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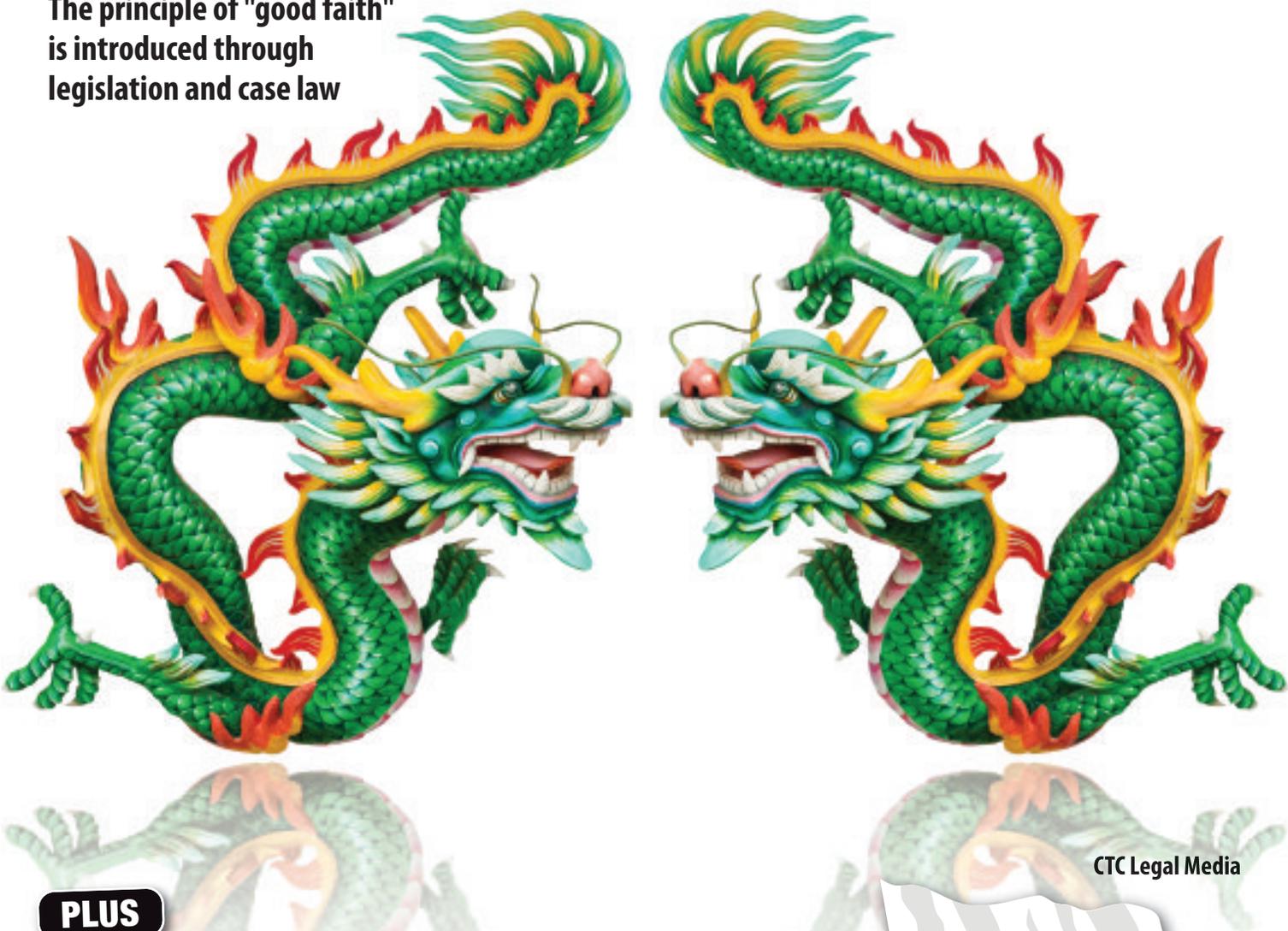
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Reflecting on changes to China's trademark law

The principle of "good faith" is introduced through legislation and case law



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Liu Guangming

In good faith



Richard Yao

Liu Guangming and Richard Yao¹ reflect on changes to China's Trademark Law which introduce the principle of "good faith" and a recent Court case which set a precedent on the same issue.

