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Protecting Well-Known Marks in China: Challenges for Foreign Mark Holders

Stephanie M. Greene*

I. INTRODUCTION

In August 2007, Anheuser-Busch prevailed in a trademark infringement suit against the Jinchi Beer Company. The Chinese company, Jinchi Beer, distributed a product with trade dress similar to that of Anheuser-Busch’s Budweiser and identified the product as authorized by USA Baiwei Beer International Group Limited. Baiwei is the registered trademarked Chinese name for Budweiser. The Shanghai First Intermediate People’s Court ordered the Chinese company to stop its infringing activities and to pay 500,000 RMB (US $66,667) in compensatory damages and 100,000 RMB (US $13,333) in punitive damages. During the same month, Nike prevailed in a suit against two Chinese shoe manufacturers who used a logo that was nearly identical to Nike’s registered trademark. In addition to issuing an injunction and demanding a public apology, the Shanghai Second Intermediate People’s Court ordered the defendants to pay a total of

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US $46,000.\textsuperscript{4} These results indicate that Chinese courts are willing to recognize and protect foreign well-known marks. Nevertheless, some rights holders have not been successful in challenging marks they alleged infringed on their registered Chinese trademarks.\textsuperscript{5}

Protecting intellectual property (IP) in China involves a large spectrum of players. The U.S. government, while praising the continued progress China has made in improving IP protection, continues to list China on the Priority Watch List, a list which identifies countries that do not offer adequate levels of intellectual property rights (IPR) protection.\textsuperscript{6} In April 2007, the United States sought World Trade Organization (WTO) consultation on several IPR issues.\textsuperscript{7} In the sometimes tense relationship between China and the United States, scholars and business professionals have offered advice on implementing business strategies that combat IP infringement.\textsuperscript{8} Recommendations include working within the company to make sure that every department understands the importance of IP protection, educating Chinese partners about the ramifications of infringement to build trusting relationships and to avoid unintentional

\textsuperscript{4}Id.

\textsuperscript{5}See discussion infra at text accompanying notes 84–90.


infringement, sowing goodwill in the community by purchasing counterfeiting or pirate factories, and reinvesting profits from penalty awards in the community to promote cultural and educational benefits and to improve relationships with local authorities and the community.⁹

MNEs also work with the Quality Brand Protection Committee (QBPC) to promote dialogue between industry and the Chinese government, at both the central and local levels. The QBPC is a quasi-governmental organization that is registered under the China Association of Enterprises with Foreign Investment.¹⁰ In 2007 the QBPC listed 165 MNEs in its membership. Through its members, and a variety of committees, the QBPC works to further the interests of protecting the IPR of MNEs by convincing China that preventing counterfeiting and theft of IP is in China’s long-term interest.¹¹ QBPC members are sensitive to the importance of strengthening protection in a manner that does not alienate or provoke retaliation from the government at any level.¹² Business strategies and dialogue between the government and industry, however, should supplement enforcement of IP laws in China.

The history of China’s trademark law and its recognition of well-known marks have been detailed by several authors.¹³ After a brief summary of the current status of the protection of well-known marks in China, Part II introduces the administrative and judicial processes for recognizing well-known marks in China. Part III explores the impact that the courts have had on protecting foreign well-known marks in China. Several decisions, including both successful and unsuccessful outcomes for foreign mark holders are discussed with a view to discerning how foreign mark holders can protect their marks through civil litigation. Part IV summarizes concerns the United States has raised about China’s weak enforce-

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⁹See generally Yu, supra note 8.


¹¹See Chow, supra note 8, at 220.

¹²See id. at 220–21.

ment and insufficient measures for deterring infringement, as well as China’s response to such criticisms.

II. LAWS AND REGULATIONS AFFECTING WELL-KNOWN MARKS

International protection for well-known trademarks stems from the Paris Convention for the Protection of Industrial Property and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Paris Convention provides that a country may refuse to register or prohibit the use of a trademark that is “well known.” Protection of well-known marks, under the Paris Convention, however, was limited to cases in which the infringing use involved identical or similar goods. TRIPS extends the protection of well-known marks to include infringing uses involving dissimilar goods and services, if such use would harm the owner of the well-known mark.

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16 Paris Convention, supra note 14, art. 6bis. This section provides in part:

The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.

Id.

17 TRIPS, supra note 15, art. 16.3. This section provides:

Article 6bis of the Paris Convention (1967) shall apply, mutatis mutandis, to goods or services which are not similar to those in respect of which a trademark is registered, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use.

Id.
The heightened legal protection that international treaties accord to well-known marks is especially appropriate in China where the temptations and incentives to free ride on the goodwill of well-known marks usually outweigh the risks of violating the laws.\(^\text{18}\) In China, gaining well-known recognition serves several important purposes. Because China has a first-to-file registration system, it does not, in general, recognize unregistered marks. Pursuant to the Paris Convention and TRIPS, however, China is obligated to recognize unregistered well-known marks, to allow at least five years from the date of registration for requesting cancellation of an infringing mark, and to have no time limit for challenging marks registered or used in bad faith.\(^\text{19}\) Well-known status in China also allows the rightful owner to seek cancellation of a mark unlawfully registered by a competitor or opportunist.\(^\text{20}\)

Protecting well-known marks in China involves issues related to trademark infringement, counterfeiting, and customs control. This article is concerned primarily with cases involving infringement of well-known marks. Nevertheless, by gaining recognition and protection of well-known marks, foreign mark holders should have greater leverage in enforcement actions against counterfeiters and exporters of counterfeited goods. The following subsections summarize the laws and regulations that impact the recognition and protection of well-known marks in China. After summarizing China's Trademark and Unfair Competition Law, this section introduces the administrative and judicial systems and how they protect well-known trademarks.

\textit{A. A Brief Introduction to Trademark Law in China}

Prior to its accession to the WTO in 2001, China was required to protect well-known marks, even those not registered in China, due to its obligations under the Paris Convention, which it joined in 1985. In 1987 the Chinese Trademark Office (CTMO) recognized Pizza Hut as its first well-

\(^{18}\)See Chow, \textit{supra} note 8, at 212.

