

Protection of Well – Known Trademarks in China

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Abstract

The issues of the well – known trademark infringement as well as the ways of the protection have been widely discussed by scholars and students. It could be explained by the quickly growing interest towards Chinese market and desire to protect the business from the risks of piracy and counterfeiting of the produced goods. This research has the main aim to make a deep analysis of the past and current situation in the Chinese market, to compare what was done in the past and is happening now. It covers the issues concerning the protection of well – known trademarks and its infringements. The issues of domain names and internet sales of well – known trademarks that are objects of infringement from the pirates will not be covered in this thesis. The results of such an analysis will show the clear picture and define the possible risks of making business in China.

This research project of the well – known trademark issues in China is based on the analysis of Chinese legislation concerning the infringement of intellectual property rights. China is one of the biggest markets to import goods attracts the producers all over the world. Unfortunately, it is known as the largest producer of pirated and counterfeit products all over the world.¹ Moreover, Chinese gross domestic product (GDP) depends on the piracy and counterfeiting and vary from 10 to 30%.² Indeed, the cheap Chinese goods of the famous brands are very popular not only among the Chinese population, but also all over the world.

By reviewing the historical background of intellectual property in China as well as the ways of its protection in ancient times, the weak and strong aspects of the Chinese modern legal system will be defined. That in its turn will give an opportunity to compare the past and present development and achievement of China in the sphere of IP rights protection.

¹ Ann M. Wall, “Intellectual Property Protection in China: Enforcing Trademark Rights”, *Marquette Sports Law Review*, volume 17, issue 1 Fall 2006, at 342.

² *Id.*

Moreover, two cases will be reviewed in the paper as examples of the implementation of the current laws in China. Those cases will illustrate the current situation of well - known trademark protection in China and the way how courts are applying not only local but also international law –enforcement mechanisms. In addition, the paper covers the changes in Chinese legal system that were made after the acquiring the membership of World Trade Organization.

When thinking of China and its legal system the following question arises - why Chinese adherence to its domestic and international obligations have not substantially reduced the problem of trademark infringements? The answer is that the failure to protect trademarks in China is a result of the combination of several issues including, but not limited to, the right holders' mistakes, poor quality enforcement, corruption, cultural differences and judicial differences in protecting for trademarks.

While making the research of the well – known trademarks' protection, the following methods were very useful:

The method of **analysis** was helpful at the very beginning of the research. Having a lot of materials concerning the trademarks I separated the information in the articles and journals into two parts – necessary information (about well – known trademarks) that will be used further and unnecessary that is not relevant to the topic of the thesis.

Synthesis was the next step that I used. It helped me to combine all information about well – known trademarks together to see the whole picture of the future paper.

Case Study is another method that was used in the process of selection of information. I was looking for the most interesting and famous cases that showed how the

Chinese law is working in practice. They also included the clear explanation of the process of decision – making and interpretation of local and international laws.

List of abbreviations

AIC – Administration for Industry and Commerce

GAC - General Administration of Customs

GDP – Gross Domestic Product

IP – Intellectual Property

SAIC - State Administration for Industry and Commerce

TRAB – Trademark Review and Adjudication Board of the State Administration for Industry and Commerce

TRIPS - Trade-Related Aspects of Intellectual Property Rights

WIPO – World Intellectual Property Organization

WTO – World Trade Organization

Statutory Sources

Paris Convention (trademarks) (March 20, 1883)

Trademark Law (August 1982)

Madrid Agreement ((April 14, 1891) and Madrid Protocol (June 27, 1989)

TRIPS

WTO – WIPO cooperation agreement

Law Against Unfair Competition (1993)

Criminal Law

Regulation on Custom Protection of Intellectual Property Rights

Provisions on the Determination and Protection of Well –Known Marks (April 17, 2003)

Outline:

I. Introduction:

II. Chapter I: *General legislative and historical background for the protection of well – known trademarks in China*

A) Well – Known Trademarks as object of intellectual property rights:

- Definition, elements and types of trademarks
- Definition and characteristics of well – known trademarks
- Historical background of development of well – known trademarks

B) Infringement of well – known trademark

- Definition of infringement
- Types

C) Enforcement of well – known trademark laws: theoretical aspects:

- Well – Known Trademark Protection in China: Territoriality and First – to – file system
- Obstacles of successful enforcement of well – known trademark laws

III. Chapter II: *Well – Known Trademark Law Enforcement in China: Practical Aspects*

A) Certain enforcement aspects of well – known trademark laws in China

B) State bodies as a mechanism to the protection of well – known trademarks

C) Judicial practice of application of well – known trademark laws in China: Cases

IV. Conclusion

Introduction

The development of trade gives a wide range of opportunities for producers of goods to start their business not only in national but also international markets. At present time, the consumers have many choices what to buy. Consequently, number of brands is prevailing over the others depending on the quality and the reputation on the market. The trademark of one or another company makes it easier to differentiate the goods. The dominant position of the brand on the local market gives a possibility to become famous and successful on the international. That is how the ordinary trademark transforms to well – known brand.

Therefore, the consumers' choice, in most cases, depends on the reputation and the level of recognition of the trademark. As a result, well – known trademarks have the ideal reputation in the eyes of the buyers and the right holders always care of the image. On the other hand, competitors on the market try to get the same reputation, and more importantly – the huge income that the owners of well – known trademarks have.

Unfortunately, for some producers, the easiest way to gain the profit is to steal the idea and trademark of a successful company and to produce low –quality goods by its name. When this happens, there is a risk that the reputation of the original product will be destroyed. Moreover, the producers of famous brands face some difficulties while registering their trademark in China, including but not limited to the fact of registration of the same or almost the same trademark by Chinese company. It is permitted because China uses the first-to-file system (that will be discussed later in this paper) according to which the right of ownership goes to an entity that registered the well – known trademark in China. Moreover, the fact of prior usage is not considered. Another problem is that in most cases the Chinese entities translate the original well – known brand into Chinese and use it as their own. An example of

that is “Starbucks” Corp. vs. “Shanghai Xingbake Coffee” Corp. case which will be reviewed later in this paper.

Chapter I

General legislative and historical background for protection of well – known trademarks in China

1.1 *Well – Known Trademarks as an object of intellectual property rights.*

Firstly, before describing the ways of protection of well – known trademarks, the notion of intellectual property must be defined. According to the definition of World Intellectual Property Organization (WIPO), “intellectual property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.”³ There are various types of objects of intellectual property such as patents, trade secrets, copyrights, trademarks, or geographical indications. Within the framework of the senior thesis, this paper is focused on the trademarks and its protection. People’s Republic of China was chosen because it plays one of the leading roles in the international market – the goods produced by the Chinese manufacturers are consumed all over the world. The reputation of China as a producer of pirated and counterfeit goods is known worldwide.

Second, the notion of trademark should also be defined to differentiate it from the other objects of intellectual property rights. “A trademark is any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors.”⁴ In other words, it is the sign that has certain characteristics by which the customer could differentiate one product from another.

³WIPO, <http://www.wipo.int/about-ip/en/>

⁴WIPO Intellectual Property Handbook: Policy, Law and Use WIPO, 68 (reprinted 2008) (2004)

The Ministry of Commerce of the Peoples' Republic of China defines the trademark “as any visual sign capable of distinguishing the goods or service of one natural person, legal entity or any other organization from that of others, including any word, design, letters of an alphabet, numerals, three – dimensional symbol, combinations of colors, and their combinations.”⁵ Article 8 of Chinese Trademark Law gives the same definition of the ‘*trademark*.’ Unlike the broad definition of ‘*trademark*’, given by WIPO, the definition given by Chinese Trademark Law is more precise. The law makes it clear that “any visible sign ...any work, design, letter of the alphabet, numeral, three-dimensional symbol and color combination, or any combination of the above, may be made a trademark for application for registration.”⁶ It means that not only the element listed above may be used as a trademark but also the combination of the several different elements.

1.2 Definition and characteristics of well – known trademarks. The definition of the word ‘*well – known*’ is necessary because it corresponds to the subject matter of the research which is the ways of protection of **well – known** trademarks. The notion of ‘*well-known*’ trademark can be found in various international instruments as well as in national legislation of the countries. For example, according to Article 16.2, Trade-Related Aspects of Intellectual Property Rights (TRIPS) provides that “in determining whether a trademark is well-known, Members shall take account the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.”⁷ So, the mark to be considered as a well- known should meet certain requirements defined in TRIPS.

