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China's trademark law may not go far enough

By David Hoffman

We often hear that theft of intellectual property is rampant in China. A typical scenario is that an American company which has been selling a product in the U.S. starts to sell in China and finds that an unknown person or company has registered the mark in China already. The Chinese registrant is willing, of course, to sell the registration to the American company for the right price. Just ask J. Crew and the Kardashian sisters.

Sometimes an American company has been using a Chinese manufacturer or distributor and has become unhappy with the Chinese company. When the American company wants to switch, it finds out that the Chinese company registered the American company's trademark in China. The American company is now hostage to the Chinese manufacturer or distributor.

While China's existing trademark laws allow for an aggrieved party to oppose or petition to cancel a registration where the applicant or registrant acted in "bad faith" or where the mark is famous (in China), these safeguards only provide protection in very limited circumstances. Moreover, it is very expensive to try to prove "bad faith" or prove a mark's fame in China.

After years of pressure from the U.S. government and others, China has finally amended its laws to deter trademark hijacking. The new law provides that a trademark application will be rejected when the trademark applied for (i) is identical or similar and is for the same or similar goods of another person's trademark; and (ii) has been used by another person in China before the application date, even though the trademark was not registered yet, if the trademark applicant has a contractual or business relationship or any other relationship with the other person and thereby knows of or should have known of the existence of the other person's mark.

The new law also specifically requires that principles of honesty and

credibility govern when registering and when using trademarks. These principles of honesty and credibility are also imposed on trademark agencies (entities that can file trademark applications for clients) along with an express obligation to keep their clients' confidential business information secret.

An agency must tell its clients when it believes a trademark is not registrable under the law and must even decline to take on a trademark application when the agency knows or should know that the application is (i) an attempted theft of another's trademark; (ii) an intended pre-emptive registration; or (iii) an unfair attempt to register a mark already in use by another.

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Where an American company has no existing business relationship with the trademark squatter, the American company would have to rely on either proving the mark to be well known in China before the squatter filed its application or proving lack of honesty or credibility. This appears to be roughly the same as the current state of the law in China. Registrations can already be attacked for "bad faith" or where the mark is already well known in China. The requirements on agents who file trademark applications have potential for a significant reduction in bad-faith registrations. However, the habitual bad-faith filers and the sophisticated can file trademark applications without using an agent. Therefore, it remains to be seen if the new law will have the kind of impact that is desired by owners of famous brands and by famous individuals.

It is also hoped that the new law will stop or substantially reduce trademark hijacking by Chinese manufacturers and distributors. However, there are also significant weaknesses

in the new law. First, it is possible that manufacturers and distributors will use straw men to get around the law. For example, a relative or friend of a distributor might register the trademark owner's mark. In that case, proof by the trademark owner of a sufficient relationship between the manufacturer or distributor on the one hand, and the relative or friend on the other hand, may be expensive and difficult.

Second, the law requires that the trademark owner have used its mark in addition to showing a business relationship with the trademark applicant. Therefore, presumably the law can be circumvented by a manufacturer or distributor who files a trademark application at the inception of negotiations with a trademark owner who has not yet used its mark in China. It remains to be seen whether the trademark owner could rely on prior use of the mark outside of China. Even if that is the case, often U.S. businesses first manufacture their product in China, so there would be no use of the mark anywhere prior to the Chinese manufacturer finding out about the mark in contract negotiations.

The new law has many other provisions including some expansion of the right to oppose attempted registration of a trademark or invalidate a trademark registration. In addition, one may record a trademark license with the CTMO (China Trademark Office). Recordation will prevent a trademark licensee's rights from being cut off if the trademark owner sells its rights to a third party who was unaware of the license.

The new law also imposes time limits on the CTMO in which to process trademark applications and oppositions to applications. For example, an application must receive its initial examination within nine months of the CTMO receiving the filing. The CTMO must complete any opposition proceeding within 12 months of the expiration of a preliminary publication period. This time limit is extendable for up to six

months.

Given the ways around the new law, some important rules of thumb for protecting against trademark piracy or squatting in China include:

An individual on the verge of becoming famous should consider registration of his or her name in China (and elsewhere).

A company should register its important trademarks in China as soon as it makes the decision to enter the Chinese market and before discussing the matter with Chinese distributors.

A company should register its important trademarks in China as soon as it decides to manufacture in China and before discussing the matter with Chinese manufacturers.

Even before deciding to enter the Chinese market, if a company is very successful, it should consider registration as well as a trademark watch in China.

Whenever entering into an agreement with a Chinese distributor or manufacturer, a company should include a trademark license and a prohibition on filing trademark applications in the distributor's or manufacturer's name.

Any company entering into a trademark license in China should record the license with the CTMO.

Trademark hijacking and squatting are not limited to China. It can happen in any country. Those who are famous, companies that are very successful, companies beginning to enter any foreign market and companies that manufacture in a foreign country are particularly vulnerable. While China's new trademark law is a step in the right direction, it is not a substitute for vigilance of the trademark owner.



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