\(^{19}\)Paris Convention, \textit{supra} note 14, art. 6bis; TRIPS, \textit{supra} note 15, art. 16.

known trademark.\textsuperscript{21} In 1989, it certified its first Chinese well-known trademark, Tongrentang, a state-owned medicine brand.\textsuperscript{22} In 1996, the State Administration for Industry and Commerce (SAIC) issued the Provisional Regulations, which defined well-known trademarks as "registered trademarks which are of high repute and well-known to the relevant sector of the public."\textsuperscript{23} From 1996 to 1999 no foreign well-known marks were registered under the Provisional Regulations. During the same period, the SAIC recognized eighty-seven domestic marks as being well known.\textsuperscript{24}

In preparation for joining the WTO and in response to changes in its economy and market structure, China made numerous changes to its IP laws.\textsuperscript{25} The 2001 Trademark Law of the People’s Republic of China and its Implementing Regulations brought China’s domestic law into substantial compliance with the TRIPS Agreement and international norms.\textsuperscript{26} In ad-

\textsuperscript{21}See Lehman et al., \textit{supra} note 13, at 259. Recognition of Pizza Hut’s mark as well known was done on an ad hoc basis as Chinese law did not have a system for recognizing well-known marks in place at the time. A Chinese court recognized the mark as well known when Pizza Hut sued an Australian company seeking to register the trademark “Pizza Hut” in China for its cake and powder products. \textit{Id}.

\textsuperscript{22}\textit{Id.} at 259–60. The Chinese company sought to prevent a Japanese company from using the name “Tongrentang.” In order to do so, the Japanese Patent Office required a certification that the mark was well known in China. \textit{Id}.


\textsuperscript{24}See Cahan, \textit{supra} note 13, at 226 (explaining that foreign companies were reluctant to enter the Chinese market at the time due to the population’s unfamiliarity with English and fear that their marks would not be protected).

\textsuperscript{25}See Yu, \textit{supra} note 8, at 906–14 (2006). Professor Yu describes amendments to patent, copyright, and trademark law. According to Professor Yu, changes in IP law in China were the result not only of WTO obligations, but also a response to “important changes in the socialist market economy, the internal dynamics of the intellectual property lawmaking process, and contributions of the local stakeholders in the legal reforms.” \textit{Id.} at 914.

\textsuperscript{26}2001 Trademark Law, \textit{supra} note 2; Implementing Regulations, \textit{supra} note 20. Articles 13 and 14 of the 2001 Trademark Law on well-known marks are similar to Article 16 of the TRIPS Agreement. TRIPS requires that a well-known mark be protected in a member country even if it is not registered in that country. Although TRIPS does not give specific guidelines on how to determine whether a mark is well known, it states that “[i]n determining whether a trademark is well known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.” TRIPS, \textit{supra} note 15, art. 16.2.
dition to broadening the array of marks protected,27 the new trademark laws improved enforcement options for plaintiffs claiming infringement by allowing courts to issue injunctions28 and allowing statutory damages up to 500,000 RMB or approximately US $60,000.29

Articles 13 and 14 of the 2001 Trademark Law specifically address well-known marks. Article 13 protects both registered and unregistered well-known marks.30 Unregistered marks, however, are protected only when a third party uses the same or similar mark in connection with identical or similar goods or services.31 Registered marks receive greater protection, as nonsimilar goods and services are protected if use of the third party's mark would "easily misguide the public" and damage the interests of the well-known mark holder.32

Article 14 provides the following factors for determining whether a trademark is well known:

(1) the reputation of the mark to the relevant public;

(2) the duration of continued use of the mark;

27Three-dimensional marks, color marks, collective marks, certification marks, and some geographical indications are protected under the new amendments. 2001 Trademark Law, supra note 2, arts. 8 & 10.

282001 Trademark Law, supra note 2, art. 57.

29Id. art. 56.

30Article 13 provides:

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

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

Id. art. 13.

31Id.

32Id. This provision is similar to Article 16 in the TRIPS Agreement which extends protection to well-known marks in cases involving noncompeting goods if the interests of the mark holder would be diminished.
(3) the extent and geographical area of advertisement of the mark;

(4) records of the protection of the mark as a well-known mark;

(5) any other factors relevant to the reputation of the mark.\textsuperscript{33}

The criteria outlined in Article 14 incorporates suggestions from a 1999 Joint Commission of the Paris Union for the Protection of Intellectual Property and the World Intellectual Property Organization in its Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks.\textsuperscript{34}

The 2001 Trademark Law is used in conjunction with China’s Unfair Competition Law.\textsuperscript{35} Article 5 of the Unfair Competition Law prohibits passing off the registered trademark of another person; using the name, packaging, or decoration of well-known goods without authorization; using the business name or personal name of another; and forging or falsely using another’s symbols of quality.\textsuperscript{36} In addition, the Unfair Competition Law is used in civil disputes regarding the registration of domain names.\textsuperscript{37}

\textsuperscript{33}2001 Trademark Law, supra note 2, art. 14.


\textsuperscript{36}Id. art. 5. The Supreme People’s Court (SPC) issued an explanation elaborating on Article 5 of the Unfair Competition Law. According to the SPC, confusion regarding unauthorized use of the name or trade dress of well-known goods includes confusion that a commodity has been endorsed by or is somehow connected with the well-known owner. The SPC also explains that use of the same or similar name, packaging, or trade dress in a different geographical scope by a subsequent user is not unfair competition if the user can show good faith. Finally, the SPC clarifies the prohibition in Article 5(3) of the Unfair Competition Law on using the enterprise name of another party if it causes confusion as to the source of the commodity. The SPC states that the term “enterprise name” includes the “trade name, or the distinctive part of the enterprise name, provided it has acquired a certain reputation and is known to the relevant public.” The Explanation on Several Issues on the Application of Law in Adjudicating Civil Unfair Competition Cases became effective in February 2007. Supreme Court Issues Guidelines on Acts of Unfair Competition, Managing Intellectual Property (March 2007), http://www.managingip.com/Article.aspx?ArticleID=1254079.

