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CHINA IP Bulletin



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Executive Summary

A Japanese Corporation Fights Counterfeiting in China, Winning a Major Victory

In a new push to combat counterfeiters in Southern China, a Japanese stationery manufacturer took advantage of local remedies to defend its reputation abroad. Acting on the advice of Wang Jing & Co., the corporation lodged complaints with authorities in Shenzhen, initiating successful investigation and punishment of counterfeiters. The company now looks to expand the fight across China.

New Law Lays Out Rules for Filing Patent Licensing Contracts

The State Intellectual Property Office issued new guidelines for the archival filing of contracts for licensing the exploitation of a patent, effective August 1, 2011. These new rules loosen the requirements for some elements of the filing process, increase obstacles for other elements, and generally clarify existing regulations.

A Recent Case Demonstrates the Importance of Registering Trademarks Abroad

One foreign company encountered the risks of operating on an unregistered trademark in China when a Chinese national registered the trademark in advance, seeking royalties and transfer fees. The case highlights a problem many foreign corporations face in new marketplaces, and we offer essential strategies for avoiding unnecessary legal costs.

IPR Reports

A Japanese Corporation Fights Counterfeiting in China, Winning a Major Victory

Recently, the IP Group of Wang Jing & Co. was entrusted by a famous Japanese stationery brand owner to combat counterfeiting and protect intellectual property rights in China on its behalf. The company has a history of more than 100 years in stationery manufacturing. Given novel design and great quality, the stationery manufactured by the company has gained great popularity, and has been distributed around the world.

However, counterfeit products in the Chinese market raise concerns for the company. Counterfeit products can be found in every stationery wholesale market, and have been sold wholesale in large quantities or sold at retail with a price considerably lower than that of the genuine products. This trend has influenced overall sales volume and resulted in huge losses for the company. Furthermore, due to the inferior quality of the infringing products, counterfeiting has damaged the reputation of the company's brand and products. Therefore, in order to protect the interests of the consumers and the enterprise itself, the company decided to pursue actions to combat against IPR infringement and counterfeiting in China, at any cost.

In May 2011, after investigation, we decided to take action first against the stationery wholesale market in

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Shenzhen. At the end of May, after gathering sufficient evidence, we, on behalf of the company, lodged complaints with the Shenzhen Market Supervisory Department, requesting administrative investigation and punishment of two large-scale stationery wholesale markets. In the middle of June, the Shenzhen Market Supervisory Department sent out two teams of law enforcement personnel to carry out investigation on the said two stationery wholesale markets, inspecting 18 shops which were suspected of being involved in selling counterfeit pens.

Consequently, all infringing products in 13 suspected shops were confiscated, and administrative punishment has been imposed on these 13 shops. The first large-scale operation to protect against counterfeit goods in South China was a success, and protection operations aimed at other regions will follow.

The company will continue to launch protection operations to crack down on counterfeit goods. The company will first pursue the stationery wholesale markets in large and medium-sized cities

before investigating upstream suppliers and manufacturers of counterfeit goods. After the administrative strike, the company will initiate further civil litigations. As for those cases where the scale of counterfeiting meets the standards for criminal prosecution, the company will make every effort to combat such infringement so as to protect the intellectual property rights of the enterprise and protect the legal interests of consumers in a fair market economy.

By Jiang Yuandong

Measures for the Administration of Archival Filing of Contracts for Licensing the Exploitation of Patent

On June 27, 2011, the State Intellectual Property Office promulgated the No. 62 Notice, introducing the amended *Measures for the Administration of Archival Filing of Patent Licensing Contracts*, effective August 1, 2011. A brief introduction concerning the main amendments follows:

