



FALLING FOUL OF CHINA'S TRADEMARK SYSTEM...

The dangers of International Applications in China

Brand owners entering the China market are generally well aware of the numerous challenges which face them from a brand protection perspective, ranging from attacks from trademark pirates, encroachment from business competitors, disruption to the supply chain and challenges with effective enforcement. The problem of trademark piracy is particularly well-known in China and, because of China's first-to-file trademark system, trademark piracy continues to be a thorn in the side of brand owners.

Recent changes to the Chinese trademark law, which were introduced in May, should help to reduce brand piracy through the introduction of a requirement on trademark applicants to file in 'good faith' and increased regulatory oversight of, and penalties on, rogue trademark agencies that have historically been some of the most prolific trademark pirates. Nevertheless, brand owners are well-advised to mitigate these risks by registering their brand first in China.

When protecting a brand in China, a brand owner can choose either to file a national Chinese trademark application with the Chinese Trademark Office (CTMO) or file an international registration (IR) through the World Intellectual Property Organization (WIPO), which designates China. Superficially, an IR designating China is an attractive option for the following reasons:

- It is easy. All the brand owner has to do is tick the box for China on the electronic application form on the WIPO website.
- It is cheaper than a Chinese national trademark application. Designating China in an international application costs CHF 249 (around US\$270). In contrast, the CTMO official fees are a minimum of RMB 800 (around US\$130) and the brand owner will have to pay the fees of a law firm on top. As a general rule, by filing an IR designating China, a brand owner can expect a saving of at least 50% over the cost of filing a national trademark application in China with the CTMO.

- It removes the inconvenience of having to engage a local law firm in China. If the application proceeds smoothly, the brand owner may never even need to interact with a local law firm in China.

Yet, notwithstanding these apparent benefits, we generally do not recommend to our clients that they should protect their brand in China using an IR. In our experience, the apparent ease and the initial cost-savings are frequently offset by inconvenience and further costs in future.

Worse still, brand owners who think they are protected by their IR in China, often find that they are not and that gaps exist in their protection. This negates one of the key reasons for brand owners to file in China, particularly those that only OEM manufacture in China, namely to protect their brands against opportunistic filings by brand pirates. So why is filing an IR in China potentially so dangerous for a brand owner?

NO PRE-CLEARANCE SEARCHES

In our experience, brand owners who file using an IR rarely undertake pre-clearance searches in China. The advantages of pre-clearance searches in China are the same as in all other jurisdictions: they function as an advance warning to a brand owner about the risks of infringement raised by the use of their mark and they provide the brand owner with an opportunity to try to neutralise any existing registered marks, before they pose an insurmountable block to an application by the brand owner. However, pre-clearance searches matter more in China because of the unique nature of the Chinese trademark examination, which is both complex and also rigid in its application of the law. Two practical examples illustrate this point.

First, in China, the consent of an existing registered trademark owner is not guaranteed to overcome a block, as the CTMO conducts an analysis of whether the applied for mark will cause confusion with the existing registered trademark and, if it considers that confusion is likely, reserves the right to refuse the application. This means that the options available to an applicant in China in overcoming a citation are more limited than in most other jurisdictions. Secondly, overcoming a block by other means, such as non-use cancellation proceedings, is frequently a time-consuming process in China and the CTMO and the Trademark Review and Adjudication Board (the body which hears appeals from the CTMO), will frequently not stay the prosecution of the application until the outcome of the other proceedings, meaning it is important to file any non-use cancellation action or invalidation as soon as possible. By conducting a pre-clearance search as a first step, the brand owner ‘front loads’ these problems, which should help it clear such conflicts more quickly and easily.

CHINA'S TRADEMARK CLASSIFICATION SYSTEM

As explained in our brochure **When West Goes East**, China has a unique system of trademark classification. In common with Western countries, the Chinese system is based on the Nice Classification, consisting of 45 classes of goods and services. This apparent similarity is, however, misleading. Unlike most Western trademark classification systems, each Chinese class is then divided further into a number of different sub-classes, each of which contain a list of ‘standard items’ of goods and services.