\textsuperscript{37}China also passed laws that deal directly with domain-name registration. China Internet Domain Name Regulations (2002), http://www.cnic.net.cn/html/Dir/200401/16/2082.html (En-
B. Administrative Recognition of Well-Known Marks

The 2001 Trademark Law states that well-known marks may be recognized either by administrative agencies or by judicial decisions. The Provisions on the Determination and Protection of Well-Known Marks, implemented in June 2003, empower the SAIC to recognize and publish lists of marks it recognizes as having gained well-known status. The recognition may be conferred if a holder prevails in a trademark dispute involving opposition, cancellation, or infringement. The CTMO and the Trademark Review and Adjudication Board (TRAB) are departments within the SAIC that oversee the registration of trademarks and trademark disputes. In considering whether a mark is well known, the CTMO and the TRAB are required to consider all of the factors listed in Article 14, but the mark does not have to satisfy all of the factors.

Article 3 of the 2003 Provisions lists the types of evidence that may prove that a mark is well known. The list includes documents that provide evidence of any of the factors listed in Article 14 of the 2001 Trademark Law, as well as "other evidences certifying that the mark is well-known, including, in the past three years, the outputs, sales volumes, sales incomes, profits and taxes and sales regions etc. of the principal goods to which the mark applies." Foreign companies hoping to receive well-known status in China should be prepared to present such evidence, as it may be used in a proceeding to oppose the registration of a similar mark or in a civil suit or arbitration proceeding involving infringement or unfair competition.

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39 The CTMO administers the registration of trademarks and the TRAB handles trademark disputes. 2001 Trademark Law, supra note 2, art. 2.

40 2003 Provisions, supra note 38, art. 10.

41 Id. art. 3.
competition. Maintaining an enforcement database that tracks any decisions recognizing the fame or well-known status of the mark, as well as statistics that illustrate a mark's stature, should be updated, including sales figures and advertising expenditures.\(^{42}\)

Local divisions of the SAIC (referred to as AICs) play an important role in the protection of well-known marks. The AIC is a government authority in charge of administering enterprises and trademarks. Every province, town, county, and city has an AIC and each is controlled by its directly higher level. AICs cannot officially recognize marks as being well known, but they may be instrumental in procuring well-known status in several ways.\(^{43}\) Implementing Regulations to the 2001 Trademark Law allow the owner of a well-known mark to complain to a local AIC to prevent further use of the mark.\(^{44}\) The administrator may seize and destroy representations of the well-known trademark.\(^{45}\) Also, AICs are required to protect well-known marks by reporting cases of suspected criminal counterfeiting to competent authorities.\(^{46}\) The 2003 Provisions allow a local AIC investigating a case of trademark infringement to transfer the case to the CTMO if it believes the requirements of Article 13 are met and the trademark holder requests recognition of well-known status.\(^{47}\)

Enterprise names may cause difficulty for holders of well-known marks.\(^{48}\) Recognizing that local businesses are likely to register well-known marks as enterprise names, the Implementing Regulations and the 2003 Provisions provide that the owner of a well-known trademark


\(^{44}\)Implementing Regulations, supra note 20, art. 45. Article 45 allows the owner of a well-known mark to seek intervention on the part of the local AIC if the mark is unregistered and a third party is using it for the same or similar goods or if the mark is registered and the mark is used for nonsimilar goods and is likely to mislead the public and damage the mark holder's interests.

\(^{45}\)Id. art. 45.


\(^{47}\)Id. art. 6. The process involves several steps. The trademark holder must submit an application for protection of its well-known mark to the AIC. If the AIC at the city level believes that the case falls within Article 13 of the 2001 Trademark Law, it forwards the case to the AIC at the provincial level, which may forward the case to the CTMO.

\(^{48}\)See discussion of the Starbucks case infra at text accompanying notes 69-79.
may seek cancellation of an enterprise name used by a third party through a local AIC, if use of the name is likely to deceive or mislead consumers.

A local AIC may also protect well-known marks, even those that are not officially recognized, by taking action to prevent the sale and distribution of counterfeits of well-known marks. For example, in 2004 and 2005 the Beijing AIC recognized well-known brands such as Burberry, Louis Vuitton, Prada, Chanel, Gucci, and the North Face and posted notices banning the sale of items bearing these marks from markets notorious for selling counterfeit goods. Unfortunately, because AICs operate at the local level and income from trademark registration is at the national SAIC level, AICs may bow to local pressures and incentives that take priority over trademark enforcement.

Despite the difficulties involved in dealing with AICs, foreign companies may be successful in forging relationships of trust with local AICs to assist with trademark enforcement.

C. Judicial Recognition of Well-Known Marks

The 2001 Trademark Law allows parties that are dissatisfied with a decision by the TRAB to appeal to the People’s Court. Courts may recognize well-known marks as part of a trademark dispute, but only if doing so is required to resolve the case. A judge on China’s highest court has emphasized that seeking well-known status should not be the purpose of litigation.

Seeking judicial recognition of well-known foreign marks has advantages and disadvantages. Administrative enforcement of well-known marks has the advantage of being cheaper, quicker, more flexible, and less antagonistic than litigation. Nevertheless, administrative protection is fraught

49 Implementing Regulations, supra note 20, art. 53; 2003 Provisions, supra note 38, art. 13.
51 MERTHA, supra note 43, at 178.
52 Id. at 16.
53 2001 Trademark Law, supra note 2, arts. 43 & 49.
with bureaucratic inefficiency and may be hampered by overriding local concerns. Because IP cases involving foreign marks begin in the Intermediate and Higher People’s courts, local protectionism and influence on the courts may be less pronounced.

III. SEEKING WELL-KNOWN STATUS IN THE COURTS

Just as China continues to promise improvements in IP protection through its laws and enforcement mechanisms, so it continues to emphasize improvements in the transparency and independence of the judicial system. The following subsections explain that China has taken steps to improve the court system and judicial determination of well-known marks. Several court decisions are discussed in an effort to discern when MNEs are likely to be successful in gaining well-known status through the judicial process.

