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YOU SAY, “普拉达” I SAY, “COUNTERFEIT”: THE PERILS OF CIVIL LITIGATION AS A
TRADEMARK PROTECTION STRATEGY IN CHINA

TRICIA M. BRAUER

ABSTRACT

Over the past century, China has been depicted as being solely to blame for the world’s most serious commercial piracy problem. But this characterization is not entirely China’s fault. Multinational corporations and international brand owners in China have adopted a flawed approach to combating trademark infringement that is actually making the problem worse within Chinese walls. Companies and brand owners have primarily implemented one dimensional, enforcement only approaches that rely specifically on litigation as a means to curb counterfeiting and trademark infringement. Since 2001, China has made substantial strides in the laws governing trademarks and has trended toward positive treatment of international brand owners in its civil courts. However, judicial enforcement is still plagued by a plethora of issues, including lack of judicial independence, difficulty in enforcing judgments, and inadequacy of penalties, rendering an enforcement only approach to be virtually futile. This comment addresses how the current reliance on litigation as a trademark enforcement strategy and means to curb counterfeiting by corporations and brand owners is wholly ineffective. Additionally, this comment proposes alternative and preventative strategies, which may prove useful for international companies and brand owners in protecting their trademarks from infringement and from counterfeiting in China.

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INTRODUCTION

On vacation, most people choose to bask on beaches of Rio, conquer the slopes of Switzerland, or scale the sacred stairs of Machu Picchu. However, some people vacation solely to hear “Hey pretty lady, you want Louis Vuitton...Coach...Prada?” This is the siren’s song of counterfeiters everywhere. The Silk Market in Beijing. Luohu Commercial City in Shenzhen. Fengshine Plaza in Shanghai. Something all these places have in common is that guidebooks and tourists alike consider them vacation hotspots to purchase counterfeit copies of famous brands, like MAC, Apple, and Burberry. Over the past decade, these retail hubs of counterfeit goods have survived and thrived despite the combined efforts of the Chinese government, multi-national corporations, brand owners, and the lawyers that represent them.¹ Today, China remains the single largest producer of counterfeit goods in the world.²

The People’s Republic of China (“PRC” or “China”) is commonly depicted as being solely to blame for having the world’s most serious commercial piracy problem.³ However, China is not the lone proprietor.⁴ Multi-national corporations, brand owners, and the lawyers that represent them have adopted a flawed approach to combating trademark infringement, including counterfeiting in China, that is actually making the problem worse by “inciting a frenzy of counterfeiting at all-time new world highs.”⁵ Many companies and brand owners in China have adopted a one-dimensional approach that relies solely on enforcement, specifically litigation, as a

* © Tricia M. Brauer 2012. Tricia M. Brauer is a 2013 Joint J.D./LL.M. candidate in Intellectual Property Law at The John Marshall Law School. She received a B.A. in Sociology/Anthropology, International Studies & Sino-U.S. Business Relations from Denison University in 2010. She would like to thank her husband, Matt Larimore, her parents, sister and family for their infinite support, love and patience. She would also like to thank her editors Felisa Leisinger, Amanda Booth-Neidhardt, and Nicole Chaney for their extensive review, encouragement and contributions to this comment. Any mistakes in this article are her own.

¹ See generally David Kravets, *U.S. Signs International Anti-Piracy Accord*, WIRED.COM (Oct. 3, 2011, 3:35 PM), <http://www.wired.com/threatlevel/2011/10/united-states-signs-acta/> (implying that China’s lack of participation in revolutionary global intellectual property rights (“IPR”) protection treaties like the ACTA, gives the general impression that China, while interested in facially protecting IPR, is not interested in the actual practice).

² 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*, 15 MARQ. INTELL. PROP. L. REV. 325, 325 (2011); U.S. CUSTOMS & BORDER PROTECTION, INTELLECTUAL PROPERTY RIGHTS: FISCAL YEAR OF 2011 SEIZURE STATISTICS 15 (January 6, 2012), available at http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/ipr_communications/seizure/ipr_seizures_fy2011.ctt/ipr_seizure_fy2011.pdf (“China remains the primary source country for counterfeit and pirated goods.”).

³ Daniel C.K. Chow, *Anti-Counterfeiting Strategies of Multi-National Companies in China: How a Flawed Approach is Making Counterfeiting Worse*, 41 GEO. J. INT’L L. REV. 749, 750 (2010).

⁴ *Id.*

⁵ *Id.*

means to curb counterfeiting and trademark infringement.⁶ Although these companies and brand owners have had significant success in utilizing litigation in Chinese courts as a vehicle to protect their intellectual property rights (“IPR”) and assets, an “enforcement only” approach is overly legalistic, reactionary, and, ultimately, not very effective.⁷

This comment discusses how an enforcement-only approach, specifically focused on litigation, is an ineffective strategy to protect trademarks and curb counterfeiting in China. Part One provides a foundation for understanding counterfeiting laws, trademark laws, and enforcement schemes in China. Part Two analyzes why litigation is an ineffective trademark protection strategy despite the bevy of recent decisions by Chinese courts favoring brand owners. Part Three proposes alternative trademark enforcement and protection strategies to litigation, taking into account the cultural, historical, and legal perspectives of trademark law in China.

I. BACKGROUND

This section contextualizes why an enforcement only trademark protection strategy in China is ineffective. The harm created to brands by counterfeiting and trademark infringement is not mitigated by an enforcement only approach. Therefore, it is necessary to analyze counterfeiting and Chinese trademark law within its cultural, historical, and legal perspectives to advance an effective protection and enforcement strategy.

A. Counterfeiting in China

Counterfeiting is defined as the “unauthorized act by one party of producing and passing off exact duplicates of authentic products with trademarks owned by another party.”⁸ In the past two decades, counterfeit goods, or “knockoffs,” have flooded the international market.⁹ Today, knockoffs of brand products exist in almost every category of goods, including food, alcohol, cell phones, hair care products, medicine,

⁶ *Id.*

⁷ See generally TRADEMARK OFFICE/ TRADEMARK REVIEW & ADJUDICATION BD. OF STATE ADMIN. FOR INDUS. & COMMERCE, ANNUAL DEVELOPMENT REPORT ON CHINA’S TRADEMARK STRATEGY 2010, available at http://www.saic.gov.cn/sbjenglish/tz_1/201105/P020110513398780192223.pdf (illustrating trademark enforcement strategies and schemes, including judicial trademark enforcement, between 1999 and 2008).

⁸ Daniel C.K. Chow, *Counterfeiting in the People’s Republic of China*, 78 WASH. U.L.Q. 1, 9 (2000) (stating that there are no specific definitions of counterfeiting under Chinese law, but a number of different legal provisions that refer generally to trademark infringement and broadly encompass counterfeiting).

⁹ Chow, *supra* note 3, at 753 n.10; see generally *Sinking the Copyright Pirates: Global Protection of Intellectual Property: Hearing Before the H. Comm. on Foreign Affairs*, 111th Cong. 1 (2009) (statement of Timothy P. Trainer, President, Global Intellectual Property Strategy Center, P.C.) (encouraging government and the industry to conduct stronger and better IP enforcement actions against infringers).

and heavy machinery.¹⁰ Advances in technology and production techniques have made imitations perilously indistinguishable from the real thing, making it more difficult than ever before for the buyer and perhaps even the brand owner, to determine the authenticity of a particular item.¹¹

International companies are unable to compete with high quality cheap black market products and lose revenue as a result.¹² China, for example, sells billions of dollars in counterfeit goods every year to local consumers, tourists, and over the internet.¹³ This effect of counterfeiting is felt on a global scale.¹⁴ It is estimated that five to seven percent of worldwide trade is counterfeit.¹⁵ This in turn is “estimated to cost American industries alone between \$200 billion to \$290 billion.”¹⁶ Furthermore, brands are simultaneously threatened with losing exclusivity in the eyes of consumers.¹⁷

There is a high probability that individuals might lose interest in the legitimate versions of luxury items if they believe availability on the black market makes the good less exclusive.¹⁸ This may also occur if the consumer is confused by a poor quality counterfeit and believes the brand’s quality is declining.¹⁹ Loss of demand results in the decline of a particular item’s market price, which results in an “additional burden for the economically imperiled brand.”²⁰ The brand will then incur greater costs to curb counterfeiting even though sales and market shares are already lost to the black market.²¹

The origin of China’s counterfeiting problem can be attributed to China’s unprecedented economic development, simultaneous with the rise of consumer wealth and spending power, the development of well-known brands, and a commercial advertising industry.²² Additional contributing factors include

¹⁰ NAIM MOISES, ILLICIT: HOW SMUGGLERS, TRAFFICKERS, AND COPYCATS ARE HIJACKING THE GLOBAL ECONOMY 118 (2005).

