

# China: bad faith trademark registrations by distributors

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Unfortunately, many foreign companies do not register their trademarks in China promptly. Sometimes they do not register them even after they have commenced selling goods in China through a sales representative. And many of those who do register their English or other language marks neglect to develop and/or register the inevitable Chinese character mark that the distributor or master franchisee will actually use to sell the goods in China. More than one sales representative, master franchisee or distributor has noticed this and has registered the mark for themselves. Thus, taking full advantage of China's status as a 'first-to-file' jurisdiction.

However, there are exceptions to the 'first-to-file' rule. One of them is in Article 15 of China's Trademark Law (Shangbiao Fa),<sup>1</sup> which provides as follows:

'Article 15 Where any agent or representative registers, in its or his own name, the trademark of a person for whom it or he acts as the agent or representative without authorisation therefrom, and the latter raises opposition, the trademark shall be rejected for registration and prohibited from use.'

The Chinese terms '*dai li ren* – agent' or '*dai biao ren* – representative' have been interpreted narrowly in the past by the Chinese courts to mean someone who has an obligation to a principal. In the case of *Chongqing Zhengtong Pharmaceuticals Ltd v State Administration for Industry & Commerce Trademark Review and Adjudication Board and Sichuan Animal Pharmaceutical Ltd*,<sup>2</sup> Sichuan Animal Pharmaceutical Ltd (Sichuan Animal) had entered into a sales agreement with Zhengtong Pharmaceuticals Ltd (Zhenztong), the manufacturer of the products, with respect to certain veterinary medicines.

Shortly afterwards, Sichuan Animal applied to register the trademark under which the goods would be sold; namely 'Toubaoxilin & Design'. Two years later the agreement was terminated but Sichuan Animal continued using the mark that it had registered, presumably by obtaining its products from another source.

Zhengtong brought an administrative action under Article 15 to have the registration of the trademark expunged. They won in the Trademarks Review Board, and in the Beijing No 1 Intermediate People's Court based on what was considered to be a principal-agent

relationship between Zhengtong as principal and Sichuan Animal as agent.

But in the Beijing Higher People's Court, Sichuan Animal argued that there was no principal-agent relationship, rather simply a cooperative sales agreement. Therefore, the exemption to the 'first-to-file' rule in Article 15 did not apply. Finally, Sichuan Animal won at this level.

Normally there is no appeal from the decision of a Higher People's Court, but in this case Zhengtong managed to obtain leave to appeal to the Supreme People's Court (SPC). Unlike the supreme courts in common law systems, China's Supreme Court rarely hears cases and primarily influences the development of the law and the legal system through written interpretations. However, the SPC wanted to make a statement in this case.

In a decision dated 31 August 2007, and released in mid-September, the SPC looked at the record of the legislative intent and the provisions of the relevant international treaties to determine the meaning. It read the wording of Article 15 as representing China's obligations under Article 6 septies of the Paris Convention.<sup>3</sup> In China the laws specify that in the event of conflict, the provisions of a Treaty that China has signed will override the provisions of a law or regulation.

Although this section uses the words 'agent or representative' the international practice is to interpret these words broadly to include distributors and sales agents and similar people. The SPC took note of this international practice and also took into account the growing phenomenon in China of the practice of distributors and others registering the marks of foreign companies. Finally, in the SPC the manufacturer, Zhengtong, prevailed.

It should be noted, however, that the SPC required the relationship to be one of 'special sales agent' or exclusive distributor. And there is no mention of original equipment manufacturers that have also been known to register the trademarks associated with the company for whom they are manufacturing the export goods, usually to serve as leverage if the supply contract is terminated.

