

Why Registering Trademarks In China Today Is A No-Brainer

The manner in which trademarks are protected varies greatly by country, since each country has its own trademark laws. China employs a “first-to-file” system, meaning that in general, the first party to file a trademark application in China will be deemed the owner of that trademark there, assuming the application proceeds on to registration.

China’s “first-to-file” system can potentially have serious ramifications for U.S. trademark owners who



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neglect to register their trademarks in China. China does not require a showing of “use” of a trademark to obtain a registration. As such, China’s “first-to-file” system has led to a cottage industry of people who register the trademarks of unsuspecting U.S. companies for pecuniary gain. In many cases, the usurpation of U.S. companies’ trademarks is wholly legal—and potentially quite lucrative—under China’s “first-to-file” system.

Compared to other countries, filing in China is relatively straightforward and moderately priced. Whether your company is selling goods or services in China, having goods made in China, or wants to stop infringing Chinese goods from entering the U.S., trademark registration in China should be considered.

U.S. Businesses Eying China for Sales Growth

Even if a U.S. company has no immediate plans to expand sales of its goods or services to Chinese consumers, it may eventually elect to do so. China’s “first-to-file” trademark system makes registering marks in China now a prudent, proactive measure in terms of long-term planning.

It is not surprising that U.S. businesses are eying China as a desirable market in today’s global economy. China represents a full 20% of the world’s population.

Therefore, the potential for sales to Chinese consumers,

including both end consumers and businesses, is enormous and alluring. Indeed, U.S. exports to China are growing at an astonishing pace. According to a February 2006 report issued by the Office of the U.S. Trade Representative (“USTR”), from 2001 to 2006 U.S. exports to China grew five times faster than U.S. exports to the rest of the world. Registering trademarks today in China can help ensure a company’s ability to do business in China in the future using its own brand names.

U.S. Businesses Having Goods Made in China for Sale Elsewhere

Everyone knows that many U.S. companies have their goods made in China. What everyone does not know is that having trademarked goods made in China and shipping them out for sale elsewhere may technically constitute “use” of a trademark under Chinese law.

Rule 3 of the Implementation Regulations of the Chinese Trademark Law defines “use” as “applying the trademark on products, on the packages and containers of products, or on the transaction documents for the products; using the trademark in advertisements and exhibitions or other commercial activities.” Certainly, using a mark on goods sold to Chinese consumers constitutes “use” in China. Based on the definition of “use” in Rule 3 noted above, many Chinese lawyers believe “use” of a mark also encompasses manufacturing or packaging goods bearing the mark and then exporting them out of China.

If a U.S. company has trademarked goods manufactured in China—thereby using its mark in China—but fails to register its mark there, the mark will be available for registration by a third party under China’s “first-to-file” system. A Chinese registration affords the registrant the legal right to stop a Chinese manufacturer from making or packaging trademarked goods for a U.S. company, and to stop the U.S. company’s goods from leaving China. A third party registrant, upon discovering that a U.S. company is having trademarked goods made in China, can object in the form of a cease and desist letter; a complaint to Chinese Customs including a request that the U.S.

company's goods be seized, impounded, and not allowed to leave China; a complaint to the governmental authorities including a request that the manufacturer be raided and that the infringing goods be seized; the institution of an administrative action; or the institution of infringement litigation seeking an injunction and monetary remedies. The registrant could also institute infringement proceedings against third parties who provide facilities for storing, transporting, mailing, and/or hiding infringing goods.

Alternatively, a third party registrant could offer to sell or license the registration to the U.S. company, for who knows what price. Naturally, such an offer could be accompanied by a veiled threat that if no sale or license is consummated, the registrant will take legal action against the continuing infringement. Another option available to the registrant would be to contact the U.S. company and propose that the registrant take no legal action against the company's "use" of the mark in China, in exchange for the U.S. company's agreement to never sell its goods to Chinese consumers. This type of arrangement could effectively preclude the U.S. company from doing business in the future in an otherwise large market.

Other than dealing directly with the third party registrant, the U.S. company could have its goods made in China without any mark, and add the mark and/or the packaging once the goods reach the U.S. However, this would certainly add to the cost of producing the goods. Notably, the U.S. company could have avoided this type of situation altogether had it simply registered its mark in China first.

As China exports more and more goods to the U.S., it faces growing pressure from the U.S. government and the World Trade Organization to curtail IP infringement by Chinese manufacturers. Improved trademark enforcement by China is likely to lead to an increased risk that U.S. companies will increasingly find their own marks enforced against them in China by third parties who have procured Chinese registrations.

U.S. Businesses Trying to Combat Infringing Products Originating from China

Chinese registration can be beneficial for a U.S. company even if it is not having any goods made in China and does not plan to ever sell goods or services to Chinese consumers. U.S. companies that discover Chinese-made counterfeit or otherwise infringing

goods being sold in the U.S. will of course want to stop the foreign manufacturing of such products. Registration of a trademark in China is a prerequisite to initiating infringement proceedings there and to obtaining damages under Chinese law.

The USTR reported that in 2004, almost 70% of all intellectual property-related seizures by U.S. Customs were products originating in China. If the U.S. trademark owner does not own a Chinese registration for its mark, the U.S. owner does not have any real basis on which to complain to the Chinese authorities about the infringement.

U.S. trademark owners can pursue infringement claims in the U.S. against U.S. sellers of infringing goods originating from China. However, such an endeavor may require an ongoing or long-term effort if the Chinese manufacturer of the infringing goods has multiple U.S. buyers. While a U.S. trademark owner could attempt to sue the Chinese manufacturer in the U.S., such an action can be fraught with hurdles related to jurisdiction, service of process, delays, communications, expense, and enforcement of any injunction or monetary award. For example, Chinese courts do not recognize U.S. judgments, and therefore a U.S. judgment is of very little use against a Chinese company with no assets in the U.S. While U.S. Customs may be of some help in terms of preventing the entry of infringing goods, there are so many goods entering the U.S. that it would be nearly impossible for U.S. Customs to discover and seize all infringing goods. Accordingly, U.S. trademark owners should consider registering their marks in China even if only for defensive purposes.

This article is for discussion and informational purposes only, and should not be considered legal advice.

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