A. The Court System

Writing in 1998, Justice Cheng Yong-Shun of the SPC asserted the need to improve the quality of the legal profession in China, as well as the need to establish the independence of the judicial system from Party influence. Nearly ten years later, concerns about the lack of legal training and the lack of judicial independence persist. In 1999, China announced a Five Year People’s Court Reform Plan. The Plan sought to improve China’s court system by improving the expertise of judges, enforcing anticorruption regulations, allowing some discovery, and improving the efficiency and enforcement of

55 See MERTHA, supra note 43, at 178 (“if there are other sources of income at the local level that conflict with trademark enforcement, there is little incentive for local AICs to enforce trademarks”); Chow, supra note 8, at 224 (stating that China’s international obligations and long-term interests often conflict with local pressures and demands).


57 See Yong-shun, supra note 56.

58 See Halverson, supra note 56, at 358-59 (citing the political influence of the Party, the low status of judges, financial interests at the local level, the dependence of judges on local financing, and outright corruption as continuing problems in China’s judicial system).
judgments.59 The Plan required judges to hold university degrees and to pass a national judicial examination.60 In 2007, China continues to emphasize the need for a judiciary that is free from Party influence.61 In the 2007 National Trade Estimate Report on Foreign Trade Barriers—China, the USTR notes that foreign companies often avoid Chinese courts because they are skeptical about "the independence and professionalism of China's court system" as well as the enforceability of judgments.62 Although it is difficult to determine whether the court system is becoming more independent, China seeks guidance from the United States and Europe for ways to improve its court system.63 At the same time, courts have made improvements at the local and city level on their own. For example, a Beijing court took the initiative to issue a new standard that requires the court to inform parties that they may raise any questions related to the judgment, including questions about the law on which the judgment was based. In cases involving foreign parties, the litigants have thirty days to raise such questions on any type of case. Although this initiative applies only to the Beijing court, it represents an encouraging step in promoting transparency and understanding of cases.64

The SPC, which operates in both a supervisory and tribunal capacity, has taken initiative in the IP area. In 2005, the SPC designated nearly 150 intermediate and primary courts to handle specific types of IP cases.65

60Id. at 137.
61See discussion infra at text accompany notes 126–28.
addition, the SPC set up an Intellectual Property Rights Working Office to supervise lower judicial bodies on IP cases. The SPC recently issued a notice to lower courts regarding the recognition of well-known marks. In November 2006, the SPC created a central database containing all of the marks that have been recognized as well known in court decisions. The SPC has notified all courts to report both past and future decisions regarding recognition of well-known marks to the SPC. The new recording system is expected to promote consistency and transparency in the protection and recognition of well-known marks. Of course, such centralization could also signal Party interest in monitoring the outcome of lower court decisions.

B. Cases Involving Well-Known Marks

Two cases involving Starbucks provide an example of judicial recognition of a foreign well-known mark. Starbucks successfully sued two Chinese coffee shops, one in Qingdao and one in Shanghai, for infringing its trademarks and the transliteration of its Chinese name, “Xingbake.” “Xingbake” is a combination of transliteration and translation. “Xing” means star, “ba” is the name of an ancient Chinese place, “ke” is kilogram. Thus, “xing” is a translation, while “ba ke” is a transliteration of “bucks.” The three characters have no connection or connotation with coffee or food. Starbucks had registered several trademarks related to its products in China in 1996, including the name “Xingbake,” and began doing business in China in 1999.

Starbucks sued the owner of a café in Qingdao, an eastern port city, for trademark infringement. The defendant coffee shop, which opened in 2003, used the name “Xingbake” on its sign outside the door, used the English name Qingdao Star Sbuck Coffee on its napkins, used several Starbucks trademarks such as “Frappucino” and “Yukon Blend,” sold

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67China’s Database of Well-Known Marks, Managing Intellectual Property (Dec. 2006-Jan. 2007), www.managingip.com. The SPC’s notice required courts to submit all past decisions recognizing well-known marks within two months and, going forward, to submit notice of recognition within twenty days of a decision. Id.

68Id.

coffee beans clearly labeled as "Starbucks Coffee" in bags identical to those used by Starbucks, and employed a green and white color scheme similar to that used by Starbucks.\textsuperscript{70}

The defendant challenged Starbucks' use of the name "Xingbake," maintaining that it was justified in using "Xingbake" as an enterprise name. According to the defendant, use as an enterprise name was distinct from trademark use because Article 13 of China's 2001 Trademark Law prohibits only the Chinese translation of foreign well-known trademarks that have been registered or used in China. The defendant argued that its registered enterprise name, "Xingbake," was not properly a target for trademark infringement.\textsuperscript{71} The defendant also argued that, although Starbucks had registered "Xingbake," it had never used the trademark in China.\textsuperscript{72} Finally, the defendant argued that Starbucks was not a well-known mark in China.\textsuperscript{73}

The court found that the defendant had deliberately copied Starbucks' entire trademark system and that the defendant was not using "Xingbake" as a business name but as a trademark to identify its business as a coffee shop through signage and logos both inside and outside the shop.\textsuperscript{74} This trademark use by the Qingdao coffee shop, the court stated, was likely to confuse consumers. The court also found that Starbucks had, in fact, used the Chinese term "Xingbake" in identifying its business in

\textsuperscript{70}Starbucks Corporation v. Qingdao Xingbake (Qingdao City Interm. People's Ct. of Shandong Province Nov. 16, 2005) (translation by Michelle M. Miller on file with author) [hereinafter Qingdao Starbucks]. See also Steve Dickinson, Qingdao Court Rules in Favor of Starbucks in Landmark Chinese Trademark Case, http://www.chinalawblog.com/2006/04/qingdao_court_rules_in_favor_o.html. Despite the use of Starbucks' trademarks and some aspects of its trade dress, anecdotal evidence suggests that the Qingdao coffee shop bore little resemblance to a genuine Starbucks. A visitor to the Qingdao Xingbake described the outlet as a typical Chinese coffee shop with a "do it all" approach, where customers were drinking tea, eating fruit and ice cream, and drinking beer. According to Steve Dickinson, who visited the impostor coffee shop, "the sloppy service, shabby décor and mixed message on the product served all [were] damaging to the Starbucks image and brand identity." Steve Dickinson, Qingdao Court Rules in Favor of Starbucks in Landmark Chinese Trademark Case (Part II), April 10, 2006, http://www.chinalawblog.com/2006/04/qingdao_court_rules_in_favor_o_1.html.