⁵Intellectual Property Protection in China

http://www.chinaipr.gov.cn/guidestradecarticle/guides/agtrademark/agtintroduction/200607/234423_1.html
(last visited July 14, 2006)

⁶ Trademark Law of the People's Republic of China (August 1982)

http://www.saic.gov.cn/english/LawsRegulations/Laws/200602/t20060225_55246.html

⁷ Trade-Related Aspects of Intellectual Property Rights, Art. 16,2,

http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm

The notion of the word ‘well – known’ defined by State Administration for Industry and Commerce (“SAIC”) is wider than that of TRIPS. According to SIAC, “a well-known mark is one “that is widely known to the relevant sectors of the public and enjoys a relatively high reputation in China.”⁸ However, the Chinese Trademark Law does not provide for a direct definition of the ‘well – known’ trademark but there are some elements that could be used to define whether the trademark is well- known or not:

- (1) reputation of the mark to the relevant public;
- (2) time period for the owner’s continued use of the mark;
- (3) time period, extent and geographical area of advertisement of the mark;
- (4) records of protection of the mark as a well-known mark; and
- (5) any other factors relevant to the mark’s reputation.⁹

Another way to determine the familiarity of the trademark is proposed by a WIPO Joint Resolution. According to which, the following criteria could be taken into consideration:

- 1) The degree of knowledge or recognition of the mark in the relevant sector of the public;
- 2) The duration, extent and geographical area of any use of the mark;
- 3) The duration, extent and geographical area of any use of promotion of the mark, including advertising or publicity and the presentation, at fairs or exhibitions, of the goods and /or services to which the mark applies;
- 4) The duration and geographical area of any regulations and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark;

⁸Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 121.

⁹*Id.*

5) The record of successful enforcement of rights in the mark, in particular, the extent to which the mark was recognized as well – known by competent authorities;

6) The value associated with the mark¹⁰

All the above mentioned will be considered in the examples of several cases concerning infringement of well – known trademarks in China and interpretation of the local legislation by the court.

1.3 Historical background of development of well – known trademarks. China has a rich history of trademark law that still has an impact to modern development of the legislative system of the country. Despite of the general impression that China is a country where the intellectual property rights are recognized and accepted, there is evidence that such recognition of these rights existed in its history. According to Jennifer A. Crane, who cited Ke Shao, a scholar at the Queen Mary Intellectual Property Research Institute at the University of London, the legislative system of China in seventh century A.D guaranteed the quality control of trademarks as well as stimulated the consciousness of the rights’ of the producers.’¹¹ Thus, the notion of trademark has been familiar to Chinese since the ancient times.

According to Ke Shao, a scholar at the Queen Mary Intellectual Property Research Institute at the University of London, there is historical evidence that there were laws adopted to regulate the production and use of trademarks in ancient China. They were aimed to ensure that production of the goods was of a certain quality and to develop awareness of population concerning the existence of intellectual property rights of producers and/or creators.¹² The

¹⁰ WIPO, Joint Resolution Concerning Provisions on the Protection of Well – Known Marks, WTO Doc. A/34/13, art2 (1) (1999)

¹¹Jennifer A. Crane, “*Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China*”, Chicago-Kent Journal of Intellectual Property, 2008, at 105

¹²*Id.*, at 105

punishment, in case of infringements, was also contained in the trademark laws of ancient times. For instance, in 618 – 907 A.D, there was an administrative law of Tang according to which the sanction in form of confiscation was imposed on the false and confused products.¹³ In addition, the penal code of Tang sanctioned sixty strokes to these who produced and sold the fake goods, silk and clothes in particular.¹⁴ Ancient Chinese were conscious that the punishment would be very serious and would depend on the level of infringement of the law in case of creating and selling pirated or counterfeit goods.

We can thus conclude that historical awareness of emperors and local population of China towards the protection of the result of someone's invention or creation was of a high - level in comparison with the current situation.

Unfortunately, the development of intellectual property rights, as well as their protection, stopped at the beginning of Cultural Revolution. The way of thinking of Chinese Communists was completely different from their predecessors. Unlike in the era of Imperial rule when the rights of individual were recognized and protected by the early laws, the era of Communists was guided by the idea of recognition of collective rights rather than individual. The Communists believed that learning is better than creating and that the creation of one should be considered as a creation to benefit the whole nation.¹⁵ In other words, the creator is not the only one who possesses a right to use the result of his intellectual work but the other Chinese people as well.

The era of Communist ruling might be considered as one of the starting point of trademark infringement as well as the infringement of other intellectual property rights. The

¹³ Jennifer A. Crane, *"Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People's Republic of China"*, Chicago-Kent Journal of Intellectual Property, 2008, at 105

¹⁴*Id.*, at 105

¹⁵ Ann M. Wall, *"Intellectual Property Protection in China: Enforcing Trademark Rights"*, Marquette Sports Law Review 17, no. 1 Fall 2006, at 359.

ideology of learning through copying the ideas of other, is still quite popular among today's Chinese population.

Types of Infringements: Piracy and Counterfeiting

After defining the notion of 'trademark' and 'well-known trademark,' one must consider the types of infringements related to trademarks. When creating a new logo or mark that is going to be used as a sign that will represent the various types of the goods, there is the possibility that the idea will be stolen by the time of finishing the complex procedure of its registration. There are two basic types of trademark infringement – piracy and counterfeiting. At first glance, there is no difference between them but going further and analyzing the elements of each, the distinct exist.

Trademark piracy means “the registration or use of a generally well-known foreign trademark that is not registered in the country or is invalid as a result of non-use.”¹⁶ There are a many cases of trademark piracy in China. One example is Ferrari vs. Jiajian, where the Chinese company Jiajian registered the unregistered mark of prancing horse (a mark already used by Ferrari) in China. The case was tried to Beijing First Intermediate People's Court and ruled for the Jiajian company. The decision of the case will be reviewed later in this thesis.

As for **counterfeiting** of trademarks, these are cases when goods “are manufactured, marketed, and distributed with the appearance of being the genuine good and originating from the genuine manufacturer.”¹⁷ This type of the trademark infringement is used by the producers of the fake goods with the purpose to mislead the consumer by selling

¹⁶WIPO Intellectual Property Handbook: Policy, Law and Use WIPO, 68 (reprinted 2008) (2004)

¹⁷Shayerah Ilias, Ian F. Fergusson, “Intellectual Property Rights and International Trade, *CRS Report for Congress*, 2007, at 4

non- original products. In this case, the buyer thinks that the good he consumes an original good but in fact, it is a reproduction of the original one. The example of counterfeit goods could be famous trademarks as Louis Vuitton, Lacoste, Puma, Reebok, Adidas and many others.

Counterfeiting damages the reputation of the trademark by providing people with low – quality products of well – known brands. Moreover, the counterfeiters receive high profit from producing fake products because such kind of goods cheaper than the original and the price is very attractive for the consumers.

Enforcement of well – known trademark laws: theoretical aspects

2.1 Well – Known Trademark Protection in China: Territoriality and First – to – file

system. “The acquisition of ownership and vindication of rights occurs on a nation – by – nation basis, and the trademark ownership in one nation does not affect ownership status in another.”¹⁸ This means that the laws protecting rights in one country do not necessarily protect the same right in the other. As a result, it is very difficult to control the protection of well – known trademark outside of the country and to grant the protection by the other states. Moreover, the fact that each country uses its own legal system, that is different from the one, used in other country, must be considered when the right holders decide to produce the famous goods as it may create a problem of an effectiveness of law enforcement mechanisms.

In addition, a trademark that is well – known in number of countries may not be considered well – known in another country where trademark rights are actually violated. The burden of proof of the fact that the mark is ‘*well – known*’ among the citizens of the country –

¹⁸ Leah Chan Grinvald, *A Tale of Two Theories of Well – Known Marks*, Vanderbilt Journal of Entertainment and Technology Law, volume 13, no. 1 Fall 2010, at 17-18

violator lies on the initial owner of the mark. “An entity that has used a trademark in a first – to – file nation for over thirty years but has not registered the trademark could lose ownership to a third party who filed an application to register the same mark.”¹⁹ In its turn , if the trademark is well – known among the consumers of a country where it was registered by the entity other than the owner, the problem of confusion of consumers may arise.²⁰ That is why it is crucial to be aware of the legal system used by the countries where the trademark is also considered as a well – known one. That may help to define possible solutions of the potential problems and to prevent future violations. In this case, there would be two negative sides. First, the initial creator of the well – known trademark will lose the income from the sale of the goods and on the other hand, the infringer will get the benefit from the products that were not created by him/her. Secondly, in most cases, pirated and counterfeit well – known marks are of a poor quality than those of the original producer. The sale of former will create a negative attitude towards the well – known trademark and may decrease the number of consequences that in fact will cause doubt about the creditability of the trademark. This could result in losing not only the huge income, but also a part of its market share.

