

& Shenzhen Ka Si Te Wine. The Court judged that the conduct of the two defendants infringed upon the trademark rights of Mr Li and condemned the defendants to pay damage compensation for CNY 33,734,546.26 (more than USD 5 million). To date, this is one of the largest damage compensations for an IP infringement cases in China.

Mr Li and his company also started enforcing their registered trademark “Ka Si Te” against Castel and its distributors, wholesalers and retailers in China, by a number of collateral legal actions, like a lawsuit against Beijing Yansha Youyi Mall, Carrefour and Wal-Mart for selling fake “Ka Si Te” wines. In the litigation against Beijing Yansha Youyi Mall No. 2, the Beijing Higher People’s court ordered Beijing Yansha Youyi Mall to stop selling 14 types of wines bearing the “counterfeit” Chinese trademark “Ka Si Te” (卡斯特).¹⁹⁹ Eventually, on April 23, 2012, Shanghai Ka Si Te sued four companies selling wine bearing with the “fake” Chinese trademark “Ka Si Te” (卡斯特) in three courts in Shanghai and had been coordinating with other relevant enforcement departments to raid and penalizes the infringers. At the end of 2015, the Appeal Court overruled the judgment of the lower court by reducing the damage compensation from CNY 136 million to something more than half million CNY.²⁰⁰ Although this judgment constituted a mitigating factor for Castel, it still provides little redress for the lost brand. At the end of many years of legal battles, in which Castel suffered economic damages from lost business, damages to name and reputation, damages to its supply chain, economic hardship due to the costs of defending its rights in several legal proceedings, Mr Li is still the lawful owner of the trademark. Castel can no longer lawfully use it and cannot ripe the economic benefit of an exclusive IP right that really should have belonged to Castel, following years of investment in building up that brand in China. In sum, with the cooperation of local trademark enforcing administrations, Mr Li has been able to raid Castel wines in 50 cities in China.

In this case, it was clear since the year 2000, when Mr Li registered “Ka Si Te,” that the same name had been used sufficiently by Castel to become famous in China. The word “Castel” sounds similar with the Chinese word “Ka Si Te” (卡斯特), and rarely will Chinese consumers be able to tell the difference between the two, since Chinese consumers are more pronunciation-oriented and would thus tend to deem the two trademarks as having an almost identical sound. Although Castel set up its own business in China early in 1998, and cooperated with one of the top three Chinese wine makers, Changyu (张裕), to produce wine bearing with the brand “Changyu Ka Si Te” (张裕卡斯特), it still failed to apply the Chinese name “Ka Si Te” (卡斯特) for trademark registration in class 33 immediately before or upon starting the joint

199. Li Daozhi V. Beijing Yansha Youyi Mall ([2009] Gao Min Zhong Zi No. 5383) dated February 11, 2010.

200. At the end of 2015, the Appeal Court overruled the judgment of the lower court by reducing the damage compensation from CNY 136 million to something more than CNY half million. Although Castel Frere has suffered economic damages since the year 2000, the appeal decision seems nonetheless to mitigate the economic consequences of the infringer and sends also a positive signal against squatters. For more details, see Cassie Lam, “Things are different in China,” Alleged Trademark Squatter Claims after Court Win, World Trademark Review, <http://www.worldtrademarkreview.com/Blog/detail.aspx?g=9e669097-ac3c-47de-b571-444a29144681> (2016).

marketing of the brand “Ka Si Te” and “Castel” in the Chinese market. Recognizing this mistake, Mr Li appreciated the opportunity and exploited it to his advantage. Unlike many trademark grabbers, who register trademarks of others without intention of using it, in this case it was registered with the intention of preventing a competitor’s brand gaining lawful access to the Chinese market.

This case exemplifies all the things that can go wrong with trademark theft and trademark trolls. It shows also what a company should not do, namely forget to file its own trademarks for registration in China timely. The fundamental lesson any company, big or small should learn is that there is no better cure here than prevention, and that the only way to prevent such occurrences is by timely filing for trademark protection in China. More generally, considering that no foreign company big or small can ignore the central role played by China in the international economy, either as a market, world factory or both, China trademark filings should be on top of the priority list of any trademark department or agent outside China when planning its client’s or company’s portfolio filings. Also, it emerges clearly that the need of timely filing concerns not only the original foreign trademarks, but their Chinese transliteration as well. This requires brand owners not only to think one, but also to think it as soon as possible, so that once filed as a trademark it will be available for registration. Another important tip about the Chinese transliteration of a foreign trademark: Once selected and applied for registration as a trademark in China, the Chinese name should be used and not left alone and neglected. Why? Because if not used, the Chinese market will likely find and get used to a Chinese name anyway and in most cases it will not be the same as the one selected and protected. In such case, the registered but unused Chinese name will be a useless asset, while the one imposed by the market will acquire great economic value, but will be at the mercy of any grabber.

Even if a brand is not meant for commercialization in China, failing to secure it as a trademark in this country may have further dire consequences. The most obvious would be the lack of a strong direct weapon against counterfeiters. In fact, without a trademark in China, the right holder could not raid and shut down the infringer’s factories and original sources here on the spot. Even if enforcement could still take place in Europe or the US via custom protection, precluding the possibility of a direct enforcement in China for lack of registered trademark and design rights will not help stemming counterfeits and will speed up the dilution of the trademark’s economic value. In fact, EU and US customs seize but a small percentage of all fake goods arriving from China and judicial enforcement may hit at most traders and shut down websites, but will not stop the fakes from finding their way into these markets, unless the counterfeiters are shut down here in China and sent to jail and made to pay for damage compensation and lose their manufacturing assets and capabilities. We shall learn more about this in the part of this book dedicated to brand protection. Another negative consequence of losing a trademark to a hijacker, can negatively affect the official Chinese suppliers and retailers of the trademarked products. If the brand is not trademarked in China, the grabber could enforce it against the factory making the