\textsuperscript{71}Qingdao Starbucks, supra note 70.

\textsuperscript{72}Id.

\textsuperscript{73}Id.

\textsuperscript{74}Id.
China and that Starbucks had been referred to as “Xingbake” in Taiwan since 1998. The court ordered the defendant to remove the term “Xingbake” from its legal name, to cease using any Starbucks trademarks, and to cease using the green circle logo. The court stated that “the defendant was clearly ‘free riding,’ an intentional violation of the principle of good faith and recognized business ethics.” The defendant was also ordered to pay economic damages to Starbucks in the amount of 500,000 RMB (US $62,000), the maximum amount of statutory damages allowed under Chinese law. In the course of its decision, the court cites provisions of its 2001 Trademark Law, its Unfair Competition Law, and the General Principles of Civil Law as well as the Paris Convention and TRIPS.

A second Chinese court found for Starbucks in another suit alleging infringement of its well-known mark. In a 2005 ruling, the Shanghai No. 2 People’s Court recognized Starbucks and its green and white logo as well-known trademarks and ordered Shanghai Xingbake Coffee Shop Ltd. to pay Starbucks 500,000 RMB (US $64,000 US). In its decision, the judge ruled that use of the Chinese translation “Xingbake” constituted trademark infringement. In December 2006, the Shanghai People’s High Court upheld the decision.

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75 Id.
76 Id.

78 Qingdao Starbucks, supra note 70. The court references various provisions of the 2001 Trademark Law, including Article 9, which states in relevant part that a trademark “shall not contravene the lawful rights obtained by another person”; Article 17, which states that foreign enterprises may register trademarks in China based on international treaties to which both countries are parties; Article 52, which defines acts of infringement including “to use a trademark that is identical with or similar to a registered trademark in respect of the same or similar commodities without the authorization of the trademark registrant”; and Article 56, which allows an award “of less than RMB 500,000” in cases where “it is difficult to determine the gains acquired by the wrongdoer from the infringement, or the loss suffered by the infringed for the infringement.” 2001 Trademark Law, supra note 2.
79 Qingdao Starbucks, supra note 70.
81 Id.
Other foreign companies doing business in China have had more difficulty in gaining well-known status. In some cases, a foreign company may have difficulty proving that the mark is well known in China. Other problems that may arise include poor choice of a Chinese mark, insufficient monitoring for infringing marks, or Party influence.

Article 8 of the 2001 Trademark Law requires foreign mark holders to register trademarks in Chinese. Consequently, foreign companies must make choices about how to translate their names into Chinese and which marks they are going to use to promote their brand in China. Companies are not required to use the Chinese name they register, but they must be aware that competitors may take advantage of the Chinese or foreign name by using translations, transliterations, or employing Chinese characters that are pronounced similarly or identically to those of the registered mark. Failure to consult with native speakers who understand the specific market involved in choosing a name can cause difficult trademark issues.

Chinese courts may be unsympathetic to a foreign mark holder who does not grasp the subtleties of the Chinese language. Although language issues exist when a company enters any foreign market, the tonal system of the Chinese language increases the phonetic catalogue, multiplying the difficulties. Differences in pronunciation between Cantonese, which is spoken in Hong Kong and southern China, and Mandarin, spoken throughout most of mainland China can sometimes be substantial. Furthermore, Hong Kong and Taiwan use complex or traditional characters, while mainland China uses simplified characters. Thus, it is impossible for a foreign company to anticipate the myriad possibilities of Chinese names that might bear some resemblance to one's own.

When Dell and Bloomberg alleged that Chinese competitors registered marks that infringed on their Chinese names, the Chinese courts saw distinctions in the allegedly infringing name that apparently eluded the foreign mark holders. Neither Dell nor Bloomberg was successful in gaining well-known status for marks they registered in China. Consequently, they were unable to effect cancellation of similar marks registered by competitors.

In 2001, Dell sought cancellation of a mark consisting of Chinese characters that Dell believed infringed its trademarked Chinese character

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83 Implementing Regulations, supra note 20, art. 8.
name. The characters Dell registered are pronounced “dai er.” Guangzhou Fuo Shan High Company registered characters pronounced “de er.” The first characters of Dell and Fuo Shan’s registered trademarks are written differently and have different meanings, the second characters are written the same. Dell applied to the TRAB for cancellation of Fuo Shan’s mark, maintaining that it violated China’s 2001 Trademark Law as a translation of its registered well-known mark. The TRAB rejected Dell’s request for cancellation, stating that Dell had not proved its mark was well known in 1997. Dell appealed the ruling to the No. 1 Beijing Intermediate Court, but the court upheld the TRAB’s decision.

Bloomberg, one of the most influential global companies in the field of financial software and information, brought a lawsuit against a Chinese company that uses the domain name “pobo.com.cn” and uses the same characters that Bloomberg registered as its Chinese name, pronounced “Peng bo.” The name “Peng bo” translates as “wide coverage,” an apt name for the global financial news service. Bloomberg received trademark approval from the CTMO in 2003. Bloomberg sued Shanghai Pobo Finance and Economic Information Company and Shanghai Pobo Network Information Consulting Company. The defendant companies were established in 2000 and registered the trademarks for their company in that year. Like Bloomberg, the defendant companies provide financial data and news services. Although the defendants use the domain name “pobo.com.cn,” the characters they use are identical to those used by Bloomberg and thus have the same pronunciation and meaning. The court ruled that Bloomberg was entitled to damages in the amount of 300,000 RMB (US $37,500) and an apology on Pobo’s Web site. But the court did not grant Bloomberg’s request to recognize its trademark as well known. Most importantly, because it


85 Article 41 of the 2001 Trademark Law allows a trademark owner five years form the date of registration to request cancellation of a registered mark, but the five-year period does not apply to well-known registered marks. 2001 Trademark Law, supra note 2, art. 41.