China is currently working on a series of amendments to the Trademark Law and in the 30 April 2007 draft of the amendments it is proposed that Article 7 regarding guidelines for application and use be amended to specifically include that the application for and use of

trademarks be done in accordance with what is called in Chinese 'Chengshi.' This is the term that the Chinese have chosen to represent the civil law concept that is often called 'abuse of rights', or in common law is called 'good faith'. The literal translation of the Chinese term is 'honesty and creditworthiness' which confuses many people, Chinese and foreigners alike.<sup>4</sup>

Further, it is proposed to amend Article 15 to more closely reflect the practice under the Paris Convention and to emphasise that 'agent or representative' does not merely refer to trademark agents or trade representatives.

If you are doing, or planning on doing, business in China, the best solution is to register lots of your marks early on, in all relevant classes, and to employ a watch or monitoring service. In November 2007, the US Department of Commerce put on a seminar on developing a brand protection strategy in China.<sup>5</sup> The case study that the Department of Commerce prepared for the seminar involved just this scenario.

Unfortunately, some examiners in the State Intellectual Property Office give undue weight to the Nice Classification<sup>6</sup> system for goods and services, and will allow similar marks applied for by third parties in different classes. The SPC has issued a judicial interpretation<sup>7</sup> on how the system should be used, and the courts regularly apply it correctly,<sup>8</sup> but some examiners and Chinese trademark agents persist in their misinterpretations.

#### Notes

- 1 Zhonghua Renmin Gongheguo Shangbiao Fa, adopted at the 24th Session of the Standing Committee of the 5th National People's Congress on 23 August 1982, as amended in 1993 and 2001 (proposed amendments are now being circulated for discussion and the author is part of the ABA group preparing comments).
- 2 Supreme People's Court, File No 2, 31 August 2007; available online in Chinese at: [http://ipr.chinacourt.org/public/detail\\_sfws.php?id=11423](http://ipr.chinacourt.org/public/detail_sfws.php?id=11423)
- 3 Paris Convention for the Protection of Industrial Property (of 20 March 1883, as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967, and as amended on 28 September 1979). available at: [www.wipo.int/treaties/en/ip/paris/trtdocs\\_wo020.html](http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html).
- 4 Author's translation.
- 5 Ellen Syzmanski, US Department of Commerce; Scott Bain, Software & Information Industry Association; Elizabeth Chien-Hale, Institute for Intellectual Property in Asia; Paul Jones and Bruce McDonald, 'Rollershoe v Chee Ting Shoe Trading Co – A Case Study on Developing a Brand Protection Strategy in China,' Webinar presented by the United States Department of Commerce and the American Bar Association Section of International Law, 13 November 2007. See [www.stopfakes.gov/events/china\\_webinar\\_series.asp](http://www.stopfakes.gov/events/china_webinar_series.asp).
- 6 Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, of 15 June 1957, as revised at Stockholm on 14 July 1967, and at Geneva on 13 May 1977, and amended on 28 September 1979. Available: [www.wipo.int/treaties/en/classification/nice/trtdocs\\_wo019.html](http://www.wipo.int/treaties/en/classification/nice/trtdocs_wo019.html).
- 7 Interpretation of the Supreme People's Court regarding Several Issues in the Application of the Law in the Trial of Civil Disputes involving Trademarks, effective 16 October 2002.
- 8 See, for example *Chongqing Shunshun Petrochemical Ltd v Zongshen Ltd*, *Chongqing*, Higher People's Court, File No 194, 13 March 2006.

## What prospective master franchisees should look for in a US-based system entering their home market

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Viewed from a global and long-term perspective, the expansion of franchise systems internationally seems to be one part of the world economy that continues to accelerate, while others experience repeated cycles of growth and stagnation, if not contraction. It seems likely that this process will continue at its current or a higher level due to the following core considerations:

(1) increased level of demand by consumers, and their increased ability to afford products and services offered by franchised business models and concepts

from outside their home country;  
(2) increased sophistication of franchisors and prospective master franchisees as to the legal and business aspects of international franchising; and  
(3) lagging local economies and/or high market saturation levels in countries, which may result in a desire to 'export' mature franchised concepts to new markets.

In parallel with this continued expansion, it is probably fair to say that the master franchise business model remains the favoured vehicle used by many