1. The State Intellectual Property Office is in charge of the administration of archival filing of patent licensing contracts.
2. Parties concerned must go through the formalities for archival filing within 3 months of the date when the patent licensing contract entered into force.
3. Foreigners or foreign enterprises with no habitual residence or operational office in China **must** entrust a “patent agency established according to law” but not necessarily a “patent agency **designated** by the State Intellectual Property Office” to fulfill relevant archival filing formalities.
4. The application form for archival filing of contracts may be signed or sealed by the patent agency. Previously, licensors were required to sign and seal the application form themselves.
5. The Measures clearly express that the contract for licensing the use of a patent shall include: the name and address of the party concerned, the number of the patent items and the name, patent number, application date and announcement date of each item, and the category and duration of the license. Where any one of these essential elements is missing, the registration of the contract will not be approved.
6. If any of the following circumstances occurs, the registration of the contract will not be approved:
 - A. The licensor is not the patentee recorded on the patent rolls nor is he another obligee with rights to grant such a license;
 - B. The contract lacks an essential clause;
 - C. The patent right is in the delinquency period for delay in payment of annual fees;
 - D. Where dispute exists over the ownership of the patent right or the People’s Court decides to take preservation measures for the patent right, relevant patent procedures are suspended;
7. The registration period for early determination of a contract has been changed to 30 days after entering a determination agreement, and the requirement that the date must be a working day has been removed.
8. There are express provisions about the category, duration, and calculation method for royalties for the registration of the contract, and such registration may serve as the reference for the management authorities for patent affairs to determine compensation due for infringement. Furthermore, the phrase “it may serve as the reference for the people’s court to...” has been removed.
9. The provision providing that the grantee of the contract may seek judicial relief where the patent right is infringed has been removed.
- E. The patent right is pledged as security, unless otherwise agreed by the pledgee;
- F. The contract conflicts with a pre-existing registered contract.

By Zeng Yuanyuan

Famous Shipping Enterprise Trademark Registered



Case summary

A certain famous shipping enterprise (hereinafter “the Enterprise”) has always used its English name as its trademark. After years of development, the Enterprise enjoys popularity in the international shipping market, including China’s. However, in May 2009, the China head office of the Enterprise received a “warning letter” sent by Mr. Zhu, a Chinese citizen, demanding trademark royalties from the Enterprise. A few days later, Mr. Zhu sent a second letter to the Enterprise asking for USD3,000,000 to USD4,000,000 as a trademark transfer fee.

In 2005, Mr. Zhu had filed an application to the State Trademark Office for registration of the name as his trademark. In March, 2009 he obtained the right to exclusive use of the trademark, with a No. 39 registered classification including “transportation, freight transport, shipping of goods, ship broker, cargo storage and cargo delivery.” In addition to this trademark, Mr. Zhu has also registered several names of other prominent enterprises as his trademarks, although Mr. Zhu has not operated or conducted any business with them.

In June 2009, after the Enterprise refused to pay royalties or transfer fees, Mr. Zhu lodged a complaint against the local branch of the Enterprise with the Administration for Industry & Commerce (AIC), to exert pressure upon the Enterprise. After receiving the complaint from Mr. Zhu, the AIC carried out an on-site investigation of the local branch of the Enterprise. This complaint and subsequent investigation have disturbed the normal business activities of the Enterprise in China.

Focus

In China, the owner of a registered trademark has the right to exclusive use of the trademark in accordance with law. Although the use of an unregistered trademark is lawfully permitted, an unregistered trademark is not

effectively protected due to the “application principle” as provided by the Trademark Law of the People’s Republic of China – trademarks are registered on a “first come, first served” basis. If a foreign enterprise does not file for registration in China for a trademark used when entering the Chinese market, problems may arise. For example, the trademark may be registered in advance by another party and in some serious cases its use by the foreign enterprise could be considered infringement.



Before the issuance of the Important Notice for Trademark Registration Formality of Natural Persons, on February 6, 2007, the State Trademark Office accepted trademark registration applications filed by natural persons without any requirement of actual connection between the trademark and the applicant’s business activities. Therefore, early in 2005, Mr. Zhu, without operation upon or making use of the trademark, could register the Enterprise’s name as his trademark in China in advance.

However, in accordance with Article 31 of the Trademark Law of the People’s Republic of China, anyone applying for trademark registration may not damage the existing rights of others obtained by priority, nor may it register in advance a trademark that has been

used by others and has become influential. Therefore, the Enterprise must prove that Mr. Zhu’s trademark so violated the Enterprise’s existing rights, which could force Mr. Zhu to stop using the trademark.