¹¹ David M. Hopkins et al., *Imitating Property is Theft*, THE ECONOMIST, May 15, 2003, <http://www.economist.com/node/1780818>; see also Chow, *supra* note 8, at 10 (explaining that counterfeit products are often indistinguishable from the genuine product and will often bear the registered or unregistered trademark of another party along with the company name, address, and trade dress of the lawful manufacturer or trademark owner).

¹² See Chow, *supra* note 8, at 10.

¹³ Bob Orr, *Counterfeit Goods from China a Continuing Problem that Costs Billions a Year*, CBS NEWS (May 11, 2012, 7:04 PM), http://www.cbsnews.com/8301-18563_162-57433030/counterfeit-goods-from-china-a-continuing-problem-that-costs-billions-a-year/.

¹⁴ Chow, *supra* note 3, at 753 (reporting the United States, Japan, and the European Union reported over 80,000 seizures of shipments of counterfeit and infringing goods by customs authorities in recent years, resulting in worldwide losses of \$650 billion).

¹⁵ *About Counterfeiting*, INT’L ANTI-COUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/> (last visited Sept. 10, 2012).

¹⁶ Ellie Mercado, *As Long as “It” is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 135 (2010).

¹⁷ *Id.*

¹⁸ *Id.* (illustrating that in certain instances, the consumer is aware that the goods purchased are counterfeit especially when dealing with clothing, shoes, and handbags).

¹⁹ *Id.*

²⁰ *Id.*

²¹ *In re Aimster*, 334 F.3d 643, 650 (7th Cir. 2003).

²² *Id.* (alluding that unprecedented economic development, combined with the rise of consumer wealth and spending power, helped create and solidify the market for luxury goods); Stanley B.

unemployment caused by reforms in the state sector and the Asian economic crisis.²³ Contextually, the counterfeiting problem in China is not uncommon. All economies at some point have encountered counterfeiting problems during some stage of development.²⁴ However, the magnitude of China's counterfeiting problem is unprecedented in world history.²⁵

B. Trademarks in China

1. Cultural Context of Trademarks

The notion of trademark rights is relatively new in China.²⁶ Despite being a creative and inventive society in many disciplines for thousands of years, IPR have been surprisingly absent from China's history.²⁷ Until 2001, "the protection of trademarks and intellectual property was not a primary concern for the Chinese government."²⁸ As such, trademark laws were not created based on demand from the Chinese people to protect their rights.²⁹ Instead, they were "triggered by constant pressure from the United States to protect the intellectual property rights of brand owners and multi-national corporations trying to do business in China."³⁰

Lubman, *Dispute Resolution in China After Deng Xiaoping: "Mao and Meditation" Revisited*, 11 COLUM. J. ASIAN L. 229, 241 n.32 (1997) (summarizing China's economic growth at nine percent per annum).

²³ Joseph Kahn & Craig S. Smith, *Unemployment Boosts Tensions in China—In the Cities, Idle Workers Vie with Rural Newcomers*, WALL ST. J., Feb. 6, 1995, at A8 (stating that state enterprise reform is one cause of soaring unemployment, thus creating the need for individuals to create personal revenue through alternative means, i.e. the black market).

²⁴ Chow, *supra* note 8, at 9 (stating that the counterfeiter—who has no investment costs—essentially engages in theft by benefiting from the brand's goodwill by the unauthorized use of the trademark); *see also* Chow, *supra* note 3, at 752–53 (illustrating that the issue of counterfeiting first surfaced in the late 1990s as China's economy began to absorb large amounts of foreign investment, capital, and technology, which allowed China to misappropriate technology).

²⁵ Anne M. Wall, *Intellectual Property Protection in China: Enforcing Trademark Rights*, 17 MARQ. SPORTS L. REV. 341, 342 (2006); *see also* OFFICE OF THE U.S. TRADE REPRESENTATIVE, 2008 SPECIAL 301 REPORT, 19 (2008) [hereinafter 2008 SPECIAL 301 REPORT], *available at* http://www.ustr.gov/sites/default/files/asset_upload_file553_14869.pdf (illustrating the United States' constant frustration with China's inability to protect IPR specifically by putting China on the Priority Foreign Country Watch List for epidemic infringements of IPR for consecutive years from 2005 to 2010); Hoover, *supra* note 2, at 326 (explaining that China continues to be the most notorious and singled-out country for piracy and counterfeiting practices).

²⁶ Robert H. Hu, *International Legal Protection of Trademarks in China*, 13 MARQ. INTELL. PROP. L. REV. 69, 72–73 (2009); *see* Hoover, *supra* note 2, at 343–44.

²⁷ DEIXIN TIAN, *THE CHINESE CULTURAL PERCEPTIONS OF INNOVATION, FAIR USE, AND THE PUBLIC DOMAIN: A GRASS-ROOTS APPROACH TO STUDYING THE U.S.-CHINA COPYRIGHT DISPUTES* 17 (Dec. 2008) (unpublished Ph.D. dissertation, Bowling Green State University).

²⁸ Donald P. Harris, *The Honeymoon is Over: The U.S. China WTO Intellectual Property Complaint*, 32 FORDHAM INT'L L.J. 96, 103 (2009).

²⁹ Jennifer A. Crane, *Riding the Tiger: A Comparison of Intellectual Property Rights in the United States and the People's Republic of China*, 7 CHI.-KENT J. INTELL. PROP. 95, 96 (2008).

³⁰ Hoover, *supra* note 2, at 343.

Under Chinese imperial rule, emperors used Confucian values to “legitimize their governmental regime and their own authority.”³¹ Confucianism acted as an ethical code and served as a template for the behavior of the Chinese people for thousands of years.³² Confucian ideology focused primarily on the passing down of intellectual works for others to build and improve upon and “strongly encouraged imitation of teachers as a way of learning, loyalty to masters, and subordination of individual interests to the social good.”³³ These beliefs culminated in the ultimate state ideology: the peoples’ interest is first.³⁴ The family was considered the social and political community and legal obligations stemmed from that relationship.³⁵ Comparatively, Western laws and customs regulated social and economic rights of the individual.³⁶ Therefore, individualistic concepts like IPR and private ownership remain to a certain extent, contrary to the Chinese way of life.³⁷

Up until the late 1980s, China and its people did not view IPR violations as “taking away” of one’s individual rights.³⁸ Sharing, copying and infringing conduct was highly valued and considered perfectly acceptable.³⁹ This school of thought was firmly engrained in the Chinese people during the Maoist era, when the Communist party coined the collectivist mentality: “What was good for the group was good for the individual.”⁴⁰ Therefore, external laws were rarely used and were disapproved of by society as a mode of governance.⁴¹ Based on Confucian “ideals, external laws were mostly used where self regulation failed to provide an adequate remedy.”⁴² Accordingly, most Chinese people viewed lawsuits as bad luck, or even evil.⁴³

³¹ Shin-yi Peng, *The WTO Legalistic Approach and East Asia: From the Legal Culture Perspective*, 1 *ASIAN-PAC. L. & POL’Y J.* 13, 9 (2000) (illustrating how Confucianism served as a guide for Chinese peoples’ behavior from the sixth century B.C. to the middle of the twentieth century).

³² Dali Yang, *The Development of Intellectual Property in China*, 25 *WORLD PAT. INFO.* 131, 134 (2003).

³³ Brian Fitzgerald & Lucy Montgomery, *Copyright and the Creative Industries in China*, 9 *INT’L J. CULTURAL STUD.* 407, 408 (2006); *see also* TIAN, *supra* note 27, at 50 (supporting the proposition that Confucianism strongly encouraged the imitation of teachers as a way of learning).

³⁴ Hoover, *supra* note 2, at 344.

³⁵ Peng, *supra* note 31, at 12.

³⁶ *Id.*

³⁷ Angela Mia Bean, *Piracy of American Intellectual Property in China*, 4 *J. INT’L L. & PRAC.* 335, 339 (1995).

³⁸ Hoover, *supra* note 2, at 344.

³⁹ *Id.*

⁴⁰ TIAN, *supra* note 27, at 50–51; *see also* Hoover, *supra* note 2, at 344 (“[W]ork products were collectively owned by the state for the good of society.”). What was good for the group was considered equally as beneficial for the individual. *Id.* As such, individuals would regulate themselves and others within the community. *Id.* This mode of self-governance helped to regulate morality and propriety in China. *Id.*

⁴¹ *See* Hoover, *supra* note 2, at 345.

⁴² *Id.* at 344.

⁴³ *Id.* at 345 (explaining that public apologies are often mandated by Chinese courts in many actions for trademark infringement because the public acknowledgments of a wrong will “create such an embarrassment that it will serve as a future deterrent”).