86 See Minter Ellison, supra note 84.


88 Id.
did not consider Bloomberg's trademark to be well known in China, the court did not require the defendant to change its name.\textsuperscript{89}

Sony Ericsson has also run into difficulty with its Chinese trademarked name. Sony Ericsson chose a Chinese trademark that sounded phonetically like its name "Sony Ericsson." Each syllable was represented by a character. Consumers, however, shortened the name to two characters—the first part of Sony, "Suo," and the first part of Ericsson, "Ai." A third party, Suo Ai Digital Technology Company, an MP3 player based in Guangzhou, registered the mark "Sui Ai." Sony Ericsson has tried to purchase the shortened form of its name for 20 to 30 million RMB (US $3 to 4 million) without success.\textsuperscript{90} The decisions reached in the Dell and Bloomberg cases suggest that Sony Ericsson would be unlikely to prevail in a trademark infringement suit against Suo Ai Digital.

IV. CONTROVERSIES CONCERNING CHINA'S PROTECTION OF WELL-KNOWN MARKS

In a 2005 report entitled "New Progress in China's Protection of IP Rights," the State Council of the People's Republic of China emphasized the progress China has made since it resumed trademark protection in 1979.\textsuperscript{91} According to the report, applications for trademark registration in China have soared from a mere 20,000 in 1980 to over two million by the end of 2004.\textsuperscript{92} More recently, China notes that in 2006 the SAIC certified and offered protection to 189 well-known marks in proceedings before the CTMO or the TRAB; about two dozen of the marks recognized were brand names of foreign enterprises.\textsuperscript{93}

\begin{itemize}
\item \textsuperscript{89}Id.
\item \textsuperscript{90}Kimi Shi, Sony Ericsson Fails to Buy Chinese Trademark, http://www.pacificepoch.com/newsstories/04296_0_5_0_M/ (last visited Apr. 6, 2007).
\item \textsuperscript{92}Id. For a historical perspective on China's trademark law, see Zhou, supra note 8, at 417–28.
\item \textsuperscript{93}Cedric Lam & Janet Wong, China's Latest Push on Well-Known Marks, China IP Focus 2007 5th edition, MANAGING IP, http://www.managingip.com/Article.aspx?ArticleID=1329567 (last visited Sept. 7, 2007). Some of the foreign well-known marks recognized by the SAIC in 2006 are: from Japan, Honda, Panasonic, and Toyota (in Chinese); from the United States, Kodak and DuPont (in Chinese); from France, L'Oreal; from Germany, Porsche (in Chinese); from Korea, Samsung; and from Switzerland, Nescafe. Id.
\end{itemize}
The improvements that China proclaims, however, fall short according to U.S. reports. In its 2007 NTE, the USTR expresses concerns about the need for additional awareness about IPR protection, the need to improve the court system, and the need for increased transparency.\textsuperscript{94} In the Special 301 Report, the USTR cites China's lack of compliance with TRIPS in enforcing and deterring IP infringement.\textsuperscript{95} With these problems in mind, the United States took the controversial step of seeking dispute resolution before the WTO.\textsuperscript{96} The following subsections summarize ongoing criticism of China's compliance with the TRIPS Agreement, the need for reform in enforcement and deterrence regarding IP infringement, and recent responses by China to such criticism.

\textbf{A. TRIPS Compliance}

Although China has made substantial progress in fulfilling its TRIPS obligations through laws, amendments, regulations, and judicial interpretations, enforcement and deterrence remain problematic. The resounding consensus is that the laws are in place, but that China is unable to effectively enforce them.\textsuperscript{97} In April 2007, the United States filed a complaint with the WTO seeking resolution of several issues involving lack of enforcement of IPR in China.\textsuperscript{98} The United States maintains that, in violation of its TRIPS obligations, China provides a safe harbor for those who violate copyright and trademark laws and that the rules for disposing of infringing goods are inadequate.\textsuperscript{99}

\textsuperscript{94}NTE, \textit{supra} note 62, at 79-147.

\textsuperscript{95}See \textit{Special 301 Report, supra} note 6, at 15.

\textsuperscript{96}See \textit{id}.

\textsuperscript{97}Yu, \textit{supra} note 8, at 975. Professor Yu writes, "Since the mid-1990s China has introduced many intellectual property laws and regulations. The country now has so many laws that it is very hard for the authorities to properly enforce all of them even if they have the political will to do so . . . [T]he problem is not a lack of laws, but the existence of too many . . . enforcement [i] too many—enforcement has been a major stumbling block." \textit{Id.} (citing William P. Alford, \textit{How Theory Does—and Does Not—Matter: American Approaches to Intellectual Property Law in East Asia, 13 UCLA Pac. Basin L.J.} 8, 21 (1994)).

\textsuperscript{98}USTR, \textit{supra} note 7.

\textsuperscript{99}Special 301 Report, \textit{supra} note 6, at 15. The complaint also alleges that China denies copyright protection to foreign works that are awaiting censorship approval. \textit{Id}.
Arguably, China has violated several provisions of the TRIPS Agreement. Article 41 of TRIPS requires WTO members to ensure "effective action" against infringement of IPRs,\textsuperscript{100} Article 46 requires judicial authorities to "create an effective deterrent to infringement," and Article 61 requires members to provide "imprisonment and/or monetary fines sufficient to provide a deterrent" in cases involving willful trademark counterfeiting or copyright piracy. From the U.S. perspective, China has violated these provisions of TRIPS by not doing enough to enforce its IP laws or to deter infringement.\textsuperscript{101} The United States maintains that China must do more to effectuate its TRIPS obligations and provide remedies that prevent and deter infringement.\textsuperscript{102}

Despite evidence that China has not complied with TRIPS, some scholars maintain that TRIPS may provide a defense for China's lack of enforcement.\textsuperscript{103} Article 41(5) of the TRIPS Agreement states that a WTO member is not required to devote more resources to IP enforcement than to other areas of law enforcement. Using this argument, China could prevail before the WTO by showing that its enforcement problems with piracy and counterfeiting are no more extensive than its problems with other areas of law enforcement.\textsuperscript{104} Professor Yu has opposed use of the WTO dispute resolution option in areas in which China's laws meet the TRIPS requirements, but lack enforcement.\textsuperscript{105} Professor Yu maintains that a weak case on enforcement issues could "backfire on the entire international community."\textsuperscript{106}


\textsuperscript{101}NTE, supra note 62, at 106.

