

## To Protect Your Trademarks in China, Stay Extra Alert

by *Edward F. Perlman and Octavian Timar*

With an average annual GDP growth of 9.8 percent, China is now predicted to rise to the status of the world's second largest economy (behind the United States) by 2030. As a result, U.S. firms look to China as a major new marketplace, which raises concerns about intellectual property issues. Considering that China only recently codified private property rights, navigating China's developing legal system can present tough challenges, particularly in the area of trademark law.

What kind of challenges must U.S. firms be aware of? For one thing, many companies selling in China have had their brand identities stolen by counterfeiters selling lower-quality products. For another, many of even the best-known brands (Starbucks, Dell, Disney) have come to China only to discover that others had previously registered their marks (or Chinese language transliterations of their marks) in hopes of "extracting" exorbitant sums from the original mark-holder.

Despite such problems, however, the fundamentals of Chinese trademark law appear not that different from those in the United States. For example, trademark owners register trademarks by filing an application with the Chinese Trademark Office, where new trademark applications are reviewed and subjected to a search for conflicting marks. Also, as in the U.S., applications surviving this process are published in a "trademark Gazette." The list of similarities goes on.

However, differences abound too. Unlike in the United States, China maintains a "first-to-file" system that generally grants protection to the first party to file an application for a mark, rather than the first party to actually use it. This opens the door to those who can register trademarks without needing to prove they are the rightful owners, a very dangerous possibility for companies with a well-known brand. Another negative difference is China's limited ability to

enforce its laws. A company discovering that its trademark is being infringed, for example, has three options: administrative adjudication, civil litigation and criminal prosecution. Unfortunately, criminal prosecution typically results in fines and prison sentences that for various reasons are very difficult to set in motion. Also, trademark owners often must do all investigative work themselves because local police frequently possess too few resources. Further, sanctions ultimately imposed tend to be limited in such a way that trademark owners may find chasing their infringers not worth the time or trouble.

The second option, administrative remedies, offers trademark owners an effective process that typically takes place quickly and cheaply, though the bad news is administrative bodies cannot impose jail sentences or award compensatory damages. And what sanctions can be imposed are often insufficient to deter infringers.

Finally, there's civil litigation. In this case, owners must generally bring an action within two years of the infringement. Statutory damages in cases where compensatory damages are difficult to prove will also be limited to RMB 500,000 Yuan (around \$65,000 at current exchange rates) -- in most situations too small a number.

On top of all these negative conditions, the effectiveness of trademark remedies is further limited by significant delays in China's trademark system, particularly at the early stages. An examination of a trademark application alone, for example, could take more than three years to be processed. Even slower are resolutions of opposition review and cancellation proceedings that can take as much as eight years.

On the brighter side, many Chinese officials seem genuinely interested in stronger intellectual property enforcement. For example, revisions to Chinese trademark law now under way will attempt to simplify the

process as well as close many enforcement loopholes.

What does all this mean for American companies doing business in China? First, U.S. firms must think through and launch their legal strategy as early as possible, including registering all useful transliterations of their trademarks to avoid potential problems. In addition, companies should not forget to also register their marks in so-called "Greater China" jurisdictions, including Taiwan, Hong Kong and Macau. Finally, American companies without a physical presence in China must remember to select U.S. counsel and Chinese trademark agents who have the experience to negotiate the trademark process in China.

Though far from ideal, China's trademark system will likely grow more similar to Western systems as time goes on. But until this happens, U.S. companies must ensure their attempts to capitalize on attractive China business opportunities do not leave them exposed to trademark theft or sabotage.



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