2. Historical Context of Trademarks

The first trademark law in China was issued in 1963.⁴⁴ However, the law did not provide trademark ownership rights.⁴⁵ It merely ensured Government control over the “manufacturing units by requiring the quality of a product to coincide with the trademark registration.”⁴⁶ In 1982, the 1963 law was amended in order to “improve management of trademarks, to protect exclusive rights of trademark owners and to encourage manufacturers to guarantee the quality of their goods and maintain the reputation of their trademarks.”⁴⁷ Enforcement of the 1982 law was often ineffective because China had tolerated lax enforcement of its trademark laws “under the belief that it was in the national interest and Chinese consumers benefited.”⁴⁸

The law was again amended in 1993 and shifted its focus to provide trademark owners actual rights in their marks.⁴⁹ It was amended primarily for two reasons. First, China wanted to be more active in international trade.⁵⁰ Second, the United States forced China to enter into agreements that provided stronger trademark protection under “threat of the imposition of costly trade sanctions.”⁵¹ However, despite these efforts, China's trademark law did not coincide with United States law or international treaties.⁵²

⁴⁴ Naigen Zhang, *Intellectual Property Law in China: Basic Policy and New Developments*, 4 ANN. SURV. INT'L & COMP. L. 1, 5 (1997); see also Alisa Cahan, *China's Protection of Famous and Well-Known Marks: The Impact of China's Latest Trademark Law Reform on Infringement and Remedies*, 12 CARDOZO J. INT'L & COMP. L. 219, 224 (2004) (noting that China's first trademark law, promulgated in 1963, did not provide ownership rights).

⁴⁵ See Zhang, *supra* note 44, at 5–6.

⁴⁶ CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA Dec. 4, 1982, available at <http://english.peopledaily.com.cn/constitution/constitution.html> (demonstrating that this version of the Constitution is still valid despite amendments in 1988 and 1993).

⁴⁷ Cahan, *supra* note 44, at 224; see also Trademark Law of the People's Republic of China, (promulgated by the Standing comm. Fifth Nat'l People's Cong., Aug. 23, 1982, effective March 1, 1983), translated in CHINA L. FOREIGN BUS. 11 (P.R.C) [hereinafter Trademark Law P.R.C. 1982] (explaining generally the reasoning behind the 1983 amendments); PETER FENG, INTELLECTUAL PROPERTY IN CHINA 296 (2d ed. 2003) (illustrating that the Trademark Office (“TMO”) was given the task of “recentralizing trademark registration” and the Trademark Review Board (“TRB”) was given “exclusive jurisdiction to review and adjudicate inter alia all disputes over the validity of registration”).

⁴⁸ Rory J. Radding, *Enforcement of the Trademark Law in China*, 11 INT'L L. PRACTICUM 5, 7 (1998) (explaining that lax trademark enforcement provided China with “cheap access to goods and expensive technology . . . enhanced the nation's foreign exchange posture by lessening the drain of foreign intellectual property royalties and repatriation of profits, promoted domestic employment in the piracy industry and enhanced export revenues via pirated goods”).

⁴⁹ *Implementation Regulations for the Trademark Law of the People's Republic of China*, translated in CHINA L. FOREIGN BUS., 11-510 (July 28, 1993).

⁵⁰ Cahan, *supra* note 44, at 224.

⁵¹ FENG, *supra* note 47, at 296–97 (noting that the United States used “Special 301” provisions to designate China as a priority foreign country and whether or not it protected intellectual property rights).

⁵² See generally *id.* at 296–99 (alluding to the fact that China's trademark law failed to comply with TRIPS, barring China's entrance into the WTO and limiting China's opportunities to trade with the United States).

3. *International Compliance and Current Trademark Law*

By the late 1990s it was clear that China’s negotiations with the World Trade Organization (“WTO”) would require a third revision of the Chinese trademark law to comply with the Agreement of Trade-Related Intellectual Property Rights (“TRIPS”) standards and obligations.⁵³ After some debate, the revisions were adopted on October 27, 2001 and became effective that December.⁵⁴ The 2001 Chinese Trademark Law conforms more closely with international practice standards, and has made several notable changes.⁵⁵

Under China’s previous trademark law, “applicants for trademark registration were limited to enterprise and institutional units and ICHs.”⁵⁶ Article 96 of the General Principles of Civil Code 1986 extended “trademark proprietorship to legal persons, ICHs and individual partnerships.”⁵⁷ However, the 1993 revision ignored this extension. China’s 2001 revision allows natural persons as well as legal persons and other organizations to apply for registration.⁵⁸

Additionally, the 2001 revision instituted judicial review of all TRB decisions including those concerning the validity of trademark registration.⁵⁹ Initially, the State Administration for Industry & Commerce (“SAIC”) opposed the wide scope of discretion given the judiciary.⁶⁰ However, the SAIC was eventually forced to acquiesce by Chinese courts.⁶¹ With SAIC opposition out of the way, the Chinese courts were able to play a larger role in protecting and enforcing trademarks.⁶²

⁵³ Dong Baolin, *Thoughts on the Second Revision of the Trademark Law*, CPT 2, 38–40 (1999).

⁵⁴ *Id.*

⁵⁵ Compare GORDON C.K. CHEUNG, *INTELLECTUAL PROPERTY RIGHTS IN CHINA: POLITICS OF PIRACY, TRADE AND PROTECTION* 87–88 (2009) (discussing the trademark regime in China), with 2008 SPECIAL 301 REPORT, *supra* note 25, at 19 (noting that although China has made “welcome progress” in many of the areas of IPR enforcement, it still remains a top IP enforcement and TRIPS compliance priority for the United States).

⁵⁶ Trademark Law P.R.C. 1982, *supra* note 47 (stating that individual citizens could not apply for registration).

⁵⁷ FENG, *supra* note 47, at 299.

⁵⁸ Trademark Law of the People’s Republic of China (promulgated by the Standing Comm. Fifth Nat’l People’s Cong. Oct. 27, 2001, effective Oct. 27, 2001, translated by China IPR Law, available at <http://www.giprs.org/node/20> [hereinafter Trademark Law P.R.C. 2001] (stating that the 2001 trademark laws were designed to accept all “visually perceptible signs” to be trademarks, including charters, designs, letters, numerals, three-dimensional signs, combinations of colors as well as any combination thereof, adding provisions and directives to make infringement more clear).

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.* (stating that the Supreme People’s Court (“SPC”) brushed off the Trademark Review Board’s (“TRB”) assumed exclusive jurisdiction over trademark ownership disputes and holding that a TRB decision on the registration of a mark was final only with regard to any direct challenge to the registration).

⁶² *Improvements for Chinese Patent and Other IP Protections*, CHINA COM. L. FIRM (Jan. 20, 2011, 11:21 AM), <http://www.chinalawfirms.cn/practice-areas/intellectual-property/ip-protection/801-improvements-for-chinese-patent-and-other-ip-protections.html>.

II. ANALYSIS

In the field of intellectual property, China has come a long way in a very short period of time.⁶³ In the past twenty years, China has experienced an unprecedented transformation of its legal system to protect trademarks.⁶⁴ In order to respond to the rapid economic growth that has attracted foreign businesses and pressure from the global economy, China took major steps to provide this protection.⁶⁵ First, China modernized its economy by embracing Western market-based principles.⁶⁶ Second, China launched major economic reforms that have overhauled its legal system, including intellectual property law.⁶⁷ Most importantly however, China has made reforms to its judicial system to provide a means of enforcement by engaging its courts actively in enforcing trademark laws⁶⁸ and adjudicating trademark and other IPR disputes.⁶⁹

One of the major changes made by the 2001 Amendment to the PRC Trademark Law was the transfer of final review of decisions to the Trademark Review and Adjudication Board from the administrative branch to the judicial departments.⁷⁰ As a reflection of the court's new role, new systems of judicial oversight began to emerge.⁷¹ In order to comply with TRIPS, as cited within the 2001 Amended Trademark Law, administrative orders were no longer final but may receive judicial review.⁷² This type of jurisdictional overlap often results in "the hoarding of oversight and power" not simply relegated to the relationship between the administrative departments and the judiciary.⁷³ However, this does not take away from the fact that allowing the judiciary final review of administrative decisions is a step of epic proportions for intellectual property rights in China.⁷⁴

In 1993, to accommodate for the expansive undertaking of final judicial review, the Intellectual Property Rights Tribunal became the first Chinese court to adjudicate intellectual property issues.⁷⁵ Despite the fact that both business and

⁶³ *Id.*

⁶⁴ Cheung, *supra* note 55, at 87.

⁶⁵ Hu, *supra* note 26, at 76.

⁶⁶ John R. Allison & Lianlian Lin, *The Evolution of Chinese Attitudes Towards Property Rights in Invention and Discovery*, 20 U. PA. J. INT'L. ECON. L. 735, 786–87 (1999).