When new amendments (the third amendment) to China's Trademark Law came into effect on May 1, 2014 foreign companies were given a new weapon against trademark squatters who register trademarks in China that don't belong to them. For the first time ever, the principle of "good faith" has been explicitly codified into China's Trademark Law, sending clear a message that first filing alone is not enough to secure trademark rights if the filing is made in bad faith. (For more history of China's Trademark Law, please refer to the boxed summary.)

The change could be potentially significant in China. Under current law, the exception of the "first-to-file" principle is quite limited. Whoever files for a trademark first usually earns the trademark rights, unless earlier reputable use of such mark in China by a third party can be demonstrated. Sometimes trademark rights are granted even if the trademark is registered in another country and well-known abroad. The drug maker Pfizer, for example, lost its rights in China for the trademark

Weige (伟哥), the best-known Chinese name for Viagra, because a Chinese company in Guangzhou applied for it first.²

The "good faith" principle in the new trademark Law will essentially broaden the exception of the "first-to-file" principle, though the new law does not give us clear guidance about how to practice this principle or how to prove "bad faith". How then can we use this new tool to fight trademark squatters? One recent case provides us some valuable clues. This case also shows that China's attitudes about first-to-file were starting to shift even before the National People's Congress published the newest version of the Trademark Law on August 30, 2013. In March 2013, as China's cabinet was still debating the law's final amendments, the Beijing Higher People's Court upheld a decision in a decade-long trademark dispute that actually set a precedent of the good faith principle.

In *Ningbo Wubian Rubber and Plastic Co., Ltd v The Trademark Review and Adjudication Board of the State Administration of Industry and Commerce*, the Beijing court found that a Chinese company intended to preempt a name associated with a family-owned German manufacturer in bad faith, and therefore ruled that the Chinese company could not register the name as a trademark on the goods which the German company produces, even though the Chinese company filed the application for registration of the name as a trademark first.³

Facts of the case

The trademark in dispute was the name FREUDENBERG, the family name of the founder of the Freudenberg Group.

Ninghai County Wubian Rubber and Plastics Co. Ltd, which would later change its name to Ningbo Wubian Rubber and Plastic Co. Ltd (Wubian), filed an application on March 25, 2002, to register FREUDENBERG as a trademark in Class 17, the class that covers sealing and vibration control products.

Freudenberg is a family-owned group of companies based in Weinheim, Germany. Founded in 1849 by Carl Johann Freudenberg and now owned jointly by several hundred of his descendants, Freudenberg is one of the largest manufacturers of seals and vibration control components in the world.