“...[S]uch a system could lead to an unfair situation in which the owner of a registered mark is not using the mark, or has not used the mark for a long time, while there is another entity that is using the mark consistently, but was not able to obtain the registration.”²¹ Indeed, there is nothing illegal in non-usage of a well – known trademark but the interests of the initial owner, who cannot register the mark because of the current registration of the pirated or counterfeit mark, are violated. Indeed, it is possible to prove the fact of non – usage of the well – known trademark and to restore the right of ownership.

¹⁹ Leah Chan Grinvald, *A Tale of Two Theories of Well – Known Marks*, *Vanderbilt Journal of Entertainment and Technology Law*, volume 13, no. 1 Fall 2010, at 17-18

²⁰ *Id.*

²¹ Fabio Giacomello and Su Yianfei (Eric Su), “*First to file*” in *China and prior registration in bad faith*”, *Intellectual Property Magazine*, June 2012, at 55

However, it will take more time and there are no guarantees that the court will rule for the plaintiff. The fact of unfair registration will contribute to decreasing credibility of a country on international market as well as the credibility of a well – known trademark itself.

People's Republic of China uses the first – to – register (file) system the meaning of which is that the first entity that applied for registration should be considered as an owner of the trademark despite of the fact that the trademark was used by another entity in fact.²² This system is very beneficial for those who want to develop or use the idea or product of the initial owner. Indeed, both parties will get the profit in case if the creator agree to sell the right on the result of his intellectual property and the other side is in his/her turn purchase such right. From the other side, it is unfair towards the initial creator of the well – known trademark because the brand already has a good reputation on the local and international market and Chinese system might have bad impact on the future development of the brand.

Moreover, there is a possibility that the well – known trademark will be quickly registered in China by the Chinese while the creators of the well – known trademark do not even know about it. The legality of such actions should be questioned. From one side, there is nothing illegal because in fact, in China the process of the registration is in accordance with the local laws. The so -called owner of the well – known trademark submits all required documentation to register his/ her brand. However, on the other hand, the Intellectual Property rights of the initial owner are violated because the violators are getting not only the right to use the brand but also to get benefit. In addition, the well – known trademark usually gets the trust of the customers. In China, there is a doubt that cheap goods produced by the pirates are of a high quality. Consequently, the well – known trademark loses the reputation

²² Bradley Sova, *Double – Double Trademark Trouble: In –N-Out and CaliBurger's International Burger Brawl*, *Asian – Pacific Law & Policy Journal* , volume 14:1, 2012, at 70

of a high quality producer and as a result the original owners of the brand are in trouble, not these in China.

There is a clash of two systems. The ‘first – to – use’ system protects the intellectual property rights from the very beginning, but ‘first – to – file’ system gives an opportunity to register the well – known trademark that already exists thus violating the rights of the initial owner. The creators of well – known trademarks are not in fact researching whether their brand is used in another country or not.

In order to overcome the issues of territoriality and ‘first – to – file’ system the famous article 6bis of the Paris Convention the Protection of Industrial Property (“Paris Convention”) shall be used.²³ The main problem of the well – known trademark owners is the protection of their products abroad. It is definitely a case that the goods will be sold in various countries and continents because the trademark is well – known. Moreover, because the countries have their own legal system that is not exactly the same as in the home country of the well – known trademark owner, the issues of the trademark protection abroad are very concerning.²⁴

Indeed, the Paris Convention is very useful in case of disputes concerning the issues of the systems used in civil or common law countries. According to the Convention, if the trademark is well – known in the countries – members of the Convention, the registration of the mark by the third party should be refused or canceled.²⁵ Fortunately for the foreign producers of well – known trademarks, China is a party of the Paris Convention which means that the article 6bis is applicable in case of dispute of the well – known trademark infringement. The article requires that despite of the first – to – file system used in China, the initial right of ownership should be under the protection either national or international.

²³ Bradley Sova, *Double – Double Trademark Trouble: In – N – Out and CaliBurger’s International Burger Brawl*, *Asian – Pacific Law & Policy Journal*, volume 14:1, 2012, at 69

²⁴ *Id.*, at 70

²⁵ *Id.*

The first – to –file system is however unfair towards the initial owner of the well – known trademark. The system is interpreted in such a way that only registration grants the right of ownership over the well – known trademark.²⁶ Thus, the pirates are benefiting from the system by registering the brand earlier than the original owner.²⁷ That is how the system is working in practice. Unfortunately, Chinese Trademark Law does not have the clear definition of well – known trademark but only some features that could be used as evidences of the fact that the trademark is well – known. That is why the original owner of the brand should prove that the brand is famous and popular. According to TRIPS “...a mark will be protected in a nation, even if it is not actually used or registered in that nation, as long as the mark is well-known in that nation.”²⁸ Again, the burden of proof lies on the side of initial owner of the famous brand.

If a mark became popular in China, then it would be less complicated to bring evidence on behalf of the original owner. However, from the other side, if the famous brand is popular in the majority of the countries but is not in China, then there may be difficulty in proving the fact of popularity of the goods. In this case, the TRIPS agreement grants the protection of the well – known trademark that has not registered in China yet or has not been well – known among the population.²⁹ Unlike in common law countries, countries that use civil law system do not have binding case laws because China follows the common law system. “In order to be consistent with the TRIPS agreement, the new [Chinese] Trademark Law Art 13 addresses that once a trademark is determined as a well-known mark in China, a greater scope of protection is afforded, that is, they are legally protected even if they are "not

²⁶Liu Lu, Comparison of Well-Known Mark’s Protection Between the United States and China, <http://www.giprs.org/en/node/321>

²⁷ *Id.*

²⁸ TRIPS, http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm

²⁹ TRIPS, http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm

registered in China.”³⁰ The first step of the original owner of the well – known trademark is to be sure that his or her famous brand got the popularity among the local population of China. Indeed, citizens should not only be aware of the famous brand but also be familiar about the goods that are produced by the well – known trademark. If this requirement was fulfilled by the producer of the popular trademark, then the fact of non -registration of the mark would not be a factor in bringing the evidence.

Moreover, the first – to – file system will not be the barrier for the original owner to claim the violation of her/ his intellectual property rights. Basically, the parties of the Paris Convention are required to fulfill the obligation to protect not only registered but also unregistered (in China) well – known trademark. The party could file a suit to the local court of China to restore the violated rights of his/her. However, the decisions of the courts are not based on the precedent.³¹ Therefore, in case of successful resolution of the dispute in favor of the initial owner of the well – known trademark it does not mean that the similar disputes will be resolved in such way. For instance, in Sotheby’s case, the decision of Chinese court was in favor of Sotheby’s because it was able to prove the reputation of well – known and the court recognized it as a well – known trademark.³² However, “both Hermes International and Chivas Brothers recently failed in attempts to stop Chinese companies from using their trademarks.”³³ It means that despite of the popularity of those two trademarks, inability to prove the fact of their popularity and that led to the failure to gain control over the unlawful usage of the trademarks.

³⁰ Liu Lu, Comparison of Well-Known Mark’s Protection Between the United States and China, <http://www.giprs.org/en/node/321>

³¹ Bradley Sova, *Double – Double Trademark Trouble: In –N-Out and CaliBurger’s International Burger Brawl*, Asian – Pacific Law & Policy Journal , volume 14:1, 2012, at 72

³² *Id.*

³³ *Id.*, at 74

Unlike the case of an ordinary registered trademark, “a well-known mark registered in China has the exclusive right to be used not only on identical or similar goods or services, but also on dissimilar and non-identical goods or services.”³⁴ It could be considered as additional grant of the protection of famous brands because in some cases the brand names are used not only to produce the same or similar goods but also completely different products as it was in the case of Ferrari and Jiajian.

Indeed, when entering the market of other countries there always a danger that the creator’s right of intellectual property might be violated in one or another way. However, the most of the controversies arise because of the different system of the protection of well – known trademarks. “The difficulty of establishing well-known status...and China’s first to register system has left foreign businesses extremely vulnerable to bad faith trademark registrations.”³⁵ That might be considered as one of the barriers to the protection of well – known trademarks in China.

2.2 Obstacles of successful enforcement of well – known trademark laws and mechanisms of the protection. There are many obstacles that make the protection of the famous brands less effective. One of them is the mistakes of owners of well – known trademarks. The most common mistake is the unwillingness of the right holders to register their brand in China. The producers of famous brands think that their trademarks are well- known enough and there is no need to register them. This mistake gives an opportunity to third parties to register the brand and use it to produce pirated and counterfeit goods that will mislead consumers. This is possible because “current Chinese law follows the first-to-file principle as opposed to a

³⁴ Liu Lu, Comparison of Well-Known Mark’s Protection Between the United States and China, <http://www.giprs.org/en/node/321>

³⁵ Bradley Sova, *Double – Double Trademark Trouble: In –N-Out and CaliBurger’s International Burger Brawl*, Asian – Pacific Law & Policy Journal , volume 14:1, 2012, at 75

first-to-use principle for registration of a mark.”³⁶ For instance, if the producer of well – known trademark did not register his brand in China, relying on the first –to-use system, but then decided to start business there, there is a possibility that Chinese manufacturer registered the well – known trademark, and started producing goods. In this case, it would be very difficult and, even impossible, to return the brand to the original owner. The consequences of such a mistake of the owner would be the loss of the brand name in that area and possibly the damaged reputation of the whole company because of the potential low –quality products under the lawfully registered name.