⁶⁷ Scott A. McKenzie, *Global Protection of Trademark Intellectual Property Rights: A Comparison of Infringement and Remedies Available in China Versus the European Union*, 34 GONZ. L. REV. 529, 531 (1998).

⁶⁸ *Id.* at 552–53.

⁶⁹ Hu, *supra* note 26, at 76.

⁷⁰ *WTO Accession: Trademark Law Amended to Better Protect Famous Brands*, HONG KONG TRADE DEV. COUNCIL (Nov. 15, 2001), <http://info.hktdc.com/alert/cba-e0111d.htm>.

⁷¹ *Id.*

⁷² See Trademark Law P.R.C. 2001, *supra* note 58.

⁷³ Breann M. Hill, *Achieving Protection of the Well-Known Mark in China: Is There a Lasting Solution?*, 34 U. DAYTON L. REV. 281, 296 (2009).

⁷⁴ *Id.*

⁷⁵ Jessica Jiong Zhou, *Trademark Law & Enforcement in China: A Transnational Perspective*, 20 WIS. INT'L L.J. 415, 431 (2002) (stating the proposition that the Intellectual Property Rights Tribunal was created by the Beijing Intermediate People's court and was the first to be devoted solely to intellectual property.); see also Jessica C. Wong, *The Challenges Multinational Corporations Face in Protecting Their Well-Known Trademarks in China*, 31 BROOK. J. INT'L L. 937, 968 (2006) (illustrating that similar intellectual property courts have been established in Shanghai,

legal commentators alike often question the independence of the Chinese judiciary⁷⁶, the creation and implementation of intellectual property rights tribunals throughout China is an indication that the government recognized the need for the guidance of a highly specialized court for the intellectual property community.⁷⁷ Additionally in 1993, China opened the China Intellectual Property Training Center (“CIPTC”) in order to train government officials of all levels, including judges, who have minimal experience in mitigating intellectual property disputes.⁷⁸ The formalized training for intellectual property officials and increased funding from the government created a specialized judiciary, which administers a stronger form of enforcement than it once, did.⁷⁹ The best proof of this is the increasing number of judicial victories for international brand owners trying to conduct business in China.⁸⁰

Tianjin, Guangzhou, Fujian Province, Jiansu Province, Hainan Province, and the Special Economic Zones).

⁷⁶ George O. White III, *Enter the Dragon: Foreign Direct Investment Laws and Policies in the P.R.C.*, 29 N.C. J. INT’L L. & COM. REG. 35, 35 (2003).

⁷⁷ See *Courts of Appeals*, U.S.

CTS, <http://www.uscourts.gov/FederalCourts/UnderstandingtheFederalCourts/CourtofAppeals.aspx> (last visited Dec. 29, 2012) (illustrating that the U.S. Court of Appeals has the power to preside over patent cases, which is similar to the Chinese intellectual property tribunals’ power to hear particularized IP subject matter).

⁷⁸ Li Yuguang, Deputy Comm’r for the State Intellectual Prop. Office of the People’s Republic of China, Address at the University of Dayton Rio Symposium: The Current Situation and the Challenges of IP Training in China (Mar. 21, 2007), *available at* http://www.wipo.int/export/sites/www/academy/en/ipacademies/rio_symposium/presentation_dr_li.pdf (illustrating that The John Marshall Law School is part of the International Cooperation component of CIPTC, educating Chinese nationals and practitioners on the importance of intellectual property protection through the J.D. and LL.M programs).

⁷⁹ Andrew Evans, *Taming the Counterfeit Dragon: The WTO, TRIPS and Chinese Amendments to Intellectual Property Laws*, 31 GA. J. INT’L & COMP. L. 587, 588 (2003) (establishing that the new specialized judiciary has more funds and technical training allocated to it for intellectual property protection and enforcement than state administrative agencies).

⁸⁰ *CIELA Summary Report: Trend by Year*, CHINA IP LITIG. ANALYSIS, <http://www.ciela.cn/Search/TrendByYearResult.aspx?pageId=1&ppId=2&language=en&city=&court=&mainType=Trade+Mark&subType=&cause=Infringement&industry> (last visited Dec. 28, 2012) (illustrating the trends in trademark litigation in Chinese courts from 2006–2009).

CIELA Summary Report: Trend By Year (Trademark Infringement)

Year	Average Damages Claim	Average Damages Awarded	Ratio	Total Number of Judgments	Outcome W P L	Average Costs Claimed
2009	260,320	69,287 (121)	27%	219	53%/37%/10%	\$9953
2008	276,260	88,670 (147)	32%	266	25%/62%/13%	\$13,032
2007	452,917	132,007 (157)	29%	301	11%/76%/13%	\$11673
2006	481,993	139,129 (205)	29%	346	&%/76%/17%	\$11673

In the past ten years under these new reforms inspired by TRIPS and 2001 Amendments to the Trademark Law, major brand owners have been increasingly successful in litigating disputes in Chinese courts.⁸¹ From 2007 to 2009, the number of victories in trademark infringement and counterfeiting cases doubled each year.⁸² Additionally, many major luxury brand owners have had significant success in litigating large, highly publicized trademark infringement/counterfeiting cases in Chinese courts.⁸³ Several of these cases specifically provide insight as to why many foreign companies have become more reliant on the judiciary to correct injustices and systemic inadequacies within the Chinese trademark system.⁸⁴

A. Rolex v. CINET Information Corp.

In September 2002, the Beijing No. 2 Intermediate People's Court⁸⁵ made its first decision in an Internet domain name infringement case and found in favor of the famous brand "Rolex."⁸⁶ Montres Rolex ("Rolex") obtained Chinese trademark

⁸¹ *Id.*

⁸² *Id.* (illustrating the percentage of litigation wins in Chinese courts from 2006–2009).

CIELA Summary Report Trend by Year: Outcome

Year	Win
2009	53%
2008	25%
2007	11%
2006	7%

⁸³ See *Swiss Montres Rolex S.A. (Montres Rolex) v. Beijing CINET Information Co.*, Beijing Intermediate People's Court, September 20, 2002, English translation available at <http://www.ccpit-patent.com.cn/News/2001110701.htm> (indicating that Chinese courts were trending towards applying the standards laid out in TRIPS and Chinese trademark law); Zhang Yong, *Starbucks Sues Over Trademark Infringement*, CHINA DAILY, Feb. 16, 2004, http://www.chinadaily.com.cn/english/doc/2004-02/16/content_306362.htm (marking the first decision made by a local Chinese court on infringement of a well-known mark under revised trademark law); CHINA PATENT AGENT (H.K.) LTD., 100 HIGH-PROFILE CASES IN CHINA (CASE BRIEFS) 295–98 (Wang et. al eds. 2009) (illustrating one of the first instances that Chinese courts were willing to liberally construe the law to protect the interests of foreign major brand owners); *Sichuan Softbill Auction Ltd. v. Sotheby's Auction*, No. 324 (Beijing Higher People's Ct., Aug., 2008), <http://www.flssw.com/caipanwenshu/info/1837429/>.

⁸⁴ Hill, *supra* note 73, at 296.

⁸⁵ Zhai Jianxiong, *Judicial Information of the People's Republic of China: A Survey*, LLRX.COM (Sept. 30, 2002), <http://www.llrx.com/features/chinajudicial.htm> (noting that China's judicial system consists of four levels: the Basic People's Court, the Intermediate People's Court, the Higher People's Court, and the Supreme People's Court). As is the case in the United States, the Supreme People's Court is the highest court in China, handling not only appeals, but also issuing judicial interpretations that are legally binding upon lower courts. *Id.* Each province and major city in China has a Higher People's Court, and each major city has one or two Intermediate People's Courts. Basic People's Courts exist at the level of each county in every major city. *Id.* China has a "two-instance" judicial system, which means that the decisions of the court of first instance can be appealed to the court at the next level, which is usually the final decision. *Id.*

⁸⁶ *Swiss Montres Rolex S.A. (Montres Rolex) v. Beijing CINET Information Co. Ltd.*, Beijing Intermediate People's Court, September 20, 2002, English translation available at <http://www.ccpit-patent.com.cn/News/2001110701.htm>.

registrations of “Rolex,” 劳力士 (Rolex in Chinese), and Rolex’s crown symbol in 1992.⁸⁷ They subsequently launched campaigns to promote their products.⁸⁸ However, when they later attempted to obtain registration in the domain name field, Rolex was unable to do so because of a preemptive registration by CINET of rolex.com/cn.⁸⁹