Résumés

Liu Guangming, Partner and Founder, Hui Zhong Law Firm, Shanghai

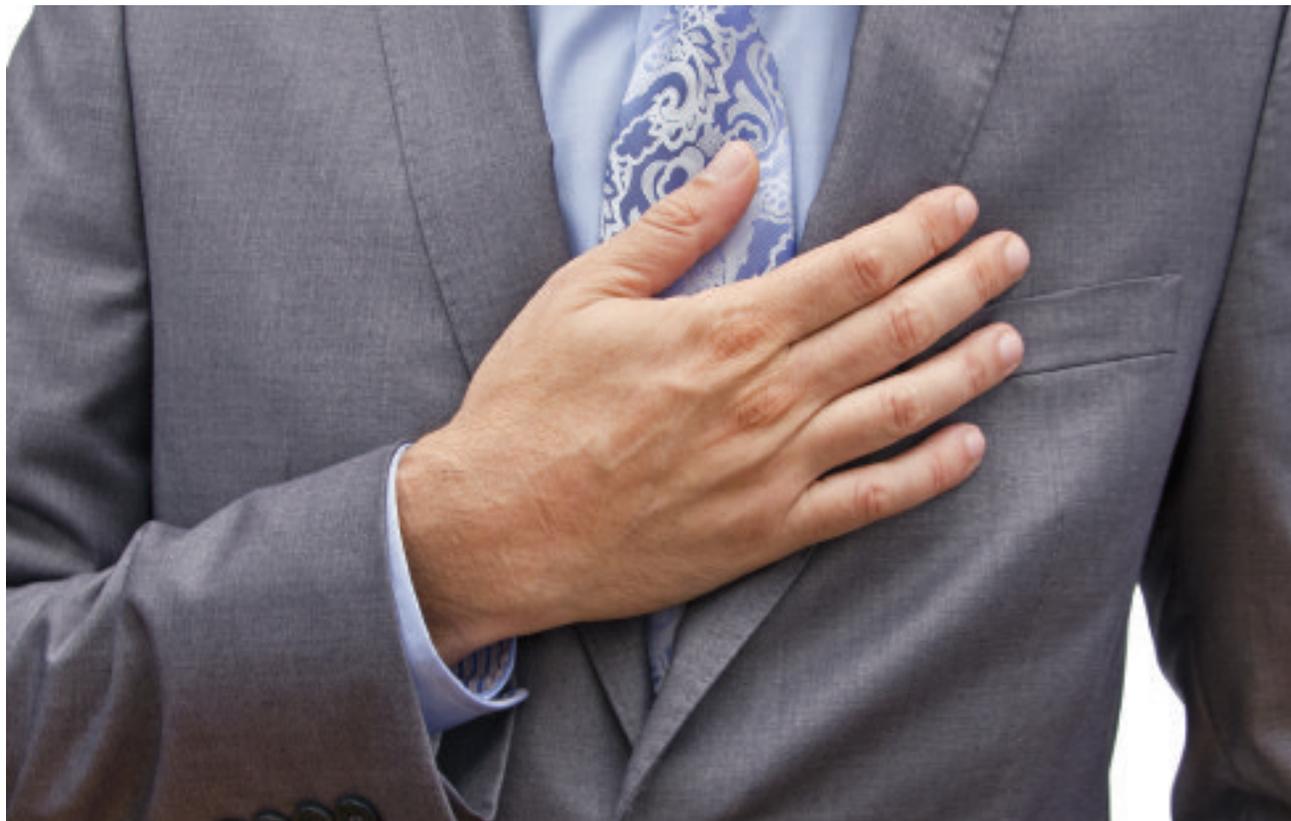
Mr. Liu has been advising plenty of Chinese clients and foreign clients on a variety of legal issues involving intellectual property. He has extensive experiences in registration, management, transaction and protection of intellectual property as well as dispute resolution for complicated intellectual property cases. Mr. Liu has successfully dealt with lots of trademark cases related to application for registration, opposition, assignment, dispute and infringement. His practice also includes areas of copyright, anti-unfair competition, domain name and Entertainment-Media. Before founding Hui Zhong in May 2013, Liu worked for 12 years at Jun He Law Offices, where he was promoted to counsel in 2010.

E-mail: liuguangming@huizhonglaw.com

Richard Yao, Partner, Jun He Law Offices, Shanghai

Richard's practice is focused on China-related direct investment, M&A, restructurings and general corporate work. His experience includes more than six years as an associate with Freshfields Bruckhaus Deringer and one year as an in-house lawyer with United Technologies. Prior to joining Jun He, he was a senior associate with US law firm Dorsey & Whitney LLP.

E-mail: yaohw@junhe.com



Based in adjoining provinces, Wubian and Freudenberg are competitors in China, producing similar rubber and plastic products, automotive parts and sealing components for the same industries.

Freudenberg entered the Chinese market with its own production facilities in 1992 and by 2002 had established ten separate entities in China using the Freudenberg name, primarily in the Jiangsu province. The oil seals, rubber rings, shock-absorbing buffers and other products from Freudenberg's China-based factories are exported to numerous countries and used by well-known automakers in China (even well before 1992) including Shanghai General Motors Co. Ltd and Shanghai Volkswagen Automotive Co. Ltd..

Although the company had never registered the name "Freudenberg" in Class 17, Freudenberg had registered FREUDENBERG AND DEVICE and the Chinese translation "福德堡" for products in various other categories in China. Freudenberg also filed applications to register "Freudenberg and device" as a trademark in Germany, Brazil, Hong Kong, Japan, Canada, Poland, and the United States.