In addition, the original producer would also lose the opportunity of the sale of its goods in the huge Chinese market, and as a result the possible profit of the company would also be decreased. To avoid such violation of owners’ rights, it is crucial to register such well – known trademarks in China.

Another mistake that the right holders make is the unwillingness to translate the well-known brand from the original language into Chinese. There were cases when such negligence caused the loss of the brand name that Chinese producers translated into their language. One of the examples is the case concerning the brand name of the drug VIAGRA of well – known company Pfizer.³⁷ The name of the drug was registered by the Chinese company and used as its own brand. The claim of the violation of the right of ownership of Pfizer company was rejected by the Chinese court.³⁸ That is why in order to avoid the problems with the usage of the well – known trademark translated into Chinese, the original producer should take it into consideration when entering the Chinese market.

³⁶Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, *Marquette Sports Law Review* 17, no. 1 Fall 2006, at 372.

³⁷Guo Shoukang and Huang Hui, *A summary of the trademark system and comments and analysis of Trademark and Unfair Competition cases in China*, China Trademark Laws and Cases, December 2010, at 40

³⁸ *Id.*

Corruption should also be considered as an obstacle of successful law enforcement. Unfortunately, China has the corruption issues. According to the report of Transparency International, China is on 78th place out of 178 with the score 3.5 (0 – is the most corrupt and 10 is the least corrupt).³⁹ China is attempting to improve its reputation on the international market. The country became a member of World Trade Organization (WTO) and is trying to fulfill its obligations. The situation de jure seems very promising; however, the situation de facto is far from being perfect. The authorities of China adopting laws and regulations to make the protection of well – known trademarks stronger but they still cannot reach the results. There are a lot of the cases like Ferrari or Pfizer the decision of which are not in favor of the initial owner of the brands and while the decisions of the courts are biased, the attempts of the legislators will not succeed.

From one side, there are facts of infringements by the local producers but from the other side, the local authorities also responsible for the weak enforcement of laws. Unfortunately, “...the level of trademark infringement remains high, particularly in smaller towns where factories generate the mass production of counterfeit goods. Thus, because local businesses generate substantial sources of local revenue, officials are unwilling to enforce trademark laws against them.”⁴⁰ However, not only the producers are benefiting from the production of the pirated and counterfeit products but the local population and the local official are benefiting as well.

In addition, there is a possibility that the local officials could be the owners of the manufactures that produce such goods. “Not surprisingly, administrative agencies face

³⁹ Transparency International, <http://www.transparency.org/cpi2010/results>

⁴⁰ Dalila Hoover, “Coercion Will Not Protect Trademark Owners in China, but an Understanding of China’s Culture Will: A Lesson the United States Has to Learn”, *Maraquette Intellectual Property Law Review*, 15, no.2, at 341

powerful local officials, including military officials, who benefit directly from piracy.”⁴¹ It is easier to share the some income with the local authorities and to continue the production of the goods then to apply for the registration. It could be explained by the long – lasting procedure of the registration that may have a bad impact on the business of the entity because every minute could be crucial for the producer. The enforcement of laws is the most problematic area in the efforts of Chinese to protect well – known trademarks. “The weakest link in the modern Chinese intellectual property rights system remains the enforcement of the country’s new laws and their adjudication by provincial authorities.”⁴² There may be a controversy between the ruling of authorities in big cities and rural areas still exists and that makes quite difficult to enforce the laws concerning well – known trademark protection.

The problem is that the rural areas are quite far from the central governing authorities and the latter are not always able to control these areas. There are cases when the local authorities are closing eyes on the infringements or even tolerate them. A judge during the court proceedings openly said the following - “Chinese intellectual property laws exist to protect Chinese intellectual property” from the rest of the world.”⁴³ It is a clear evidence of resistance to protect the foreign well – known trademarks. The judges must be objective while making decision about the legality or illegality of the actions. The Chinese judge, by stating the above mentioned showed that Chinese legal system has difficulties in enforcing the laws. With such an attitude towards the protection of foreign intellectual property, the concerns of foreigners are understandable. Unfortunately, this situation varies, depending on the economic situation of Chinese provinces. It is a case in provinces where the protection of intellectual property rights becomes problematic. For instance, “in poorer provinces a higher

⁴¹Dalila Hoover, “Coercion Will Not Protect Trademark Owners in China, but an Understanding of China’s Culture Will: A Lesson the United States Has to Learn”, *Maraquette Intellectual Property Law Review*, 15, no.2, at 341

⁴²Jennifer A. Crane, “Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China”, *Chicago-Kent Journal of Intellectual Property*, 2008, at 115

⁴³*Id.*

demand for counterfeit or pirated items often exists, and the sale results in local prosperity and satisfaction of demand. Provincial officials choose not to look beyond this net benefit, as strengthening the local economy is the “end-all goal.”⁴⁴ The lack of working places and critical economic situation is common to all provincial villages and cities. Indeed, the populations of such areas are looking for the job to somehow improve the family budget and the local officials allow manufacturing the pirated and counterfeit goods to improve the local budget. The owners of such business offer jobs and money and that attracts both local people and officials. The conclusion that shall be made from the above mentions is that the problem of production of pirated and counterfeit goods comes from the poorest regions of China.

The main reason for such a conclusion is that the further the province from the central governmental authorities, the less law-abiding it becomes. The population of poor provinces considers copying the goods of famous trademarks as the main source of income. Not everyone is able to buy expensive products and it is very beneficial for the producers of pirated and counterfeit goods because their products becoming more popular among the population. In addition, that somehow support economic situation in those regions. The local authorities “close eyes” on these violations when foreign producers are filing a suit to local courts in hope to restore infringed intellectual property rights because they are also benefiting from non – legal activities of pirates. However, “the provincial courts may openly rule against foreign business... plaintiffs [should] notify potential defendants warning that litigation is being considered. The Chinese judicial system requires gathering all evidence prior to filing a suit, so these letters effectively give infringers forewarning, enabling them to “hide or destroy the evidence.”⁴⁵ That is the weak side of the Chinese legislature that indirectly protects its citizens who are infringing the right of ownership. Despite of the fact

⁴⁴Jennifer A. Crane, “Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China, Chicago-Kent Journal of Intellectual Property, 2008, at 116

⁴⁵*Id.*, at 117

that the People Republic of China amends laws to regulate the production of goods in the country, the law enforcement mechanisms are not strong enough to guarantee the effective protection of well – known trademarks.

According to Jennifer Crane, Notre Dame Law School, the enforcement of laws that are directed to protect the intellectual property rights of individuals is not of an interest of neither government authorities nor people. The Chinese are receiving profit from the piracy and counterfeiting.⁴⁶ “The Beijing government currently gets to have its cake and eat it too: ...[by] formally codify[ing] the provisions of international treaties, thereby securing beneficial international trade relations, while the lack of enforcement of these provisions enables local goods producers to infringe and expand the Chinese economy.”⁴⁷ That is how the most of adopted laws and regulations (national and international) are currently working in China.

By joining World Trade Organization (WTO), China amended all its laws in accordance with the standards of WTO and formally these laws are directed towards the protection of not only local intellectual property rights (including trademarks) but also these of foreign business. From one side, China is trying to develop its relations in the sphere of trade with other countries and develop the adoption of laws and international treaties. Moreover, by joining international organizations such as WTO, China reflects its desire to create more respectable image in the eyes of international community. However, from the other side, the historical background of intellectual property rights development stops the development of law enforcement of normative legal acts. That gives a possibility to overcome the laws directed to the protection of intellectual property rights and produce pirated and counterfeit goods. That in its turn benefits not only the local companies but also the

⁴⁶Jennifer A. Crane, “Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China, Chicago-Kent Journal of Intellectual Property, 2008, at 119

⁴⁷*Id.*

population because former gets high incomes and latter- access to cheap goods of well – known trademarks. Nevertheless, the negative impacts of such actions are directed towards the interests of the owners of such trademarks because their incomes are going down and the reputation of such companies could be damaged. In addition, there is little possibility to protect its rights under the laws of China, especially in rural areas. Economic situation in the rural areas is far from being stable. Moreover, monitoring of the enforcement of laws is not as effective as in the capital or big cities. All that give the possibility to the local authorities to establish their own rules and as a result the business of pirates flourishes.