The court forced Beijing’s CINET Information Corporation to cancel its registration of rolex.com/cn and compensate Montres Rolex in the amount of 10,000 RMB (roughly \$1,300 U.S. Dollars).⁹⁰ It held that the “Rolex” trademark had achieved a high reputation in China and CINET’s act was “very likely to cause confusion to the public between the holder of the domain name rolex.com/cn and the actual owner of the registered mark.”⁹¹ As such, allowing CINET to keep the domain name would violate the basic principles of honesty, credit and would constitute unfair competition.⁹² The decision of the Beijing Intermediate Court in this case acts as a positive sign that courts are finally diligently applying the standards laid out in the TRIPS Agreement and Chinese Trademark law⁹³ and would continue to do so in subsequent cases.⁹⁴

B. Starbucks Co. and Shanghai Unified Coffee, Ltd. v. Shanghai Xingbake Coffee, Ltd.

In the highly publicized case, *Starbucks Co. and Shanghai Unified Coffee, Ltd. v. Shanghai Xingbake Coffee, Ltd.*, Chinese courts recognized, for the first time, the use of a phonetically similar mark to another’s trademark on a similar product or service as grounds for trademark infringement.⁹⁵ Starbucks alleged this type of trademark infringement in their suit against a Shanghai coffeehouse in December 2003.⁹⁶ The two coffeehouses share the same three characters: 1) *xing*; 2) *ba*; and 3) *ke*, in Chinese pinyin.⁹⁷

Starbucks launched its chain of coffee houses in Taiwan in 1998 and subsequently authorized a Taiwanese company, The President Group, to operate the business in China.⁹⁸ The business registered “XINGBAKE” as their Chinese name, and later opened coffeehouses using that name in Taiwan and Hong Kong.⁹⁹ In May 2000, Starbucks and The President Group jointly established the Shanghai President Starbucks Shareholding Company and attempted to register the “XINGBAKE” mark with local authorities.¹⁰⁰ However, their attempt to register the mark failed because

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ Cahan, *supra* note 44, at 236.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ Wong, *supra* note 75, at 953.

⁹⁶ *Id.*

⁹⁷ See Yong, *supra* note 83 (clarifying that in Chinese “xing” means “star” and “ba-ke” phonetically sounds like “bucks”).

⁹⁸ Wong, *supra* note 75, at 953.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

Shanghai Xingbake registered the enterprise name in March 2000.¹⁰¹ Although Starbucks had not formally entered the Shanghai market at that time, “Xingbake” had been used in Taiwan as an “alternate” name for Starbucks since 1998.¹⁰²

After several unsuccessful attempts to reach an out of court settlement and receiving nominal relief from administrative protection, Starbucks filed suit against Shanghai Xingbake.¹⁰³ Citing potential consumer confusion, trademark infringement and bad faith, Starbucks demanded that Shanghai Xingbake cease and desist using the “Xingbake” trademark as well as its logo, which was similar in coloring and design to Starbucks’ own.¹⁰⁴ On these claims, Starbucks sought damages of 500,000 yuan (U.S. \$62,500), the maximum amount of damages allowable under the 2001 Revision of the P.R.C. Trademark law.¹⁰⁵ After months of delay, the court “handed down a decision finding that Shanghai Xingbake had engaged in unfair competition” and forced Shanghai Xingbake to stop using “xingbake” and to pay 500,000 RMB/yuan to Starbucks.¹⁰⁶

This decision is particularly important because it was the first decision made by a local court on infringement of a well-known mark under the revised trademark law.¹⁰⁷ A trademark is of greater importance “than a trade or company name under Chinese law.”¹⁰⁸ Major brand owners like Starbucks have invested “heavily into building their brands.”¹⁰⁹ When infringement of these famous marks occurs, the integrity of the brand is at stake.¹¹⁰ This decision sends a positive message to foreign companies and major brand owners attempting to navigate the murky waters of the Chinese market. Many foreign corporations openly “criticized Chinese courts for their favoritism of the local party in infringement actions, but this decision appears to suggest that the tides may be turning.”¹¹¹ Now the domestic corporation has its turn at alleging mistreatment by the People’s court.¹¹² As such, this victory may appear to

¹⁰¹ *Id.* at 254–55.

¹⁰² Yong, *supra* note 83.

¹⁰³ *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, EUROPEAN INTELLIGENCE WIRE, Aug. 6, 2003, available at http://www.accessmylibrary.com/coms2/summary_0286-24075234_ITM (noting that Shanghai Xingbake had plans to open an additional thirty to fifty franchise outlets in downtown Shanghai); see also Toh Han Shih, *Starbucks Sues in Shanghai Cafe Sign Spat*, SOUTH CHINA MORNING POST, Jan. 31, 2004, <http://www.scmp.com/article/442816/starbucks-sues-shanghai-cafe-sign-spat> (explaining that Shanghai Xingbake failed to object the order from the Shanghai AIC, requesting that they remove any signs, logos, and names similar to Starbucks).

¹⁰⁴ Shih, *supra* note 103.

¹⁰⁵ Wong, *supra* note 75, at 955.

¹⁰⁶ Yin Ping, *Judge Rules for Starbucks in Copyright Violation Case*, CHINA DAILY, Jan. 2, 2006, http://www.chinadaily.com.cn/english/doc/2006-01/02/content_508672.htm (stating that the court imposed liability on the premise that Shanghai Xingbake engaged in unfair competition by using the Chinese translation of Starbucks in its company name and by using a similar design logo for its cafes).

¹⁰⁷ Wong, *supra* note 75, at 956.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.* at 954–55.

¹¹⁰ Shih, *supra* note 103.

¹¹¹ Wong, *supra* note 75, at 958.

¹¹² Amy Gu, *Coffee Shop Appeals on Starbucks Trademark*, THE STANDARD, Jan. 19, 2006, http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=10237&sid=6291676&con_type=1&d_str=20060119&fc=7 (stating that Shanghai Xingbake’s attorney argued that “the court was

be strong sign that Chinese courts are treating foreign and domestic parties alike after years of differential treatment.

C. Beijing Xiushui Street Garments Market Co., Ltd. v. French Chanel, et al

In the pivotal case *Beijing Xiushui Street Garments Market Co., Ltd. v. French Chanel, et al.*,¹¹³ Chanel had acquired trademark rights to the work mark and design marks of CHANEL in 2001.¹¹⁴ In May 2005, Chanel was alerted that counterfeit products were being sold in the Xiushui Street Apparel Market (“Xiushui Market”).¹¹⁵ Chanel proceeded to buy a counterfeit bag with a CHANEL logo in a shop at the mall with notarization.¹¹⁶ It proceeded to follow up with cease and desist letters informing the mall of the infringing activities and demanded that those activities immediately stop.¹¹⁷ The mall, along with the directly infringing vendor, refused and Chanel subsequently filed suit in the Second Intermediate People’s Court of Beijing.¹¹⁸

In affirming the first instance decision for Chanel,¹¹⁹ “the Higher People’s Court of Beijing demonstrated its willingness to apply the doctrine of contributory trademark infringement in favor of the trademark owner.”¹²⁰ The 2001 Revision of the Trademark Law does not explicitly address contributory liability. The Higher People’s Court “invented” the doctrine by liberally construing Article 130 of the General Principles of Civil Law and Articles 50 and 52 of the 2001 Revised Trademark Law.¹²¹ This creative approach to interpreting the law promoted the

way too nice to the American company” and should have treated the companies, regardless of their nationalities, the same way).

¹¹³ See generally CHINA PATENT AGENT (H.K.) LTD., 100 HIGH-PROFILE CASES IN CHINA (CASE BRIEFS) 295–98 (Wang et. al eds. 2009) [hereinafter CHINA PATENT AGENT (H.K.) LTD] (illustrating that Chanel jointly filed suit along with four other major luxury brand owners: Gucci, Prada, Burberry and Chanel).

¹¹⁴ *Id.*

¹¹⁵ *Id.* at 296.

¹¹⁶ *Id.*

¹¹⁷ *Id.* (stating that Chanel filed suit in September in Beijing No. 2 Intermediate People’s Court after making several notarized purchases of handbags bearing counterfeit Chanel marks).

¹¹⁸ *Id.*

¹¹⁹ *Id.* at 298 (holding that Silk Street was held jointly and severally liable for the consequence of Huang Shangwang’s infringement based on Article 50(2) of the Trademark Law Implementing Regulations and Article 130 of the General Civil Principles, which jointly establish secondary liability for trademark infringement for landlords that intentionally facilitate the infringement of another’s exclusive right to use a trademark such as storage, transportation, or concealment).

¹²⁰ Timothy Lau et al., *Protecting Trademark Rights in China Through Litigation*, 47 STAN. J. INT’L L. 441, 449 (2011).