Despite this history, the Trademark Office of the State Administration for Industry and Commerce preliminarily approved Wubian's filing on March 28, 2003 and gazetted the FREUDENBERG trademark in Class 17.

Freudenberg tried to counter Wubian's application by attempting to register "Freudenberg" and "Freudenberg and device" in Class 17 a few months later⁴, but the Trademark Office eventually rejected the application on the grounds that Wubian had already applied for a similar trademark first.

Opposition filed

Freudenberg filed an application of opposition to Wubian's trademark application to the Trademark Office on June 26, 2003, beginning what would become a ten-year legal battle to win the trademark rights to its own company name.

Freudenberg faced a number of challenges in its case against Wubian. Since the name "Freudenberg" had never been registered or even used as a trademark for the goods in Class 17 in China, it would

be difficult to argue that the application infringed on Freudenberg's prior rights or that "Freudenberg" itself was in use as a trademark in the territory of China. Plus, there was little evidence to prove Wubian's bad faith in registering this trademark. Unlike typical trademark squatters, for example, Wubian had not filed for multiple trademarks in multiple categories; it had simply filed for the trademark FREUDENBERG in Class 17. Freudenberg in fact had almost no legal basis to argue its case, aside from proving a prior right to the company name.

The Trademark Office ruling

On September 10, 2007, the Trademark Office rejected Freudenberg's opposition to Wubian on the grounds that "the Opposed Mark 'FREUDENBERG' was filed in compliance with the principle of prior application as provided for under the China Trademark Law and thus, it should be allowed for registration." The Trademark Office added that there was "insufficient evidence" to prove Wubian made the filing in bad faith, offering no further detail on the reasoning behind its ruling.⁵

Bad faith filings in China

Legal experts have noted that even in the past, under earlier versions of the Trademark Law, China's first-to-file principle is not absolute.

Article 9 of the current version of the Trademark Law says that a trademark "shall be distinctive and easily distinguishable, and shall not conflict with any prior, legal rights acquired by others." This provision implies that if an applicant acts in bad faith to steal a trademark that clearly belongs to another company, the first-to-file principle should not apply.

In a precedent-setting case in 1986, the Trademark Office chose not to apply a strict interpretation of the first-to-file principle when an Australian company tried to register "PIZZA HUT" as a trademark in China. Although Texas-based Pizza Hut Inc. did not have any stores in China at the time and had not registered its name in China as a trademark, the Trademark Office refused the Australian company's

application on the grounds that the Pizza Hut trademark was clearly another company's trademark and was already famous worldwide.

To determine whether the application for a mark is filed in bad faith, authorities will consider whether the application was filed knowingly, on purpose, or in violation of the good faith principle, and will also consider the consequences of the application.

Opposition review

Freudenberg filed an application for review with the Trademark Review and Adjudication Board (TRAB) of the State Administration for Industry and Commerce on September 26, 2007.

To win its case, Freudenberg had to prove that Wubian had knowingly made the trademark application in bad faith, and that the name "Freudenberg" was known well enough in China to deserve protection as a company name – even though it had never been registered or even used as a trademark on the goods in Class 17, and even though Wubian had applied for it first.

Wubian argued that it had registered the trademark according to law, there was no proof that the registration had been made in bad faith, and that Freudenberg was a common German name that enjoyed no significant recognition in China as a trade name.

Proving prior rights

To prove that the company name had been in use and was well known, Freudenberg presented TRAB with promotional pamphlets, certificates, and official company documents for its China subsidiaries that clearly included the "Freudenberg" name. It showed domain-name registration certificates for www.freudenberg.com and print-outs of webpages to show the name's prior use. It submitted invoices and sales agreements with customers that showed the trade name "Freudenberg" had been used for many years prior to Wubian's trademark application filing.

The company argued that Wubian should clearly have heard of Freudenberg given that the two companies operated in adjacent provinces and manufactured similar products for the same industry.

