

Good trademark news for China traders

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The long anticipated changes to China's Trade Mark Law came into effect on 1 May 2014. The newly adopted amendments will be welcomed by many international companies that are either exporting to or from China.

China's Trade Mark System

China, like New Zealand, is party to the Madrid Protocol. The Madrid Protocol provides a centralised system whereby trade mark applicants can file a single application for a single fee in their national trade mark office, and designate multiple countries in which to register their rights. The system significantly reduces the costs and effort of international applications and removes the need to instruct agents in the various countries.

Also like New Zealand, China is a signatory to the Nice Agreement in accordance with which it classifies goods and services into 45 standard classes. China has further developed another layer of classification so that all goods and services in each of the 45 standard classes are further classified into sub-classes. This means, for example, that whereas in New Zealand a clothing company would likely seek registration of a brand in class 25 for "All clothing goods in this class" a similar applicant in China might be required to make multiple applications, specifying the types of goods in each subclass – clothing in subclass 2501,

clothing for special sports in 2503 and footwear in 2507 etc.

It should be noted that under China's sub-class system, identical or closely similar marks covering different sub-classes of goods/services owned by different proprietors are allowed to co-exist in the same class of goods. It is not uncommon for a trade mark holder in China to later find out that a third party has registered the same or similar trade mark in a different subclass within the same class of goods or services. Foreign brand owners must therefore carefully consider in which classes and sub-classes they wish to have protection.

A Chinese application made under the Madrid Protocol does not allow an applicant to specify the desired sub-classes. This means that the applicant will need to contact the Chinese Office directly to specify the sub-classes, or the application will be beholden to what the examiner understands of the specification and subsequently decides. In both cases, applicants must ensure they are familiar with the Chinese sub-classes.

Practically speaking this means that the Madrid Protocol may not be such an attractive option for registration in China.

The Mistake of Apple

Getting basic trade mark registrations right from the get-go is good practice always, but in particular in China due to their two tier classification system and the fact that China is a “first to register” jurisdiction, meaning that the first person to file a trade mark is recognised as its rightful owner.

Take the recent example of Apple who made the mistake of registering its IPHONE mark in class 9 for computer hardware and software, however did not specify the sub-class of “hardware for communications” ie mobile phones. One year after Apple’s registration a Chinese company, Hanwang Technology, registered “I-PHONE” for mobile phones. Apple was forced to enter into negotiations with Hanwang which resulted in Apple gaining ownership of the I-PHONE mark, but in exchange for what one can only imagine was a very considerable sum.

In a separate trade mark settlement, Apple is reported to have paid out US\$60m to a Chinese company that had registered IPAD in 2001, much earlier than when the first IPAD was released. While the timing of the IPAD registration does not suggest that the mark was hijacked (see below), it serves to remind brand owners of the importance of registering brands as soon as possible.

Hijacking and China’s Customs Regime

Trade mark hijacking refers to a situation where a third party registers a trade mark for a brand with no intention of using it, other than from trying to sell or licence the trade mark *back* to the “rightful owner”. The *beauty* of the hijack is that it not only

prevents the rightful owner from using its own trade mark in China (selling its branded wares), it also prevents it from manufacturing its goods in China at all, as to do so would be considered to be producing counterfeit goods.

China’s Customs regime further compounds the impact of hijacking. Whereas in New Zealand, trade mark owners are able to file border notices with Customs requesting counterfeit goods bearing their marks/signs to be seized at the border upon *import*, the Chinese regime also permits trade mark owners to file similar notices for the seizure of counterfeit goods upon *export*.

For the hijack victim this places further pressure on them to negotiate a settlement or licence arrangement for use of their mark, the alternatives being to either wade into the muddy waters of Chinese trade mark law or to cease operations (manufacturing) in China altogether – which would likely have major ramifications for any business.

The New Laws

From 1 May 2014, Chinese Trade Mark Law will see important changes particularly in the areas of anti-hijacking, prosecution, enforcement and registration.

Article 7 of the Trade Mark Law provides that the “application for registration and use of a trade mark shall be based on the principle of good faith”. It will remain to be seen however how a Court might interpret this when dealing with “bad faith” arguments that are brought against a trade mark hijacker.



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Furthermore, the new law recognises the rights of prior trade mark use under certain conditions. This is another positive response to trade mark hijacking and is an important shift away from the strict “first to register” regime.

Some good news for brand owners operating in China then, however the basic fundamentals of intellectual

property protection remain unchanged; (i) value and protect your intellectual property and (ii) register such assets as soon as possible as the process can be time consuming (up to two years) and prior use rights are still uncertain.

If you would like more information regarding the above, or have any questions, please contact us.

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