¹²¹ The two areas of Chinese law which hold individuals civilly liable for secondary trademark infringement are Article 130 of the *General Principles of the Civil Law* (“Article 130”) and Articles 50 and 52 of the *Regulation for the Implementation of the Trademark Law of the People’s Republic of China* (“Article 50”). Article 130 states that, “[i]f more than two people jointly conduct infringing activities which cause damages to others,” they should be held jointly liable for the damage. This provision generally refers to infringement of any kind, including but not limited to, copyright infringement, patent infringement and trademark infringement. See CHINA PATENT AGENT (H.K) LTD., *supra* note 113, at 297 (holding that Chinese courts have applied provisions of Article 130 with Articles 50 and 52 to hold secondary infringers, landlords, liable for trademark infringement).

impression that Chinese courts were willing to liberally construe the law to protect the interests of major foreign brand owners.¹²² Additionally, it put forth the impression that Chinese courts are actually protecting the IPR interests of major brand owners.¹²³

D. Sotheby's Auction House v. Sichuan Softbill

In the case between Sotheby's Auction House and Softbill, Chinese courts expanded the scope of trademark protection to a degree which extends past that of even the United States. Sotheby's is one of the two premier auction houses in the world.¹²⁴ It engages in art auctions, private sales and other art-related financing activities.¹²⁵ It established a Hong Kong Branch in 1974 to develop its business in the Asian market, and started a series of promotional activities in mainland China in 1988 using its original English "SOTHEBY'S" as well as its Chinese counterpart.¹²⁶ Openly trying to take advantage of Sotheby's reputation, a local company called Sichuan Softbill adopted similar sounding English words and the same Chinese characters for its name.¹²⁷ Softbill used these words and characters in their publicity, literature, and promotional materials.¹²⁸

The court's holding in this case was particularly notable because it "acknowledged that Sotheby's never put, nor can ever put its marks to use for commercial auctions in China because of the legal prohibitions"¹²⁹ set forth in the Auction Law and the Law on the Protection of Cultural Relics.¹³⁰ The court nonetheless decided that the mark was entitled to protection because Sotheby's has "put to *de facto* use" the Sotheby's mark in Chinese characters through charity and

According to Article 50, "[a]ny individual that intentionally provides facilitating conditions such as storage, transportation, shipping or concealment, to trademark infringers, may be held liable for trademark infringement under the *PRC Trademark Law*." Trademark Law P.R.C. 2001, *supra* note 58. The legal consequence of this provision is that landlords may jointly bear liability with the direct infringer if they knowingly provide him with storage, transportation or any sort of facilitation. Lau et al., *supra* note 120, at 449. Additionally, a landlord may be liable for trademark infringement if their conduct is perceived "to cause, in other respects, prejudice to the exclusive right of another person to use a registered trademark." Trademark Law P.R.C. 2001, *supra* note 58, art. 50. However, instead of holding a landlord individually liable for infringement, the court will likely hold the direct infringer jointly and severally liable under Article 130. Civil Law of the People's Republic of China, art. 130.

¹²² Lau et al., *supra* note 120, at 449.

¹²³ *Id.*

¹²⁴ *Id.* at 444.

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.* at 444–45.

¹²⁸ *Chinese Softbill Corporation*, HKSSB.COM, <http://www.hkssb.com/> (last visited October 12, 2011).

¹²⁹ Lau et al., *supra* note 120, at 445.

¹³⁰ Auction Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Jul. 5, 1996, amended Aug. 28, 2004, effective Aug. 28, 2004); *see also* Law of People's Republic of China on the Protection of Cultural Relics (promulgated by the Standing Comm. Nat'l People's Cong., Nov. 19, 1982, amended Dec. 29, 2007, effective Dec. 29, 2007).

promotional events, sufficient for the “relevant public to know that it is a provider of auction services.”¹³¹

The magnitude of protection shown to trademark rights shown by the Chinese court here is not available in the United States.¹³² In the United States it is unthinkable for an American court “to extend protection to a mark in a service area where there is no indication or even possibility of future use.”¹³³ It is clear why foreign brands would consider using litigation as part of their trademark enforcement strategy in China when the scope of protection is broader than in the United States.

E. Overall Effectiveness of Civil Litigation Victories on Counterfeiting and Trademark Infringement in China

Since 2001, China has made significant strides in the laws governing trademarks and has trended toward positive treatment of international brand owners in its civil courts.¹³⁴ These efforts have convinced international brand owners that litigation is an effective mechanism¹³⁵ of enforcing trademarks¹³⁶ by way of the Chinese judiciary.¹³⁷ However, this type of reliance by international brand owners trying to do business in China is seriously misguided. Judicial enforcement is still plagued by a plethora of issues, including lack of judicial independence, difficulty in enforcing judgments, and inadequacy of penalties.¹³⁸ These issues raise serious concerns for international brand owners attempting to protect their trademarks because enforcement is the “key to protection of IPR in China.”¹³⁹ As such, attempts by international brand owners to use litigation and the Chinese court system to enforce their marks and prevent counterfeiting is still unreliable as a first resort trademark protection and enforcement strategy.¹⁴⁰

Lack of judicial independence of Chinese courts is one of the factors which prevents litigation from being a successful enforcement mechanism of international

¹³¹ Lau et al., *supra* note 120, at 445; *see also* Sichuan Softbill Auction Ltd. v. Sotheby's Auction, No. 324 (Beijing Higher People's Ct., Aug., 2008), <http://www.flssw.com/caipanwenshu/info/1837429/>.

¹³² Lau et al., *supra* note 120, at 445.

¹³³ *Id.*

¹³⁴ Wong, *supra* note 75, at 972.

¹³⁵ Joseph Simone, *In the Courts: Holding the Landlord Liable—New Tools for the Counterfeit Crackdown in China*, WIPO MAG. (Nov. 2007), http://www.wipo.int/wipo_magazine/en/2007/06/article_0006.html.

¹³⁶ Infringement of trademarks and counterfeiting still occurs at an alarming rate in China despite these victories for major luxury brand owners like Rolex, Louis Vuitton and Starbucks. *See* Eric Poon, *Silk Market Liability Ruling Expected in China*, MANAGING INTELL. PROP. (September 15, 2011), <http://www.managingip.com/Article/2791898/Silk-Market-liability-ruling-expected-in-China.html> (“Despite the positive outcomes for major luxury brand owners, litigation has proved to have little effect on counterfeiting in China.”).

¹³⁷ Although this comment is specifically on trademark protection and enforcement, this statement is also relevant to other forms of IPR, including patents, copyrights, and trade secrets.

¹³⁸ Wong, *supra* note 75, at 969.

¹³⁹ Amanda S. Reid, *Enforcement of Intellectual Property Rights in Developing Countries: China as a Case Study*, 13 DEPAUL-LCA J. ART & ENT. L. & POL'Y 63, 72 (2003).

¹⁴⁰ *Id.*

trademarks in China.¹⁴¹ Although the Constitution grants the People's Court "the power of independent adjudication,"¹⁴² the Court "must still adhere to the CCP's 'unified leadership', which can lead to shaping of an outcome by a party."¹⁴³ The Court is still dependent on the People's Congress for its annual budget and appointments to the judiciary,¹⁴⁴ which acts as effective external pressure on Chinese judges.¹⁴⁵ Unlike federal judges in the United States, Chinese judges do not have tenure and can face removal from their position.¹⁴⁶ Therefore, fear of "removal can result in judges unreasonably denying motions for transfer of forum, delivering verdicts favorable to local parties or refusing to respect the former judgments by other courts."¹⁴⁷ Moreover, individual decisions can be reviewed by committees that are authorized by the People's Congress to direct the "proper verdict" or grant appeals to higher courts.¹⁴⁸ Members of these committees are often loyalists to the Chinese Communist Party ("CCP")¹⁴⁹ or individuals with connections to local businesses, which is clearly problematic for international brand owners.¹⁵⁰ Although the WTO's power to review decisions by Chinese courts has reduced political influence and judicial corruption, it has limited time and resources to dedicate to such review, and a significant amount of corruption goes unnoticed at the local level.¹⁵¹

At the local level, difficulties in enforcing judgments run rampant.¹⁵² Currently, there is no formal communication system between local governments.¹⁵³ Additionally, local People's Congresses promulgate laws and regulations to implement the laws handed down by the national legislature, which fail to comply with the regulations of the national government.¹⁵⁴ This makes it difficult for judges

¹⁴¹ *Id.* at 93-94.

¹⁴² Wong, *supra* note 75, at 970; FENG, *supra* note 47, at 358; Trademark Law P.R.C. 2001, *supra* note 58, art. 52(2).

¹⁴³ FENG, *supra* note 47, at 25-26.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ Julia Cheng, *China's Copyright System: Rising to the Spirit of TRIPS Requires an Internal Focus and WTO Membership*, 21 *FORDHAM INT'L L.J.* 1941, 1989 (1997).

¹⁴⁷ *Id.* at 1992-93.