Freudenberg enlisted help from the German Embassy, which wrote a letter in support of the company. The Shanghai Office of the Delegations of German Industry & Commerce certified that Freudenberg was a well-known German family company and a member of the Shanghai branch since 2002.

To prove that "Freudenberg" was an uncommon German name, the company cited pages from a German telephone book showing that out of a population of 82 million, only 1,240 people in Germany use "Freudenberg" as a surname – more than 200 of whom are Freudenberg company shareholders.

Evidence of bad faith

In the *Freudenberg* case, a decisive piece of evidence showing Wubian's bad faith came from a separate civil suit involving Wubian and a Freudenberg partner, Tokyo-based seal manufacturer NOK Corporation. NOK and Freudenberg jointly set up Changchun NOK-Freudenberg Oilseal Co. Ltd in 1992 and Wuxi NOK-Freudenberg Oilseal Co., Ltd in 1995. Both enterprises manufacture and sell seals and industrial rubber products in China under the names "NOK" and "cFw," an abbreviation for Carl Freudenberg-Weinheim.

Following a tip from NOK that Wubian was manufacturing and selling counterfeit NOK products, the Ningbo Bureau of Quality and Technical Supervision performed a surprise inspection of Wubian's warehouse on September 27, 2006.⁶

The raid uncovered thousands of counterfeit air and oil sealing products carrying the "NOK" and "cFw" trademarks, a clear violation as Wubian owned no rights to any of the marks. The Bureau issued

an administrative decision against Wubian on November 2, 2006, confiscated the phony products and fined the company 15,000 yuan, or about US \$1,900 based on exchange rates at the time.⁷

NOK subsequently sued Wubian for trademark infringement. In December 2007, the Ningbo Intermediate People's Court of Zhejiang Province ordered Wubian to stop infringement and pay 300,000 yuan in damages, or US \$40,710. On appeal of both parties, the Higher People's Court of Zhejiang Province in July 2008 upheld the damages, and ordered Wubian to destroy all molds for manufacturing the counterfeit products.⁸

Freudenberg submitted the final judgment in NOK's civil suit to TRAB as additional evidence to prove that Wubian had made the trademark filing in bad faith.

Freudenberg also submitted written expert opinions, which argued in part that the main purpose of China's Trademark Law is to avoid confusion in the market and stop unfair competition, and that allowing a bad faith registration to proceed would adversely affect the Chinese trademark system and impair confidence of foreign investors.

The TRAB decision

After almost four years of weighing the evidence, TRAB concluded that Wubian made the application in bad faith and the application violated Article 31 of the Trademark Law, which states that "the application for registration of a trademark shall not damage prior rights of others."

The name "Freudenberg" as part of the company's English trade name "was registered in China early, had been put in use over a long period of time in business operation covering a variety of business areas," TRAB said in its Decision dated May 3, 2011.

"Freudenberg" is not "an ordinary combination of letters" and is not "usual for Chinese customers," the Board concluded. Given the two companies' proximity and business in a common industry, Wubian should have had knowledge of Freudenberg's business and products.

"It would be hard to conclude that the Respondent has a proper motivation," the TRAB said in its Decision.⁹ Registration of the trademark "could easily cause confusion among customers and may have a negative impact on the rights on prior trade name of its owners."

Judgment of the first instance

Wubian appealed, arguing that Freudenberg did not prove that it was famous enough.

In an administrative judgment dated September 5, 2012, the Beijing No. 1 Intermediate People's Court upheld the TRAB Decision, using stronger language that clearly alluded to the good faith principle.

“ The "good faith" principle in the new trademark Law will essentially broaden the exception of the "first-to-file" principle, though the new law does not give us clear guidance about how to practice this principle or how to prove "bad faith". **”**

“It is the prior use of ‘Freudenberg’ by the Freudenberg Group and many of its affiliates that makes it famous to some extent,” said the judgment, “A trade name which is included as a part of the name of an enterprise and is famous on the market to some extent and known to the relevant public is a prior right within the meaning of Article 31 of the Trademark Law.”¹⁰

The Intermediate Court concluded that the application “was made in bad faith and could easily cause confusion among consumers and may damage the interests of Freudenberg Group and its affiliates as prior trade name owners.”