In addition, “the intangible innovation has no real economic value as “the Chinese traditionally feel they should only pay for the tangible goods,” and as such should be shared to improve the community’s knowledge.”⁴⁸ Following this logic, the Chinese nation believes that only creations that have physical form could enjoy certain protection – the author of the creation could receive remuneration. As for the goods that do not have physical form, they are not recognized as goods having economic value and that is why no remuneration to the creator is provided.

The next obstacle comes from the remarkable event of Chinese people. Since the Cultural Revolution, China has used an educational system based on the teaching of Confucius. “The cultural understanding of the role of information and knowledge in China hinders the development of a legal intellectual property rights system.”⁴⁹ The basis of cultural and educational understanding of the Chinese society comes from the philosophy of Confucius and Mao. According to them, the notion of intellectual property was not well – developed. Chinese people believed that the right on result of intellectual activity of a person does belong not only to him but also to the state as well. As a result of such teachings, the

⁴⁸Jennifer A. Crane, “*Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China*”, Chicago-Kent Journal of Intellectual Property , 2008, at 117

⁴⁹Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, Marquette Sports Law Review, volume 17, issue 1 Fall 2006, at 325

importance of intellectual property rights' protection was not considered as a significant aspect in legal system of China. According to Jennifer Crane, after the communist revolution 1949, all former laws were eradicated and China remained without any sort of intellectual property protection until 1982.⁵⁰ That could be explained by the fear of new political authorities that believed that the intellectual development of an individual is nothing in comparison with the development of the particular group of people or even the whole nation.

The situation today is slowly changing but nevertheless, the change is not sufficient to grant the adequate protection of intellectual property rights. The problem that foreigners are facing when starting business in China is the weak protection of property rights in case of infringement. Indeed, Chinese authorities are taking all necessary measures to make the protection of IP rights more effective by enforcing new laws and amending old ones. Nevertheless, the problem still exists and that is why the investors are concerned of doing business in China. The conclusion that could be drawn from this is that in case if the situation of IP rights protection is not going to be changed in the nearest future, the Chinese market will still be considered as unstable for foreign investments.

As a result of the above mentioned, "China has historically offered little in the way of protecting the Intellectual Property Rights of its own citizens, or citizens of any other country..."⁵¹ This could not be accepted as totally true statement of the author that fully reflects the current situation in the country. Attempts of the authorities to improve the legislation concerning the IP rights protection have so far demonstrated few, China needs time to make all laws work de facto. However, even Chinese experts are of the opinion that the situation in the country is of the high concern. Horace Lam of Lovells says that "... many consider it a smart business strategy to free – ride on other people's trademarks and

⁵⁰Jennifer A. Crane, "*Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People's Republic of China*", Chicago-Kent Journal of Intellectual Property , 2008, at 109

⁵¹Ramona L. Taylor, Tearing Down the Great Wall: China's Road to WTO Accession, 41 IDEA 151, 2001, at 16-62

reputation...”⁵² The temptation to build business on the basis of already formed and successful company is undoubtedly popular among Chinese. The pirated or counterfeit products would definitely get the popularity and be sold very successfully because people would trust the brands that are popular and got perfect reputation.⁵³

The opinions of different authors about this issue vary. According to Jennifer A. Crane, a believe that Chinese society, in past and present times, has little understanding of recognition of intellectual property is not totally right. She compared English common law trademarks and Chinese system stating that the latter one developed to differentiate the products made by individuals. She concludes that despite of the fact that China is implementing provisions of International treaties into its national legal system to protect intellectual rights, those rights will be still infringed until the moment when Chinese society understand the importance of such protection.⁵⁴

There are several ways to protect the IP right on the local and international level. Protection on the local level is available through Trademark Office of the State Administration for Industry and Commerce (SAIC). The SAIC has three responsibilities:

- (1) processing trademark registration applications and deciding on approvals in accordance with the law;
- (2) supervising the use of the trademark and deciding on the revocation of registered trademark, and;
- (3) recording licensing contracts for the use of registered trademarks.⁵⁵

⁵²Joff Wild, *The truth about trademarks in China*, World Trademark Review, Co-published editorial January/February 2007, at 53

⁵³*Id.*

⁵⁴Jennifer A. Crane, “*Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China*”, Chicago-Kent Journal of Intellectual Property , 2008, at 104-105

⁵⁵Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, Marquette Sports Law Review 17, no. 1 Fall 2006, at 370.

The SAIC should be considered as one of the guarantees that the well – known trademark will be protected after the successful registration and even in case of infringement of the owners’ right, the original producer will be able to prove his/her right to the brand name.

When buying the product of well – known trademarks there is always a doubt concerning the manufacturer, especially if the price of the good is lower than it should be. Thus, it is very important not only to prevent the production of the pirated and counterfeit goods inside the country but also to prevent the transportation of such goods through the borders. Chinese state body that could make the protection of well – known trademarks more effective on the borders is General Administration of Customs (GAC). “GAC also has administrative jurisdiction over trademark protection, albeit limited in scope.”⁵⁶ This body may be used “to ban counterfeit goods at the border.”⁵⁷ It is not a secret that the production of pirated and counterfeit goods occurs not only for the local (Chinese) market but also for the distribution to the neighboring countries.

The other way to protect the well – known trademarks from infringement is to use international registration. This can be done through the Madrid System. According to World Intellectual Property Organization (WIPO), the Madrid system for the international registration of trademarks provides one single procedure for the registration of a mark in several territories.⁵⁸ The system “is governed by two treaties, the Madrid Agreement and the

⁵⁶Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, Northwestern Journal of Technology and Intellectual Property 7, no. 2 Spring2009, at 139.

⁵⁷Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, Marquette Sports Law Review 17, no. 1 Fall 2006, at 370.

⁵⁸WIPO, www.wipo.int/madrid/en/faq/madrid_system.html

Madrid Protocol.”⁵⁹ Therefore, it is very convenient for the owner of the well – known trademark to fill the application using the Madrid system.

“International registration, using the Madrid system, is only available through the member states of Madrid Agreement or Madrid Protocol.”⁶⁰ Thus, it is important to check whether the home country of the producer is among the members of the Madrid system because otherwise it would be impossible to use this system. China is a signatory to the Madrid agreement and the Madrid Protocol. The former was signed on October 4, 1989, and the latter - on December 1, 1995.⁶¹ Fortunately for the Chinese, they could use the system to protect their IP rights internationally.

The legislative and historical backgrounds for the protection of well – known trademarks are rich for the events that became the starting point of the development of legal system of China. The understanding of the intellectual property, in particular trademarks, in ancient times was a big step to the later recognition of the well – known trademarks and the establishment of the punishment for the violations. However, there are obstacles that create difficulties in the successful enforcement of the Chinese laws. They are – mistakes of right holders, unwillingness to translate the original name of the brand into Chinese and cultural background. The first- to-file system is also considered as a barrier to the effective protection of the well – known trademarks in China. As a result, the owners of famous brands are not aware of the fact that their trademark is registered by the local (Chinese) company as its original name.

When starting the business, it is a responsibility of a right holder to know the legislation of China to be sure that their rights are not violated. Moreover, they are

⁵⁹WIPO, www.wipo.int/madrid/en/faq/madrid_system.html

⁶⁰Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, Marquette Sports Law Review 17, no. 1 Fall 2006, at 373.

⁶¹*Id.*

recommended to use the Madrid system to register the well – known trademark. Translation of the original name into Chinese, the registration of the trademark in the local state body of China as well as the advertisement of the brand may be used as evidence of the wide recognition of the trademark as a well – known one in case of dispute.

Chapter II

Well – Known Trademark Law Enforcement in China: Practical Aspects

3.1 Laws aimed at the protection well – known trademarks. Chinese authorities are making significant efforts to protect the well – known trademarks of foreign producers as well as domestic ones. The marks that are not registered in the People’s Republic of China have limited protection.⁶² Chinese government established a system that directed to the protection of well – known trademarks by the various enactments.⁶³ There are four requirements of well – known trademark protection regime are:

- (1) a “competent authority” to identify the mark;
- (2) a specific procedure of identification;
- (3) explicit standards of identification; and
- (4) the actual protection of the mark.⁶⁴

The standards used to balance a “well – known” trademark’s protection rights against a registered mark’s rights consist of a balancing of the extent of the public’s knowledge of the “well – known” mark, the length of the “well – known” mark’s use, the extent and geography of the “well – known” mark’s publicity, the protection record of the “well – known” mark and any other relevant factors.”⁶⁵

⁶²Jennifer A. Crane, “*Riding The Tiger: A Comparison of Intellectual Property Rights in the United States and The People’s Republic of China*”, Chicago-Kent Journal of Intellectual Property, 2008, at 113-114

⁶³*Id.*

⁶⁴*Id.*

⁶⁵*Id.*

To meet the international standards of IP rights' protection, China adopted not only local laws and regulations but also ratified Conventions and signed Treaties on international level. These include:

- Paris Convention for the Protection of Intellectual Property. The Convention includes the protection of well – known trademarks. “The famous section 6bis of the Paris Convention ...requires all members to provide non – registered well – known marks protection regarding identical or similar goods. In August 1984, [China]... submitted the Report about Joining Paris Convention for the protection of Industrial Property to the State Council. In that document, the Chinese translation of “well – known mark” was established.”⁶⁶ By ratifying the Convention, China has to comply with the obligations. That guarantees foreign, as well as local, manufacturers proper protection not only to the registered well – known brands but also to the unregistered ones.