Article 13 of the Trademark Law of the People’s Republic of China stipulates that a trademark registration application will be rejected where the mark is a copy, imitation or translation of a well-known trademark which is not registered in China and is likely to cause confusion. The enterprise may find legal protection under Article 13 if it can prove its name is a well-known trademark under Article 13, thereby revoking Mr. Zhu’s trademark and prohibiting him from its use.

Tactics

After being entrusted to represent the enterprise, we, Wang Jing & Co. Law Firm IP Group, recommended the following measures to exert pressure upon Mr. Zhu:

1. File a cancellation application with the Trademark Appraisal Committee of the State Administration for Industry & Commerce
2. Lobby the Consulate-General of the Enterprise’s home country in Shanghai to send a letter to the AIC in China.

In June 2009, we, on behalf of the Enterprise, submitted the application for adjudication on the disputed registered trademark to the Trademark Appraisal Committee, requesting that the Committee designate the name of the Enterprise as a well-known trademark and cancel the trademark registered by Mr. Zhu.

In July 2009, the Enterprise requested that the Consulate-General in Shanghai send a letter to the AIC in China, explaining the case that Mr. Zhu maliciously registered the trademark in advance and earnestly requesting that the AIC handle the case.

Famous Shipping Enterprise Trademark Registered



3. Commence a civil action in the Guangzhou Intermediate People's Court

In July 2009, we, on behalf of the Enterprise, initiated an action in the Guangzhou Intermediate People's Court, requesting that the court designate the name of the Enterprise as well-known trademark and find that the Enterprise, when using the name and the trademark, does not infringe Mr. Zhu's right to the exclusive use of the trademark.

As a result of these actions, Mr. Zhu and the Enterprise have come to a compromise with the mediation of the Guangzhou Intermediate People's Court. In accordance with the composition agreement concluded by both parties, Mr. Zhu confirmed that the Enterprise has not infringed his trademark right, nor caused any economic loss or loss related to business reputation to him. Therefore, both parties agreed that Mr. Zhu would transfer the registered trademark and all rights related to such trademark held by him to the Enterprise, for a low price. The Enterprise therefore obtained the right to the exclusive use of the trademark for its English name in China.

Recommendations

1. Promptly file applications for trademark registration overseas

In order to avoid advance trademark registration overseas, we recommend that the Enterprise seek out trademark registration in key countries and regions and promptly determine the countries where trademark registration is appropriate in accordance with market conditions. As for countries adopting the principle of "use priority," we recommend that the Enterprise use its mark in business activities in the target country as soon as possible. The Enterprise should also preserve relevant evidence of the trademark's use. Therefore although the trademark may be registered in advance, the enterprise may regain the trademark right through legal instruments, like raising objection, contention or cancellation, or on the grounds of evidence of prior use.

There are two options for trademark registration overseas. The first option is the Madrid System for the International Registration of Marks. The Madrid Agreement stipulates that as long as one trademark is registered to the international bureau of the World Intellectual Property Organization (WIPO), it may become an international registered trademark. The provisions of the Madrid Agreement are binding on states parties. Currently, there are more than 70 states parties to the Madrid Agreement and Protocol, including China, the United States, and the European Union. The second option is to file for trademark registration in individual countries. Canada and many countries in the Middle East and Southeast Asia are not members of the Madrid Agreement. To obtain effective legal protection for trademarks in these countries, trademark registrations must to be filed in these countries one by one. An enterprise may reduce the risk of advance trademark registration by actively applying for international trademark registration, thus avoiding future legal costs of regaining the right to the use of the trademark.

2. Improve the trademark monitoring system

Trademark monitoring is vital to protecting the exclusive right to a trademark. An enterprise may entrust a trademark agency to carry out global announcement monitoring and market supervision so as to detect the trademark infringement promptly and adopt relevant measures. Once trademark infringement is found, the enterprise should raise an objection with the trademark registration authorities in the country where infringement occurs within the stipulated period.

If the trademark has been registered in advance, we discourage enterprises from quickly buying back the trademark or paying for the use of the trademark. The enterprise should argue strongly on just grounds and defend its trademark rights through legal instruments like actively lodging complaints with the AIC of the country where the trademark infringement occurs, initiating a lawsuit in court, or requesting cancellation for the registered trademark.

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