\textsuperscript{102}Id. at 110.

\textsuperscript{103}See Kanji, supra note 100, at 1283 ("China could credibly argue that its entire judicial system is undergoing monumental changes, and that IPR protection could be a temporary casualty while the judicial system completes this transformation."); Yu, supra note 8, at 935.

\textsuperscript{104}See Yu, supra note 8, at 935.

\textsuperscript{105}See id. at 923-47.

\textsuperscript{106}Id. at 947.
B. Vague Criminal Laws and Lack of Enforcement

As a means of addressing China's lack of enforcement and deterrence in protecting IP, the United States proposes that China reform its criminal laws. Specifically, the United States seeks the elimination of thresholds for criminal prosecution that provide a legal safe harbor for many commercial infringers. The language in China's criminal law regarding prosecution of IP violations is, according to the United States, unacceptably vague. For example, Article 213 of China's Criminal Law imposes a maximum prison sentence of not more than three years "if the case is of a serious nature" involving counterfeiting. A prison term of three to seven years is imposed "for cases of a more severe nature." Article 214 imposes up to three years in prison for "relatively large sales" of counterfeit trademarks and three to seven years is required for "huge" sales. Neither Article 213 nor 214 offers definitions of how the seriousness or the size of the case is to be determined.

The United States also is critical of the manner in which China calculates damages in criminal cases. China uses an infringer's profits, rather than the value of the goods, as the basis for criminal liability. Article 56 of the 2001 Trademark Law states that the infringer's profit is used to calculate damages, thereby leaving the investment in infringing infrastructure untouched. In 2004, China established new thresholds, indicating that profit thresholds of 50,000 to 250,000 RMB (approximately US $6,200 to $31,000) are actionable but that illegal business under the 50,000 RMB threshold are not actionable.

In addition to vague laws, local protectionism, and corruption, the United States complains that there is a lack of coordination between administrative and criminal authorities, a lack of training in enforcement, insufficient allocation of resources for effective deterrence, and a lack of

107 NTE, supra note 62, at 108; Special 301 Report, supra note 6, at 15.
transparency in the enforcement process and its outcomes.110 For example, local AICs are required to report cases of infringement and counterfeiting to criminal authorities, but lack clear standards for the initiation of criminal investigations.111

When AICs do take action in counterfeiting raids or infringement actions, the consequences to the violators are negligible. Counterfeiters currently view administrative fines as merely a cost of doing business. Administrative fines must be increased to serve as an effective deterrent.112

The ineffectiveness of enforcement efforts is evident in the inability of authorities to close markets notorious for dealing in infringing goods. Despite court victories by several rights holders against vendors in Beijing’s Silk Street Market, the market continues to flourish with counterfeit goods in many categories ranging from 80 to 100 percent.113

The disposal of IPR infringing goods is another topic raised by the United States in its request for WTO dispute settlement consultations. The United States and foreign mark holders have long been critical of China’s laws regarding the destruction of confiscated goods that infringe on trademarks. Although Article 53 of the 2001 Trademark Law provides that infringing goods shall be confiscated and destroyed, the SAIC has interpreted the term “destroy” loosely. According to the SAIC, if an infringing trademark can be separated from the commodity and the commodity has “useful value,” it may be “disposed of by ways other than” destruction.114

The United States has also expressed concern over emerging policies in China that might favor domestic well-known marks over foreign inter-

110NTE, supra note 62, at 110.
1112001 Trademark Law, supra note 2, art. 54. Article 54 states: “Administrations for industry and commerce shall have the power to investigate and handle acts infringing upon the exclusive right to use registered trademarks according to law, and shall transfer the parties who are suspected of being involved in crimes to judicial organs for handling according to law.” Id.
112NTE, supra note 62, at 108.
113Special 301 Report, supra note 6, at 7. In 2006 the USTR conducted a special provincial review of IPR protection and enforcement at the provincial level in China to better understand where there are strengths and weaknesses in the system. See id. at 42–52.
With the intent of encouraging the sale and export of local brands, China's Ministry of Foreign Trade and Economic Cooperation (MOFCOM) pledged 700 million RMB (US $86 million) in 2006 to support local Chinese brands. MOFCOM has published a catalog of China's most competitive brands and hopes to strengthen the value of Chinese brands by according them a special status. Chinese goods that satisfy certain standards, including reputation, quality, innovation, and sustainable development will be given a special title and sign followed by public announcement. The title and sign may be used in promotional activities. In August 2006, MOFCOM issued new rules regarding mergers and acquisitions. Under the new rules, mergers and acquisitions involving a foreign investor that would result in the transfer of actual control of domestic enterprises holding well-known marks or time honored brands in China must be approved by MOFCOM. MOFCOM could block such transactions if they adversely affect the economic security of the nation.

C. China's Response to Criticism

Although China defends its efforts to protect IPR, it also acknowledges its shortcomings. In April 2007, China's 2007 Action Plan on IPR Protection appeared on the official government Web site. The ambitious Plan proposes 276 measures to be taken in ten areas. In the area of protecting well-known marks, the 2007 Plan makes some notable commitments. Legislative initiatives include revising laws and regulations on trademark protection and unfair competition. In particular, the 2007 Plan proposes to "continue making improvements to the Law against Unfair Competition."