- Trademark Law. The law was adopted in 1982 and was a big step towards the proper protection of trademarks including the well – known. In 1983 Trademark was amended and more severe punishments were imposed for trademark counterfeiting – “the State Council added an article on promotion of well – known marks in the Implementation Rules of the Trademark Law”⁶⁷

- Provisions on the Determination and Protection of Well –Known Marks issued by SAIC on April 17, 2003.⁶⁸ The Provisions included the notion of well – known trademark, evidences that should be proven to consider the trademark as well – known one and also what should be examined “on receiving an application for the protection of a well-known mark” as well as other provisions concerning well – known trademarks.⁶⁹

⁶⁶The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005 at 707 -708

⁶⁷*Id.*, 709

⁶⁸ WIPO, <http://www.wipo.int/wipolex/en/details.jsp?id=6346>

⁶⁹*Id.*

- The Law Against Unfair Competition (1993). “This law prohibited passing off of registered marks and well – known marks, affording trademark owners additional administrative and judicial recourse in the event of infringement.”⁷⁰
- Madrid Agreement and Madrid Protocol (Madrid system). The advantage of the system is that “the owner... has only to file one application in one language with one Office...”⁷¹
- Criminal Law. Articles 213, 214 and 215 of Chinese Criminal Law “are aimed at criminal offences towards registered trademark.”⁷² The well – known trademarks were not mentioned in the Code. According to An Qinghu, director general of the Trademark Office, SAIC, trademarks that “are not well – known will not be infringed, whereas the well – known trademarks will.”⁷³ The statement of An Qinghu shall be questioned because otherwise there is only one type of trademarks – well – known. Indeed, at present time, famous brands are an object of IP right’s infringement and there is little attention paid to other marks. Moreover, the application of Criminal Code could be doubted in case of dispute concerning the protection of well – known trademark. The notion of trademark and well – known one completely different and the infringer will definitely insist on non – application of Criminal Law to the case.

3.2 State bodies as a mechanism to the protection of well – known trademarks. The first step in the protection of well – known trademarks is the registration in an appropriate state body of a foreign country. That will grant, at least de jure, legal protection of the products of an entity. Moreover, it will be simpler to prove the fact of infringement and the fact of “recognition” of a trademark as a well – known. It is very crucial to be familiar with the state

⁷⁰CCPIT Patent and Trademark Law Office, http://www.ccpit-patent.com.cn/references/Law_Against_Unfair_Competition_China.htm

⁷¹WIPO Intellectual Property Handbook: Policy, Law and Use WIPO, 292 (reprinted 2008) (2004)

⁷²The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005, at 733

⁷³*Id.*

bodies, the main aim of which is to enforce the local laws and to restore the infringed right of ownership. There are number of state bodies that are used as mechanisms to protect the well – known trademarks. They could be divided into two parts – administrative enforcement and judicial enforcement. The former includes the following state bodies:

1. State Administration for Industry and Commerce
2. General Administration of Customs

State Administration for Industry and Commerce (SAIC) is one of the leading agencies that is focused on the enforcement of trademark law.⁷⁴ This agency shall be used as one of the ways to restore the right of ownership over a well – known trademark. The major advantage of the agency is a number of small offices that vary depending on the “geographic jurisdiction – state, provincial, prefecture, county and town or village.”⁷⁵ That makes it easy to claim the infringement of the ownership rights of an entity in the place of infringement. Often a body, responsible for the supervision and protection of the right of ownership is located in the capital of the country. In such cases, a number of violations happen outside of the geographical location of the state body. Small towns and villages are considered as potential places of well – known trademark violations. The lack of the state bodies on the local level makes the problem more crucial because it would take more time and expenses to claim a restoration of a right.

In case of SAIC, it is very convenient not only to the right holders but also to the state bodies to “...purs[ue] infringement cases through local offices...”⁷⁶ Moreover, these bodies have a right “to enter facilities suspected of harboring counterfeit goods. They may [also]

⁷⁴ Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, *Marquette Sports Law Review*, volume 17, issue 1 Fall 2006, at 382

⁷⁵ *Id.*

⁷⁶ *Id.*

confiscate the infringing merchandise and levy fines.”⁷⁷ The advantages of such offices on the local level will not leave a chance for pirates to realize or export the pirated or counterfeit goods to other cities or even outside of the country. The local offices will react quicker on each claim of infringement. In addition, the mediation of the issues of the trademark infringements is an authority of the local and regional offices.⁷⁸ It is another way to save the time and find a less expensive way to restore the right, violated by the pirates. The mediation may help peacefully resolve the dispute between two parties of the conflict and in case if one of the parties is violated the right of ownership of another to call to account and to restore the good name of the well – known brand. However, the SAIC has number of disadvantages.

First of all, “... the complainant has limited remedies. AICs cannot award economic damages or issue injunctions. These are available only through Chinese courts.”⁷⁹ That makes it less effective to use AICs as a tool to restore the violated right. Indeed, the fact of successful resolution of a dispute, if it is a case, is important for the right holder. However, the award of the damages is equally important because otherwise it would be unfair to leave the parties with the benefits that they obtained while producing the fake goods. In addition, the punishment of the pirates will also be less strict than in case of judicial resolution of the claim. If the right holder is satisfied with such conditions, then it is a right way to establish the ownership over the well – known trademark. Otherwise, it is better to use the other mechanism of law enforcement.

Second, “... corruption among AICs can reduce the efficacy of administrative enforcement because local AIC offices and local government leaders often act in concert with

⁷⁷ Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, *Marquette Sports Law Review*, volume 17, issue 1 Fall 2006, at 383

⁷⁸ *Id.*

⁷⁹ Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 136.

infringers.”⁸⁰ The corruption and support of pirates by local authorities may decrease the chances of successful case resolution. It is obvious why the local AIC offices together with the local authorities are acting against the foreign producers of the well – known goods. The main reason of such behavior is that because of counterfeit and pirated goods the number of local people is getting working places and the local budget is also benefiting from it. It is very difficult to claim a fact of violation of ownership right.

Finally, “...local AICs lack the necessary means to quickly after desired changes,...[be unable] to enforce their own orders...”⁸¹ This is the second major problem after the corruption. The right holders that claim to restore the right of ownership of well – known trademark expect that the local AICs will operate effectively and the orders of the AIC will be enforced in a short period of time. However, the orders that are given by AICs are not enforced because of various factors, including but not limited, the corruption and support of local government, the whole work of such state bodies is under question. If the right holders do not get remedies for the violations of their right, then the effectiveness of the SAIC is in doubt.

General Administration of Customs (GAC) is another state body that could be used as a mechanism for well – known trademark protection. The problem of the infringement of right of ownership is not only in the sale – purchase of fake goods in China but also in exportation of such products to the other countries. The counterfeit goods of various producers such as Gucci or Chanel are sold on the markets around the world. As a result, the sign ‘Made in China’ is on the label of the counterfeit or pirated goods that are identical to the original ones. It means that despite of all efforts made by Chinese authorities to prevent

⁸⁰ Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 136.

⁸¹ *Id.*

illegal transportation of pirated and counterfeit goods outside of the country they are far from being effective. The major problem is improper control on the customs. The functions of the control on state borders are given to the GAC in China. This state body “has the authority to ban infringing goods from importation and exportation.”⁸² That could be considered as one of the ways to prevent the illegal transportation and sale of fake goods on the territory of China as well as its illegal exportation to the other countries.