The final judgment

Wubian appealed the judgment in the first instance of the administrative suit, again arguing that the trademark application had complied with Chinese law, that Freudenberg could not claim prior trade name rights, and the evidence submitted had not proven that Freudenberg was famous and known to the public.

Six days after the Beijing Higher People’s Court accepted Wubian’s appeal on October 25, 2012, an executive meeting of the State Council approved another draft version of China’s Trademark Law¹¹ and sent it to the National People’s Congress (NPC) for review. By the end of December, the NPC would release a final version for public comment, a version which clearly reaffirmed the principle of good faith.

On March 6, 2013, the Beijing Higher People’s Court rejected Wubian’s appeal, saying that it lacked basis, and affirmed the judgment of the first instance.

“The findings of the fact were clear, the application of law was correct, and procedures were legal, and thus the decision should be affirmed,” the Court said.¹²

The road ahead

The successful resolution of the *Freudenberg* case sets a precedent for company name protection in trademark disputes. Before this case, trademark authorities had been reluctant to make an exception to the first-to-file principle based solely on the rights of company name. Yet in this case, courts in both the first and second instance held that the opposed trademark would damage prior rights of the Freudenberg Group.

The decision is good news for multinational companies doing business in China and provides evidence that China’s approach to trademark protection is becoming more nuanced and in line with international norms. Going forward, companies involved in trademark disputes over company names in China may be able to draw important lessons from this case.

It also indicates the views of the trademark authorities and Chinese courts towards good faith and first-to-file had begun to shift well before being codified into law.

The China Trademark Office and the TRAB recently drafted the Implementing Regulations for the amended Trademark Law and are seeking public comment. We expect trademark authorities to offer further clarification about the new Trademark Law in the coming months. Before the final version of the Implementing Regulations provides a guideline regarding how to apply the “good faith” principle in a specific case, the experience in the *Freudenberg* case can be a good reference.

Overall, the addition of “good faith” into China’s Trademark Law is a positive sign that the Chinese government continues to strengthen its efforts towards better intellectual property and trademark protection in China.

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Revising China's Trademark Law

As the Trademark and Adjudication Board (TRAB) began deliberations on the *Freudenberg* case, China’s trademark authorities were busy pulling together materials for what would become the third amendment to the country’s Trademark Law.

The Trademark Law was promulgated in 1982, amended in 1993, and again amended in 2001 upon China’s entry into the World Trade Organization. The State Administration for Industry & Commerce (SAIC) began to gather opinions and research for drafting the third amendment to the Trademark Law in 2003, revising the document for almost six years before submitting a draft to the State Council for review on September 18, 2009.¹³

In a draft released in June 2009, the SAIC included a provision which said trademarks should be applied for “out of honesty and credibility,” a phrase that would have confirmed the principle of good faith. A State Council revision in September 2011, however, deleted the reference to the good faith principle. Instead, it included a more restrictive provision that addressed bad faith only in terms of an existing relationship between two parties.¹⁴

The 2011 revision was silent on whether pre-emptive registration of trademarks that showed clear evidence of bad faith would be prohibited, or if trademarks that had gained a certain influence or reputation in China would be protected, practitioners noted at the time.¹⁵

The final version of the new law, however, re-introduced good faith, with language even more explicit than in earlier drafts. Article 7 of the amended Trademark Law now reads: “Any application of usage of a trademark shall abide by principles of good faith.”¹⁶

