A TALE OF TWO GIANTS IN CHINA:

WHY DID FACEBOOK WIN...

Two US brands recently battled brand squatters in China with very different outcomes. Facebook won. Apple lost. **Jason Wang** and **Amy Hsiao** look behind these different results for strategic insights. What are the key issues to bear in mind when an infringer copies your brand in China? The authors, including the lead attorney for the Facebook case, tell you the secrets

I. THE STORIES OF TWO GIANTS IN CHINA

The Facebook Case

In 2011, a Chinese individual filed trademark applications for the FACEBOOK mark covering canned vegetables, beverage and juice products in Classes 29, 30 and 32. Facebook – the real Facebook in the US – timely opposed these applications. Facebook's opposition was refused by the Chinese Trademark Office (CTMO) and subsequently by the Trademark Review and Adjudication Board (TRAB) in 2013 and 2014. In August 2015, the Beijing First Intermediate Court reversed the earlier decisions in favor of Facebook. In April 2016, the Beijing High Court – as the second instance court – issued a final decision in Facebook's favor. The result? The brand prevailed against the Chinese brand squatter.

The Apple Case

In 2004, Apple filed a trademark application in China for the IPHONE mark covering Class 9 products; registration was issued in 2006. Apple subsequently launched its iPhone products in June 2007, which made their China entry in October 2009. Shortly after Apple's international product launch in 2007, an entrepreneurial but unethical Chinese company filed a new Chinese application for the identical IPHONE mark covering Class 18 products such as leather wallets and pouches – designed in part to carry Apple's iPhones. Apple opposed the Class 18 IPHONE mark but lost at the CTMO level in 2012, and again at the TRAB level in 2013. In August 2015 and March 2016, the Beijing First Intermediate Court and subsequently the Beijing High Court affirmed both refusals, allowing the infringer's application to register without the benefit of an appeal. The result? Brand squatters scored big against Apple.

II. THE NOT SO SECRET WEAPON TO FIGHT INFRINGERS IN CHINA: A CATCH-ALL PROVISION VS. WELL-KNOWN TRADEMARK PROVISION

What made the Facebook case different from the Apple case?

Article 44 Paragraph 1 of the New China Trademark Law on its face appears to apply strictly to registrations, but Facebook counsel argued this point effectively in the context of a pending application. Apple, on the other hand, relied on Article 13, providing for opposition of a mark that is a copy of a senior well-known trademark in China. However, it is difficult to establish well-known mark status in China and requires producing substantial local Chinese data to support the mark's fame. Given the applicant's early filing date, this traditional avenue did not offer the desired result.

A. What is Article 44 Paragraph 1? The Winning Argument

Article 44 Paragraph 1 of the New Chinese Trademark Law provides for the filing of an invalidation action before the TRAB against a disputed trademark registration where such a registration was obtained "via deceptive or other unfair means." However, the application's article had a controversial history.

As early as 2006, with nowhere else to turn to address obvious bad faith filings, the Beijing courts began to rely upon Article 44 Paragraph 1 to crack down not only on trademark registrations, but also on bad faith applications. The use

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...AND APPLE LOSE?

of this article as a catch-all bad faith provision was controversial because the law's literal language gives the courts authority to go after registrations only. In other words, no specific reference is made in the section relative to pending applications. The law was also unclear as to whether or not private interests were protectable or if the law only applied in situations where public interest – such as the integrity of the Chinese trademark system – was at risk. The China Supreme Court settled the proper scope of Article 44 Paragraph 1 in 2013 (concerning trademark application for "Hai Tang Bay in Chinese characters" under App. No. 4706493), finding it applicable to pending applications as well as registrations, and for the protection of private as well as public interest. The China Supreme Court's flexible interpretation of the law was well received and widely applauded. The lower courts quickly caught on and started applying the article to address bad faith applications and registrations across China.

B. What is Article 13? The Losing Argument

Article 13 of the Chinese Trademark Law offers cross-class protection for marks that have been recognised as well-known in China. Because of the country's extremely high standard required to qualify as well-known, the article has repeatedly been found to apply in only the narrowest of circumstances. According to unofficial data, the Beijing courts have to date recognised only 50 foreign brands as well-known in China, while Chinese brands enjoy slightly better numbers – in the 100s.

For perspective, Google did not achieve well-known status until 2002, and the decision was based upon three years of local Chinese sales data. Similarly, Yahoo did not achieve well-known status in China until 2000, relying upon five years' worth of China-specific sales data. Well-known recognition was simply not possible for Apple's iPhone at the time of the applicant's 2007 filing date, particularly when those products were not introduced in China until 2009.

III. KEY TAKEAWAYS

China is a unique jurisdiction where the first-to-file system rules almost without exception. The country simply does not recognise or credit unregistered (use-based) trademark rights, even where those rights are widely recognised outside of China. And it remains a jurisdiction full of pitfalls for the average brand owner. Brand squatting remains an active and profitable business model; the more famous the brand, the more numerous and widespread the infringements are likely to be. Thus, a brand looking to expand into or operate successfully in China needs to bear in mind the following core principles. First, file domestic Chinese trademark applications before your brand becomes the subject of media interest or is launched anywhere in the world. Second, act defensively by filing more broadly in China to cover not only your core classes but all related classes. For example, cell phone manufacturers should cover not just cell phone products, but cell phone accessories such as leather bags and cases. Finally, when opposing a squatter's applications, make sure to rely on catch-all provisions against bad faith filings in China, in addition to seeking a well-known trademark recognition. Ⓕ

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