GAC could be used as an additional mean of protection of well – known trademarks. The confiscation of the pirated and counterfeit goods may be done on the borders if it was not on the territory of a town or village where the goods were produced. In case if the customs officials “reveal an infringement, [they] have the legal authority to confiscate the infringing goods and impose a fine.”⁸³ Indeed, the initial right holder will be notified about it so that he/she could take adequate actions. As for the goods that were confiscated, there are several ways to use them. They could be returned to the initial owner of the well – known trademark or destroyed in case if the right holder will not take them.⁸⁴ It is not a surprise that “China Customs is coming under increased pressure from the world trade community to step up its enforcement efforts to prevent the exportation of pirated and counterfeit goods.”⁸⁵ It is in the best interest not only of Chinese people to reduce the number of such violations but also of the international community as a whole. Therefore, the infringement of well – known trademarks damages both sides and China becomes less credible in the eyes of foreign investors and producers of famous goods. “China’s law enforcement authorities have stepped up the number of raids resulting in the seizure of pirated and counterfeit goods.”⁸⁶ However, the efforts of the Chinese government are not as effective as they should be to reduce the

⁸² Ann M. Wall, “*Intellectual Property Protection in China: Enforcing Trademark Rights*”, *Marquette Sports Law Review*, volume 17, issue 1 Fall 2006, at 384

⁸³ *Id.*

⁸⁴ *Id.*, at 385

⁸⁵ *Id.*

⁸⁶ *Id.*, at 385

cases of infringement. Indeed, government officials are not the only ones who bear responsibility for the successful enforcement of local laws but also the local authorities as well as the Chinese citizens. Only with the mutual efforts of the Chinese government and the Chinese community there will be, at least, reduction of the number of violations and prevention of further development of such negative way of making business.

Judicial enforcement is another possibility for the restoration of the ownership right in case of infringement. There are two options of filling a suit to a court – either in civil or criminal litigations. It depends on the various factors that could either mitigate or increase the liability. Civil litigation is a second step in the protection of well – known trademarks. The initial owner of the famous brand should make a decision. If he/she decides to use administrative tools, they will “order the infringer to immediately stop infringing the right,...confiscate and destroy the goods,... the tools specially used to manufacture the...goods...and may also impose a fine.”⁸⁷ In case of dissatisfaction with the results of administrative mechanism of law enforcement, the right holder could file a suit to the People’s court of China.

Unfortunately, while, the people’s court could “determine well – known trademarks, [however],...court can[not] determine non – registered trademarks to be well – known.”⁸⁸ That means that only in case of trademark registration in China , the owner of the famous brand could claim the determination of the fact of a trademark as being well – known. Thus, grant the legal protection under the local laws and order to stop manufacturing the pirated and counterfeit goods. It is obviously a gap in the Chinese legislation. Being a party of Paris Convention, China is obliged to protect not only registered well – known trademarks on its

⁸⁷ The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005, at 743

⁸⁸ *Id.*, at 742

territory but also unregistered ones. However, it is still unclear how it could be done if the court cannot determine the “well – known” element of unregistered trademark.

Coming back to the remedies in case of infringement, if “the accused mark is a reproduction, an imitation, or a translation of a well – known trademark or the major part of a well – known trademark of another person not registered in China and is likely to cause confusion, one shall bear the civil liability of stopping the infringement, but not to bear other civil liabilities.”⁸⁹ At first glance, everything seems in accordance with the laws – there is adequate liability for the infringement of the famous brand. Nevertheless, the punishment for the violation of ordinary trademarks looks stricter than for the same violations of the well – known brands. Comparing those two provisions, there is a major difference in the imposition of liability. In the case of the former, the infringer bears “all the civil liabilities including paying damages” and the latter, “the civil legal liability of stopping the infringement” only.

The conclusion of all the above mentioned is the following:

- The ordinary trademarks are treated more carefully than the famous ones;
- The liability of the latter should include not only the prohibition of manufacturing but also the destruction of produced goods as well as adequate remedies.

The liability under the Criminal law is considered as the most effective penalty for the violators.⁹⁰ The criminal liability is imposed in cases of serious violations and the liability for such violation is also very strict. Under the civil liability the punishment could be imposed in form of destruction of the pirated and counterfeit goods, prohibition of use of the well – known trademark and/or imposition of remedies. In case of criminal liability, the consequences of unauthorized usage of the famous brand may be more serious – up to the imprisonment.

⁸⁹ The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005, at 742

⁹⁰ *Id.*, at 730

Imprisonment will depend on the seriousness of the infringement. Criminal law of China does not directly mention anything about the protection of well – known trademarks. It is explained by the fact that “... trademarks which are not well – known will not be infringed, whereas the well – known trademarks will.”⁹¹ Following this logic, all trademarks that were pirated or counterfeit should automatically be considered as well – known ones. Then, the “well – known” element based on the public recognition in various parts of the country may not be taken into consideration. Thus, the trademark that is famous in one part of the country and was copied there but is not famous in the rest parts of the country will be considered as a well – known just because of the fact of piracy. There is no need to automatically consider all trademarks that were pirated as well –known despite of the fact that the brand is not famous in the rest of the country/world. To determine the criminal liability of an infringer, certain requirements must be fulfilled:

- The number of illegally produced /sold representations of a registered trademark equals or exceeds 20,000 pieces (sets);
- Where representations of a well – known trademark are illegally produced /sold;
- ...the person/entity ...has already been subject to administrative penalties... and then again illegally produces or sells such illegally produced representations;
- Where illegal methods such as bribery... are used to promote the sale of the illegally produced representations of registered trademarks⁹²

Criminal liability is imposed on those infringers whose actions fall within the above mentioned requirements. That in its turn means that “as long as ...criminal offences have been made towards a well – known trademark, no matter whether the amount is large or

⁹¹ The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005, at 733

⁹² *Id.*, at 735

small, they are within the scope of “shall – be – prosecuted.”⁹³ At some point, it is fair enough to punish the violators regardless of the amount of the pirated or counterfeit goods, because the infringer knew or should have known that he/she was breaking the law by copying the product of someone. The fact that Chinese legislation started enforcing the laws to protect the well – known trademarks is very encouraging. However, the problem still exists– either administrative or judicial protection is granted only to those well –known trademarks that were registered on the territory of China and nothing is said about the protection of unregistered famous brands.

3.3 Judicial practice of application of well – known trademark laws in China: Cases

When drafting laws, legislators are not able to predict all possible violations, and provide an adequate protection from them. Nevertheless, they do their best by granting the protection from the existing violations. That is why often the laws seem ideal de jure and full of gaps de facto. Those gaps give another reason to draft new laws which are more sensitive to the changing world or to modify the existing ones. The cases are the best way to check how the laws are working in practice and to determine their weak and strong points. Gaps in Chinese legislation concerning the protection of well – known trademarks are already defined. Nevertheless, the case study will help in understanding of courts’ reasoning and implementation of the laws. Within the framework of this thesis, two cases will be reviewed – Ferrari vs. Jiajian and Starbucks Corp. vs. Shanghai Xingbake Coffee.

Ferrari vs. Jiajian⁹⁴

⁹³ The Trademark Report, *Official Journal of the International Trademark Association* 96, no.3, May-June 2005, at 733

⁹⁴ Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 141

The famous Italian Company “Ferrari” started its business in China in 1993.⁹⁵ Such decision was made because “Ferrari” Company considered China as one of its key international markets.⁹⁶ Therefore, the company registered its “Ferrari and Prancing Horse Design” combination trademark in China.⁹⁷ In 1995, the Chinese Jiajian Sports Merchandise Company, Ltd decided to register the symbol of prancing horse to sell clothing.⁹⁸ In 1996, the Chinese Trademark Office published the prospective of the Jiajian trademark for opposition and “Ferrari” filed an opposition.⁹⁹ The argument of the company was that the registration of “Ferrari and Prancing Horse Design” was already registered in China.¹⁰⁰ However, the Trademark Office rejected the argument and after that, “Ferrari” Company appealed to TRAB stating that “Ferrari and Prancing Horse Design” mark together with the prancing horse mark should be considered to be well – known.¹⁰¹ Moreover, the sale of clothes with the emblem of prancing horse will mislead the consumers about the producer of such goods but the TRAB rejected the argument.¹⁰²

That is why the “Ferrari” company decided to file a suit to Beijing First Intermediate People’s Court.¹⁰³ The issue of the case was the following – whether the “Ferrari and Prancing Horse Design” and prancing horse of “Ferrari” company were famous among the Chinese consumers?