- ¹ Leslie A. Pappas and Yibing Zhou contributed to this article.
- ² See: Daniel Chow, Lessons from Pfizer's Disputes Over its Viagra Trademark in China, 27 Md. J. Int'l L. 82 (2012). Available at: <http://digitalcommons.law.umaryland.edu/mjil/vol27/iss1/9>
- ³ See: Beijing Higher People's Court of the People's Republic of China, Administrative Judgment Gao Xing Zhong Zi [2012] No. 1658, rendered on March 6, 2013.
- ⁴ Application filed on Sept. 15, 2003, Application Numbers 3716039 and 3716040.
- ⁵ See: Trademark Office of the State Administration for Industry and Commerce of People's Republic of China, Opposition No. 04410 of 2007.
- ⁶ See: Ningbo Intermediate People's Court of Zhejiang Province, Yong Min Si Chu Zi [2007] No. 111, *NOK Corporation v Ningbo Wubian Plastics and Rubber Co. Ltd.* (December 18, 2007).
- ⁷ See: Ningbo Bureau of Quality and Technical Supervision, Yong Zhi Ji Fa Zi [2006] No. 012200.
- ⁸ See: Higher People's Court of Zhejiang Province, Zhe Min San Zhong Zi [2008] No. 88, *NOK Corporation v Ningbo Wubian Plastics and Rubber Co., Ltd.* (July 14, 2008).
- ⁹ See: Trademark Review and Adjudication Board State Administration of Commerce and Industry, Decision on Review Application regarding Trademark 'Freudenberg' (Application No. 3123532, Shang Ping Zi [2011] No. 8326 (May 3, 2011).
- ¹⁰ Beijing No. 1 Intermediate People's Court, Administrative Judgment Yi Zhong Zhi Xing Chu Zi [2011] No. 2298, *Ningbo Wubian Rubber and Plastic Co., Ltd., v The Trademark Review and Adjudication Board of the State Administration for Industry and Commerce*, (September 5, 2012).
- ¹¹ See: China Daily, Nov. 16, 2012, "Revisions give trademark law more teeth." Link: http://www.chinadaily.com.cn/cndy/2012-11/16/content_15934407.htm
- ¹² See: Beijing Higher People's Court, Administrative Judgment Gao Xing Zhong Zi [2012] No. 1658, *Ningbo Wubian Rubber and Plastic Co., Ltd v The Trademark Review and Adjudication Board of the State Administration of Industry and Commerce*, (March 6, 2013).
- ¹³ See: Trademark Office of the State Administration for Industry and Commerce

of the People's Republic of China, *China's Legislature adopts amendment to Trademark Law*, Nov. 12, 2013, here:

- http://www.saic.gov.cn/sbjenglish./sbyw_1/201311/t20131113_139596.html
- ¹⁴ See: Freshfields Bruckhaus Deringer, Draft amendments to PRC Trade Mark Law published: two steps forward and one step back, February 2013. Link: http://www.freshfields.com/uploadedFiles/SiteWide/Knowledge/February%202013_Draft%20amendments%20to%20PRC%20Trade%20Mark%20aw%20published.PDF
- ¹⁵ See: China Marches Towards Third Revision of Trademark Law, by Yang Hua, Connie Zhuang and Xiao Yuexin: China Bulletin, April 2012, King & Wood Mallesons. Link: <http://www.kingandwood.com/Bulletin/ChinaBulletinContent.aspx?id=42e64a69-2715-4bb2-a9bb-90c42bf63b8>
- ¹⁶ See: <http://www.chinaiplawyer.com/full-text-2013-china-trademark-law/>



INTRODUCTION OF HUI ZHONG



Established in June 2013, Hui Zhong Law Firm is a boutique law firm specializing in dispute resolution and intellectual property practices, with offices in Beijing and Shanghai.

The IP team of Hui Zhong has solid experiences and expertise that can be measured up to the standards of top law firms in the Chinese legal market, providing not only excellent but cost-effective services to both international and domestic clients and adhering to internationally recognized legal ethics and Chinese legal norms governing legal practice.

Looking at what clients want to achieve, the large experienced team taking a holistic and commercial approach guarantees a perfectly tailored solution for every client. From settlement to court proceedings, this team will try its best to achieve the right result. The lawyers in this team have successfully resolved a number of remarkable IP disputes for their clients from all over the world, such as Warner Bros., Emerson, Estee Lauder, Freudenberg, Vizio. and EF.

Rm 1507~1508, Tower 1, Jing An Kerry Centre, 1515 Nanjing Road West, Shanghai 200040, P.R. China

Tel: +86 21 2226 1355 Fax: +86 21 5370 0292 Email: info@huizhonglaw.com Website: www.huizhonglaw.com