¹⁴⁸ Evans, *supra* note 79, at 592.

¹⁴⁹ Paul B. Birden Jr., *Trademark Protection in China: Trends and Directions*, 17 *LOY. L.A. INT'L & COMP. L.J.* 431, 477 (1996) ("The problematic rise in official bribery and corruption following China's shift from a centrally-planned to a market economy has contributed to the rise in trademark infringement.") Many Chinese infringers are protected by Chinese officials and local business owners and are subsequently "beyond the Intellectual Property Courts' ability to prosecute." Gregory S. Kolton, *Copyright Law and the People's Courts in the People's Republic of China: A Review and Critique of China's Intellectual Property Courts*, 17 *U. PA. J. INT'L ECON. L.* 415, 449 (1996).

¹⁵⁰ Birden, *supra* note 149, at 477.

¹⁵¹ *Id.*

¹⁵² Wong, *supra* note 75, at 971.

¹⁵³ *Id.* This makes it quite easy for an infringer to simply pick up shop and move to a different locale after a judgment has been made against him. *Id.* The infringer's new locale would have no way of knowing of his previous infringing conduct and therefore, could not enforce the judgment of the court against him. *Id.* As such, the infringer would theoretically be free to start up a new infringing enterprise in his new locale. *Id.*

¹⁵⁴ Zhou, *supra* note 75, at 435.

to find and implement the applicable laws.¹⁵⁵ Moreover, local courts¹⁵⁶, unlike the National People’s Congress and the Supreme People’s Court, do not publish their laws and opinions in official gazettes.¹⁵⁷ This often results in “an inconsistent application of laws among the different localities, adding an additional challenge for trademark protection” and enforcement.¹⁵⁸

Not only have Chinese courts failed to enforce judgments against infringers, penalties and damages assessed against infringers¹⁵⁹ by Chinese courts have been so low that they fail act as a deterrent for infringers.¹⁶⁰ These damage amounts, averaging \$15,000 per suit, only compensate IPR owners for a small proportion of their losses under Chinese law.¹⁶¹ The amounts are so low that infringers are able to earn an adequate profit despite having to pay these penalties and can continue to infringe.¹⁶² Fines, therefore, represent only a tiny fraction of the estimated sales revenue lost to IPR holders.¹⁶³ If infringers are not adequately deterred from infringing, there is insufficient protection for innovators and decreased incentives to invest in research and development.¹⁶⁴ The low damage amounts assessed by Chinese courts have compromised the effectiveness of the IPR system in China.¹⁶⁵

These cases, *Rolex*, *Starbucks*, *Chanel et al.*, and *Sotheby’s*, mark important milestones in the continuum of Chinese IP development. They demonstrate the

¹⁵⁵ *Id.*; Wong, *supra* note 75, at 971.

¹⁵⁶ Zhou, *supra* note 75, at 434. Localities in China are organized by province. *Id.* There are twenty-two provinces in China, with multiple courts in each that are responsible for writing down, and compiling their court decisions into a gazette. *Id.*

¹⁵⁷ Wong, *supra* note 75, at 970.

¹⁵⁸ *Id.*

¹⁵⁹ Trademark Law P.R.C. 2001, *supra* note 58, art. 52. Damages for trademark infringement and counterfeiting are assessed under several sections of the 2001 Trademark Law. Under Article 56, the amount of damages is calculated according to

the profit that the infringer has earned because of the infringement in the period of the infringement or the injury that the infringe has suffered from the infringement in the period of the infringement, including the appropriate expenses of the infringer for stopping the infringement.

Trademark Law P.R.C. 2001. When it is difficult to determine the profit that the infringer has earned, the People’s Court can impose an amount of damages of no more than 500,000 RMB (which is about \$60,000 U.S. Dollars).

Id.

¹⁶⁰ Zhou, *supra* note 75, at 433–34.

¹⁶¹ 2008 SPECIAL 301 REPORT, *supra* note 25, at 19 (concluding that inadequate IPR enforcement is a key factor contributing to these shortcomings, with high criminal thresholds, as well as difficulties in initiating or transferring cases for criminal prosecution resulting in limited deterrence”); see also KRISTINA SEPETYS & ALAN COX, INTELLECTUAL PROPERTY RIGHTS PROTECTION IN CHINA: TRENDS IN LITIGATION AND ECONOMIC DAMAGES 7 (Nat’l Econ. Research Assocs. ed., 2009) (stating that the plaintiff has the option of choosing how damages are assessed.).

¹⁶² SEPETYS & COX, *supra* note 161, at 8 (finding that more than 90 percent of all IPR damages awarded in China are under \$100,000 U.S. Dollars and that the median damage award across all IPR cases in 2006–2007 was approximately \$15,000).

¹⁶³ See generally U.S. Department of State Bureau of International Information Programs, “Trade Official Urges China to Punish IPR Violators Forcefully,” IIP DIGITAL (illustrating that the costs associated with counterfeiting are difficult to calculate).

¹⁶⁴ SEPETYS & COX, *supra* note 161, at 3.

¹⁶⁵ *Id.* at 2.

progress the Chinese judiciary has made in protecting trademarks from imminent infringement and counterfeiting. Despite these successes and China's compliance with TRIPS and other international treaties¹⁶⁶ civil litigation still fails to have a lasting impact on trademark protection and enforcement in China.¹⁶⁷ Victories in litigation do not directly translate to effective enforcement and protection of trademarks. So what are international companies and brand owners to do?

III. PROPOSAL

The successes of major international brand owners like Rolex and Louis Vuitton, in Chinese courts, have created the impression that litigation is a viable and effective first step in protecting and enforcing trademarks in China. However, as previously illustrated, judicial enforcement of trademark rights in China is fraught with tension and fails to actually enforce trademark rights post-adjudication. As such, litigation should always be a last step in the enforcement of trademark and other intellectual property rights. This section proposes alternative and preventative strategies which may prove useful for international brand owners, and the lawyers who represent them, in protecting their trademarks from infringement and from counterfeiting in China. First and foremost, international brand owners should begin with brand management and make trademark protection and enforcement part of the overall business plan. Second, they should engage and reach out to the Chinese government on both local and national levels. Third, international brands need to think outside the "litigation box." Finally, if all else fails, they should utilize alternative dispute resolution.

A. IPR Enforcement as a Business Plan

Many international brand owners view protecting their trademarks and preventing counterfeiting as two separate endeavors. In actuality, they pertain to the same thing: protecting the goodwill and value associated with their brand name and products. International brand owners trying to conduct business in China often spend immeasurable amounts of time and money on enforcing their trademarks and preventing counterfeiting AFTER such infringement or counterfeiting has already occurred.¹⁶⁸ In order to effectively prevent this from happening, brand owners need

¹⁶⁶ Wong, *supra* note 75, at 959.

¹⁶⁷ Maya Alexandri, *Good Brand, Bad Brand*, DANWEI (Jan. 30, 2007, 10:42 PM), http://www.danwei.org/intellectual_property/good_brand_bad_brand.php (stating that a coalition composed of twenty-three brands formed to take advantage of the initial Silk Market decisions and press the theory in other markets in Beijing, Shanghai, Guangzhou, and Shenzhen via cooperation with landlords, AIC, and other concerned government agencies). The coalition, after taking notice of the lack of trademark enforcement at brick and mortar retail hubs, like Silk Street Market, filed suits against twenty-two different stall owners and Silk Street landlords in 2008 and again in 2011. *Id.* Again, it had favorable results for the brand owners. *Id.* Despite the seemingly endless stream of suits, Silk Street Co. is still up and running strong. As such, it is clear that litigation alone is not an effective means of trademark enforcement and anti-counterfeiting in China. *Id.*

¹⁶⁸ J. Benjamin Bai & Guoping Da, *Strategies for Trade Secrets Protection in China*, 9 NW. J. TECH. & INTELL. PROP. 351, 364 (2011).

to stop separating the concepts of counterfeiting and trademark infringement and focus on IPR protection as a whole. Instead of trying to enforce their IPR at the litigation stage, which is often time consuming and expensive, international brand owners should focus on the preventative prevention of IPR infringement as a business model through a companywide scheme of confidentiality and education.¹⁶⁹

A first step international brand owners can take is to closely monitor production. It is imperative that brand owners implement appropriate security measures when producing goods that bear both their word and design marks. Preventative security measures include limiting access to production facilities, securing production materials after hours (like official brand logos), installing security monitoring equipment and implementing procedures and protocols in the event counterfeiting or trademark infringement should occur.¹⁷⁰ If individuals or the public cannot figure out exactly how a specific good is made, what materials are used to make the good, or how to affix a proper mark to the good, it is much more difficult for a counterfeit model or an article that infringes upon an international brand owner’s trademark to “successfully” reach the marketplace.