To make the decision, the Court studies all evidences provided by the “Ferrari” Company. Indeed, the status of “Ferrari and Prancing Horse Design” and “Ferrari” as well –

⁹⁵ Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, Northwestern Journal of Technology and Intellectual Property 7, no. 2 Spring 2009, at 141

⁹⁶ *Id.*

⁹⁷ *Id.*

⁹⁸ *Id.*, at 142

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ *Id.*

known were not doubted because the consumers were already familiar with the trademarks.¹⁰⁴ Moreover, the plaintiff was able to provide evidence of the fact that the “Ferrari” word mark was considered as well – known among the population of China.¹⁰⁵ The plaintiff claimed that the fact that recognition of “Ferrari” as well – known should automatically be a basis of recognition of prancing horse mark as well – known.¹⁰⁶ However, the Court did not accepted this, stating that “evidences of the well – known status of “Ferrari” word mark cannot be evidence that “Prancing Horse” design mark is also well – known in China.¹⁰⁷ The fact that “Prancing Horse” mark was not registered in China and was not famous among the consumers weakened the position of the plaintiff. The People’s Intermediate Court ruled for the defendant stating that the “Prancing Horse” mark was not widely known among the population of China and that the “Ferrari” company did not bring enough evidence of advertisement of the “Prancing Horse” design mark.¹⁰⁸

While the decision of the Court might at first seem unreasonable because ‘Ferrari’ Company is very famous on the international market and one of its distinctive sign is its prancing horse, the international recognition was not enough in this case because it was not associated with the ‘Ferrari’ company and the company did not promote it. The main problem in the protection of the prancing horse mark was the fact of non – registration in China. The Paris Convention that protects unregistered well – known trademarks could have been applied in this case but unfortunately, the article 6bis is about the “‘identical or similar goods.’”¹⁰⁹

¹⁰⁴ Jing "Brad" Luo and ShubhaGhosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, Northwestern Journal of Technology and Intellectual Property 7, no. 2 Spring 2009, at 142

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*, at 143

¹⁰⁹ Paris Convention for the Protection of Industrial Property, art. 6bis, http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html

That is why it was not applicable in the case because “Ferrari” Company is producing cars but Jiajian – clothing. That is its turn, does not create confusion. Indeed, it is still questionable because in case if Jiajian decides to export its clothes to the other countries there will definitely be confusion – the association of prancing horse with ‘Ferrari and Prancing Horse Design’.

Considering the fact that China is a member of WTO, the TRIPS agreement could be applicable to protect the right of ‘Ferrari’ Company over the ‘Prancing Horse’ mark. Article 16 of TRIPS grant protection not only to identical and similar goods but also to those which are not similar.¹¹⁰ However, it concerns only registered trademarks. That shall be considered as a gap, both in Paris Convention and TRIPS agreement. De jure the Articles of Paris Convention and TRIPS agreement are protecting unregistered (the former) and registered (the latter) well – known trademarks. However, carefully studying the provisions (articles 6bis of Convention and 16 of agreement) there is a problem. Convention protects the unregistered well – known trademarks from the unauthorized usage of it to similar and identical goods, and Agreement – registered both similar and not similar well – known trademarks. Nevertheless, there is nothing was said about the protection of unregistered and not similar well – known trademarks. That means that in case if an entity registered a well – known trademark and used it to not similar goods, then the entity would not bear liability under the Paris Convention or TRIPS agreement.

Starbucks Corp. vs. Shanghai Xingbake Coffee Corp.¹¹¹

¹¹⁰ Trade-Related Aspects of Intellectual Property Rights, Art. 16, http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm

¹¹¹ Jing "Brad" Luo and Shubha Ghosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 147

Starbucks Corporation registered its brand name “Starbucks” in China in 1996 together with the other designs that were associated with the Corporation.¹¹² In 1998, the “Starbucks” Corporation decided to register the Chinese translation of the “Starbucks” – “Xingbake” in China.¹¹³ While waiting for the decision of the Trademark Office, the company started to advertise its registered trademark “Starbucks” and its unregistered Chinese version - “Xingbake”.¹¹⁴ The first “Starbucks” was opened in Beijing in the beginning of 1999.¹¹⁵ However, while “Starbucks” was waiting for registration, Chinese Company – Shanghai Xingbake Coffee, Ltd. registered the mark “Xnigbake”.¹¹⁶ Then, the Company started using the mark on the advertising billboards.¹¹⁷ The “Starbucks” tried to restore its rights on “Xingbake” mark using the administrative mechanisms, however, it was not successful.¹¹⁸ After that, the Corporation filed a suit to the Shanghai Second Intermediate People’s Court stating that “Shanghai Xingbake Coffee” infringed its right of ownership.¹¹⁹

The issue of the case was – whether the registration of “Xingbake” by the Chinese Company, at the time of pending registration of “Starbucks”, should be considered as infringement?

The Second Intermediate Court of Shanghai ruled for the “Starbucks” Corporation and qualified the actions of “Shanghai Xingbake Coffee” as an evidence of bad faith.¹²⁰ The defendant appealed to the Shanghai Higher Court. The Court affirmed the decision of the

¹¹² Jing "Brad" Luo and ShubhaGhosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 147

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*, at 148

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ *Id.*

lower instance.¹²¹ Moreover, it recognized “Xingbake” trademark as well as “Starbucks” as well – known trademarks despite of the fact that at the time of infringement the “Xingbake” mark was not registered neither in USA nor in China.¹²² The Court’s reasoning was based on evidence that both marks were well – known among the Chinese population and that “Starbucks” Corporation advertised “Xingbake” mark earlier than the “Shanghai Xingbake Coffee” registered the mark.¹²³ The judgement of the court was enforced only after several months because the defendant refused to change its name.¹²⁴

This case shows that the orthodox view that China does not properly protect the well – known trademarks of foreign producers is not completely correct. Starbucks Corp. vs. Shanghai Xingbake Coffee Corp. case is one of the examples that China fulfills its obligations to protect unregistered well – known trademarks under the article 6bis of Paris Convention. China does not make judicial decisions based on the case law, but the fact of the recognition of unregistered trademark as a well – known and its protection should be considered as a good start for successful law – enforcement in sphere of intellectual property rights. The lesson, for foreign well – known trademark owners, that should be learned from this case is the importance of registration of translation of well – known trademark. It should be done as soon as the brand enters the Chinese market because otherwise the Chinese version of well – known trademark might be used by someone else and there might not be guarantees that the court will rule for the original owner of the mark.

China is making steps to make the law - enforcement mechanisms of well – known trademark protection more effective. The country became the member of Paris Convention,

¹²¹ Jing "Brad" Luo and ShubhaGhosh, “*Protection and Enforcement of Well-Known Mark Rights in China: History, Theory and Future*”, *Northwestern Journal of Technology and Intellectual Property* 7, no. 2 Spring 2009, at 148

¹²² *Id.*

¹²³ *Id.*, at 148

¹²⁴ *Id.*, at 149

Madrid Agreement, Madrid Protocol and what is more important – the member of WTO that required China to review its legislation and to make it in accordance with the TRIPS Agreement. Thus, the local laws such as Trademark Law, Civil and Criminal Laws are modified.

Moreover, the foreign right holders may use Chinese local state bodies – SAIC and GAC, to register their brands or courts to restore the right of ownership in case of violations. In case of the latter, the owner of the well – known trademark has to bring evidence to prove that the brand is ‘well – known’. If the mark is not registered in China, it will be difficult to prove the right of ownership as it was in the case *‘Ferrari vs. JiaJian’*. Also, it is highly recommended to translate the brand into Chinese in order to avoid the disputes, similar to those in the case *‘Starbucks Corp. vs. Shanghai Xingbake Coffee Corp.’*.

Conclusion

The Chinese' reputation as a country of pirated and counterfeit goods is a result of the right holders' mistakes, poor quality of law- enforcement, cultural and judicial differences in well – known trademark protection. Governmental authorities are not the only reason for infringements of the right of ownership over the famous brands, but it is also the liability of the right holders themselves. Before starting business in China, they should attentively study the peculiarities of the legal system of the country. The first – to – file system used in China is one of the barriers to the successful protection of the well- known trademarks, but it is the responsibility of the trademarks owner to be aware of it. Indeed, the system is not beneficial for the right holders in case if they have not registered the famous brand yet. The problem is that it could be done by an entity of China and successfully used to produce the goods. The right of ownership is violated but now always protected by the Chinese authorities.

China is trying to solve the problem by modifying its laws and regulations. It made a big step towards the proper protection of well – known trademarks by joining the WTO. Being a member of World Trade Organization, China could use TRIPS agreement that grant the adequate protection of famous brands. Moreover, the People's Republic of China became the party to Paris Convention. The Convention grants protection to unregistered well – known trademarks and requires the member states to fulfill the obligations by protecting the well – known trademarks that lack the registration in Chinese Trademark Office. However, a gap remains in the Paris Convention and the TRIPS agreement. The former protects unregistered well – known trademarks that could be copied to produce the similar goods and the latter – both similar and not similar that was registered. However, unregistered but not similar goods are not under the protection of neither of the international tools. That was the problem in Ferrari vs. Jiajian case and that was the reason of the plaintiff failure to restore the right of

ownership. That is why, the protection of unregistered but not similar goods should be included in the Trademark Law of China because that will eliminate the gap and grant the protection.

Indeed, the situation in China is not going to be changed at once but the cooperation of government authorities and population of China will reduce the number of cases of piracy and counterfeit.

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