For example, one of the most popular classes, class 25, has 13 separate sub-classes, categorised as 2501, 2502 and so on. Each sub-class contains a number of standard items of goods or services. Unlike many Western trademark offices, when examining a trademark application, the CTMO generally only cross checks an application against pre-existing identical or similar registered trademarks registered in identical sub-classes and not against pre-existing registered trademarks registered in other sub-classes, except where those sub-classes are explicitly cross-referenced as being similar. The result of this highly mechanical approach to the assessment of trademark applications is that, where a mark is only registered in one sub-class within any given class, a pirate may successfully register an identical or confusingly similar mark in a different sub-class within the same overall class, for what may in fact be very similar goods.

WHY IRS GO AWRY

One of the key reasons why IRs go awry in China is that they are rarely, if ever, drafted in a way that takes account of the Chinese system of sub-classification. This can have the following serious consequences for such IRs.

First, it can significantly delay prosecution of the IR in China. CTMO examiners have wide discretion regarding whether to allow ‘non-standard items’ to be registered. Increasingly any non-standard items’ within a specification (both national and IRs) are being rejected, resulting in the need to reply to the rejection and amend the specification. This delays the grant of a trademark and increases the cost of the prosecution process.

Secondly, it can result in unintended deficiencies in a brand owner’s protection, potentially making enforcement harder and meaning the mark is not safe from trademark piracy, even in the same class in which it is registered. IRs are almost never drafted using the standard items of goods and services. In this situation, the CTMO examiner will allocate each item of goods and services listed in the IR into the sub-class which he or she determines is the most appropriate sub-class for that item of goods or services. There are two points to note about this. The decision as to which sub-class to allocate an item of goods or services to is at the discretion of the examiner. The applicant has no input on how goods and services are allocated across sub-classes. The knock-on consequence of this is that this can lead to significant gaps in protection for the granted trademark and those gaps can then be filled by an enterprising brand pirate. A practical example will help to illustrate this point. To take the example of class 25, hats are listed in sub-class 2508 whereas gloves are listed in sub-class 2510 and scarfs are listed in 2511. A typical ‘Western style’ IR specification in class 25 might claim “*clothes, footwear and headgear*”. The brand owner might think that this protects its brand comprehensively in class 25. Unfortunately, this would leave gaps in sub-class 2510 in respect of gloves and/or in sub-class 2511 in respect of scarfs. An enterprising brand pirate could ‘legitimately’ register the identical trademark for gloves and scarfs because of the ‘gaps’ left by the IR.

As a result of the mechanical approach to assessment, we recommend selecting at least one standard item from each relevant sub-class within a specification, so that the entire class in which a mark is registered is ‘covered off’ and there are no ‘gaps’ in sub-class coverage.

Including Chinese standard items in the specification of an IR is often not a solution to this problem, as doing so will likely result in the IR being rejected in the other designated countries, potentially creating the need to reply to multiple objections from trademark offices around the world.

PROBLEMS WITH ENFORCEMENT

Enforcing an IR can also be more problematic than enforcing a national trademark. When a national trademark matures to registration, the CTMO issues a trademark certificate. This is not the case with IRs. The brand owner must proactively apply for a certificate to be issued. When carrying out enforcement action in China, time is almost always of the essence. For example, it is often necessary to conduct seizure actions within hours or days of identifying counterfeit products so as to avoid it being moved to a different location. Where a brand owner has proactively applied for an IR certificate to be issued, this is not a problem. However, where this is not the case, given that it can take three to six months to issue an IR certificate, brand owners will be powerless and left ruing the decision to file an IR instead of a national application.

Considering the aforementioned, and the fact that multi-class filings have been accepted in China since the introduction of the New Trademark Law in May 2014, thus reducing the financial incentive of filing an IR, we strongly recommend filing a national application at the CTMO in China, as opposed to filing an IR application that designates China.

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WHAT DLA PIPER CAN OFFER YOU

Our specialist team of lawyers can help you by:

- When filing new trademark applications, our team of English and Chinese speaking trademark lawyers can devise a Chinese trademark specification for you which dovetails with the relevant sub-classes to ensure the right “Standard Items” are selected and the entire class of Goods and Services is locked-out, leaving no gaps to be filled by trademark pirates, something which is a common deficiency in IR applications;
- Conducting an “audit” of your existing Chinese trademark registrations and the manner in which your existing brands are being used in China to:
 - identify class and sub-class deficiencies in your existing trademark portfolio;
 - brands which are being used in China but for which you do not currently have any registered trademarks;
 - identify brands which are not being used in China but which you may have plans to use in China in the future and for which you do not currently have any registered trademarks.

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