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115 Special 301 Report, supra note 6, at 22.
116 See Wall, supra note 8, at 357.
117 Lam & Wong, supra note 93.
119 From legislation to studies, the Action Plan includes both specific and general proposals for reform. The Action Plan encompasses numerous measures to raise public awareness of respect for IPR. The "Publicity" section alone of the Action Plan contains eight forms of promotional events and seventy-four specific measures, ranging from media programming with a TV series featuring IPR protection and public service announcements on IPR, to seminars and foreign exchange programs on judicial protection and criminal enforcement. Press conferences, publications, "Top 10 Cases" lists, and essay and quiz contests are all part of the 2007 Action Plan.
to "speed up revision to the Provisions for Identification and Protection of Well-Known Trademarks," and to study the IPR judicial interpretations. In the area of Enforcement, the 2007 Plan requires campaigns to better protect Olympic logos; to conduct actions against major cases of unfair competition; and to severely penalize copycats of product names, packaging, designs or business logos of well-known brands. The Plan also calls for day-to-day enforcement to “step up efforts in the recognition and protection of well-known trademarks and to rigorously combat violations of proprietary well-known trademarks.” By working from “big and critical cases,” the Plan calls for investigation and severe punishment of counterfeiters “especially of well-known domestic and foreign brands.”

Several sections in the Plan address needed improvements in the judicial system. The Plan states that courts should impose harsher penalties for IP violations and that a case guidance system should be implemented to establish common standards for judicial review. In an effort to increase transparency, the Plan proposes that trials on IP issues be open to the public, that cases and verdict information be published on a regular basis in public journals, and that such information be published “to the outside world in the English language if conditions permit.” The Plan also calls for higher caliber Chinese lawyers.

With regard to trademark protection, the Plan also calls for increased cooperation and training in exchange with foreign countries and international authorities. Specifically, the Plan mentions working with “the EU WTO Program Office in hosting trainings or seminars of two sessions on trade secrets and judicial determination of well-known

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120Action Plan, Legislation I. (I) (2, 3).
121Id., Legislation I. (V).
122Id., Enforcement II. (I) (7).
123Id., Enforcement II. (I) (8).
124Id., Enforcement II. (II) (9).
125Id., Enforcement II. (II) (11).
126Action Plan, Trials III. (I) (1, 4).
127Id., Publicity V. (III) (4).
128Id., Training and Education VI. (VI) (1).
trademarks"; cooperating with trademark registration authorities of the United States, Japan, and the European Union; and hosting a Sino-U.S. Seminar on Hot Issues in Trademark Registration and Application.

D. The Olympic Experience

The 2008 Olympics, to be held in Beijing, offer a unique opportunity for China to showcase its new economy and demonstrate that it can, in fact, implement and enforce protection of IPR. The excitement generated by the Olympics also allows China an opportunity to test its ability to inform and educate the public about protecting Olympic symbols in particular and IP in general. The importance of the Olympic experience to China is evident by the fact that the 2008 Beijing Olympic Games Organizing Committee (BOCOG) set up a legal affairs department specifically to address IP protection of Olympic marks.

The Regulations on the Protection of Olympic Symbols became effective on April 1, 2002. The Regulations are more stringent than the 2001 Trademark Law and the Unfair Competition Law. The Regulations prohibit unauthorized use of Olympic symbols and outline the use of Olympic symbols for business purposes pursuant to licensing contracts with the International Olympic Committee as well as the Chinese Olympic Committee. The Legal Affairs Department of the BOCOG has stated that the Regulations will be interpreted to hold liable those who create “mischievous parodies” of Olympic emblems and mascots.

The Regulations are remarkable in that they provide higher punishments than other IP laws and impose fines even when no illegal income is

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129 Id., International Exchange and Cooperation VII. (I) (1).

130 Id., International Exchange and Cooperation VII. (I) (3).

131 See Yu, supra note 8, at 992-99. Brand protection specialist Anne M. Wall states, “How the Chinese government deals with ambush marketing and brand protection as it hosts the Olympic Games will likely have a substantial impact upon what companies are willing to do and their level of investment in China in the future.” Wall, supra note 8, at 345.

132 Jennifer L. Donatuti, Can China Protect the Olympics, or Should the Olympics be Protected from China?, 15 J. INTELL. PROP. L. 203, 234 (2007).

133 China Daily, Infringers on Olympic Emblem Should Bear Legal Liability (Jan. 19, 2007), http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no48490&col_no=893&dir=200701. The announcement by the BOCOG was in response to incidents in which Internet postings appeared with the heads of Olympic mascots replaced with the heads of Chinese comedians, an act which the BOCOG condemned as “desecration of the Olympic spirit.” Id.
seized. The Regulations also calculate damages with the original Olympic item's licensing fee instead of the price of the infringing product. The Regulations charge the SAIC with the duty of enforcing IP protection of Olympic symbols. AICs reportedly have been vigilant in investigating illegal use of Olympic symbols and have destroyed the manufacturing sites of fake products. In addition to enforcement by AICs, the BOCOG has hired and trained enforcement staff to supervise the market. The BOCOG has launched publicity campaigns about the need to protect Olympic symbols and reminds consumers that franchised outlets are the only sources allowed to sell Olympic souvenirs and that souvenirs sold in other outlets are counterfeit. The BOCOG encourages reporting of infringements.

Reportedly, China has been effective in minimizing piracy for sales of Beijing 2008 Olympic merchandise. But it is difficult to tell whether the efforts are truly effective. Hopefully, the efforts of the BOCOG and the spotlight of the Olympic experience will provide a blueprint for improving IP protection on a wider scale. Both the harsher methods for dealing with infringement and counterfeiting and the administrative organization implemented for the Beijing Olympics should instruct the Chinese government on how to improve the overall administrative system regarding trademark infringement.

V. CONCLUSION

MNEs seeking to gain well-known status for trademarks in China face a variety of challenges. The administrative system may fail when local au-


authorities bow to local pressures. The judicial system offers hope in the form of decisions based on internationally accepted IP principles, but the court system continues to lack transparency, as few decisions are translated and the premise on which a case is based is often not divulged.

China seems well aware of the challenges MNEs face. The government defends its effort to protect well-known marks, pointing to a variety of campaigns and programs aimed at enforcing its IP laws, while simultaneously conceding that large-scale improvements are needed. China’s 2007 Action Plan is a testament to the tension between China’s repeated commitments to improving IP protection and its inability to implement and execute meaningful reforms. Nevertheless, China’s recognition of its own shortcomings in protecting IP, together with pressure from the United States and other countries, should continue to improve protection of well-known marks.