Part of closely monitoring production is choosing the employees who will be engaged with production and limiting the exposure of these employees to market once they no longer work at the company. Therefore, brand owners must screen potential employees, vendors, and partners and implement and enforce contracts not to compete and confidentiality agreements.¹⁷¹ Theft of IP by employees and business associates is common, especially in China.¹⁷² It is important to ask questions of prospective employees to evaluate ethical and moral standards. It is within a brand owner’s best interest to conduct due diligence on potential business associates. This duty does not end with screening potential employees, and must be continued through implementing contractual confidentiality measures like contracts not to compete.¹⁷³

¹⁶⁹ *Id.*; see also Ryan P. Johnson, *Steal This Note: Proactive Intellectual Property Protection in the People’s Republic of China*, 38 CONN. L. REV. 1005, 1025 (2006).

¹⁷⁰ Bai & Da, *supra* note 168, at 366 (establishing that a company should take a multi-lateral approach to corporate confidentiality).

¹⁷¹ *Id.* (explaining that protecting IPR successfully requires obtaining references and background checks on all managers, key employees, and persons who will have regular access to any confidential information).

¹⁷² *Id.*

¹⁷³ *Id.* A successful confidentiality policy should:

- (1) Require all key personnel who have knowledge of IPR to sign confidentiality agreements. In addition, the company should have a formal policy regarding the ownership of any intellectual property created by the employee during his employment, such as assigning all IP rights, including trade secret rights, to the company.
- (2) Conduct regular training on the company’s confidentiality policy.
- (3) Verify that all employees have received a copy of the confidentiality policy in their employee handbook and have signed a statement acknowledging that they have read, understood and will comply with the policy...
- (8) Conduct exit interviews of departing employees to ensure that they are not taking to their new jobs any information that the company would not want to disclose to a competitor.

Additionally, the continued education and training of current employees on issues in intellectual property plays an important role in the preventative protection of IPR as a brand management strategy. It is foolish for any brand owner to assume that any employee, American, foreign, new or old has a comprehensive knowledge of intellectual property principles and laws. It is thus important for brand owners to show all employees that intellectual property enforcement is important and is taken seriously by the company through continued education and mandatory training sessions. However, leading by example is the best way. Employees will not take the issue seriously if the brand owner or direct supervisor does not.

B. Working with the Chinese Government, Not Against It

Another proactive way for international brand owners to enforce their marks is by putting the Chinese government on notice. One of the ways that this can be achieved is through the registration of its trademarks with the Chinese government.¹⁷⁴ By registering a trademark with the government, brand owners have legal standing for any potential infringement suit and put the government on notice of the brand's existence within their borders.¹⁷⁵ Trademark registration is only a small step in putting the government on notice however. It is absolutely essential that government awareness of a mark be achieved in a positive way. This can be done by working together with the local government to promote and market the brand to government officials on a personal level.

Working together with a local government to promote the brand means creating local incentives that would cause the local government to take interest in the brand. A prime example of this is the McDonald's brand¹⁷⁶ in China.¹⁷⁷ McDonald's

(9) Terminate electronic access for departing employees immediately prior to termination. In the alternative, closely monitor electronic access in accordance with company computer policies

(10) To the extent possible, keep the key computers bearing confidential information off the network.

(11) To the extent possible, limit unauthorized downloading and/or installation of software that is not work-related.

(12) To the extent possible, but without invading personal privacy, monitor employee web surfing and email communication both in and out of the company computers.

(13) Ask contractors and employees to provide written undertakings not to compete with your business after they leave...

(15) Build and maintain good relationships with the local police and Chinese government agencies, such as the State Administration for Industry and Commerce

Id.

¹⁷⁴ Jin Chunqing & Wu Xiaopeng, *Trademark Registration in China*, GLOBALIZATION AND LOCALIZATION ASS'N, http://www.gala-global.org/en/resources/ArticleDB_TradeMarkRegistrationinChina.pdf (establishing two central principles guide China's laws regarding the registration of trademarks: the registration rule and the first to file rule).

¹⁷⁵ *Id.*

¹⁷⁶ *Franchising Industry in China*, FRANCHISE.ORG, http://www.franchise.org/uploadedFiles/Franchise_Industry/International_Development/franchising%20in%20China.pdf (establishing the fact that McDonald's operates through a joint venture in

established economic joint ventures¹⁷⁸ (“EJVs”) with both Chinese companies and agricultural collectives when it began to expand into China in the early 1990s.¹⁷⁹ EJVs between the United States and Chinese businesses and agricultural collectives signified that a portion of McDonald’s profits would go to the government.¹⁸⁰ Therefore, the government had an economically vested interest in the success of McDonald’s in China and promoted the restaurant in many government sponsored advertising campaigns. Soon, McDonald’s became synonymous with wealth and exclusivity, becoming the second most popular fast food restaurant in the country.¹⁸¹ While the role the Chinese government played in McDonald’s was business focused, this is not to say that it will not work in a similar manner for companies attempting to enforce their marks in China.

C. Thinking Outside the “Litigation Box”

International brand owners should utilize the market as a way of enforcing their IPR. Chinese consumers are beginning to discern purchase decisions even more than their Western counterparts.¹⁸² Since joining the WTO in 2001, Chinese consumers have become increasingly brand conscious and brand loyal.¹⁸³ As such, marketing campaigns “that accentuate the faults of pirated products” and encourage consumer loyalty to the original product may be very effective in inducing consumers to stop buying pirated products in China.¹⁸⁴ Consumers “benefit from experiencing product quality and IP-dependent businesses,” like Chanel and Starbucks, will see increased profits.¹⁸⁵ Convincing customers to buy authentic goods through anti-piracy marketing campaigns would decrease the sales of pirated and counterfeit goods, which in turn would lower infringers’ profits and possibly reducing the amount of infringing and counterfeit materials available on the market.

China). McDonald’s set up a joint venture with a local company in Beijing when it entered the Chinese capital in 1992. *Id.* Up to now McDonald’s has about 600 outlets in China, but none of them is operating through direct franchising. *Id.*

¹⁷⁷ *Id.*

¹⁷⁸ *Id.* (defining a joint venture as a limited liability corporation in which both partners invest in and manage operation through a Board of Directors).

¹⁷⁹ *Id.*

¹⁸⁰ Bai & Da, *supra* note 168, at 1035 (showing that entering into a contractual agreement avoids looking directly to the Chinese courts or government to achieve protection).

¹⁸¹ *Franchising Industry in China*, FRANCHISE.ORG, http://www.franchise.org/uploadedFiles/Franchise_Industry/International_Development/franchising%20in%20China.pdf (establishing the fact that McDonald’s operates through a joint venture in China).

¹⁸² TIM AMBLER ET AL., *DOING BUSINESS IN CHINA* 135 (3d ed. 2000).

¹⁸³ *Id.*

¹⁸⁴ Johnson, *supra* note 169, at 1031.

¹⁸⁵ *Id.*

D. Alternative Dispute Resolution: It's not called Alternative for Nothin'

Despite of the flaws associated with the enforcement of intellectual property rights and the shortcomings of the court for the PRC, alternative dispute resolution is an effective technique that international brand owners have the option of turning to. China, "like many Asian nations," is adverse to litigation¹⁸⁶ and only utilizes its court system as a last resort.¹⁸⁷ Under the Arbitration Law of the PRC,¹⁸⁸ two separate arbitration systems were established: one for domestic economic disputes and one for foreign related economic disputes.¹⁸⁹ The China International Economic and Trade Arbitration Commission oversees arbitration in China¹⁹⁰ and allows for "streamlined arbitrations before multilingual arbitrators which may be conducted in any official language upon which the parties agree."¹⁹¹ This system is primarily used for parties that have a contractual relationship with each other.¹⁹² If international corporations in China put into practice the confidentiality contracts and contracts not to compete, suggested in Part A of this section, alternative dispute resolution in China may be a viable option for international brand owners looking to enforce their marks.

CONCLUSION

China has been viewed by many as a country lacking a strong intellectual property protection system. Previously, "some multinational companies assumed that China did not protect IP and ignored the procurement of IP in China."¹⁹³ However, since entering the WTO in 2001, China has made significant strides making IP protection and enforcement a priority. As evidenced by the 2001 Amendments to The Trademark Law to comply with TRIPS, the creation and implementation of special IP courts, the many IP education options made available to Chinese individuals through CIPTC, the development of SIPO and WIPO and most recently, the victories won by major international brand owners in Chinese courts, a new IP protection paradigm is emerging in China. As such, international companies should now assume that China protects IP and begin to seriously invest in the

¹⁸⁶ Jill Chiang Fung, *Can Mickey Mouse Prevail in the Court of the Monkey King? Enforcing Foreign Intellectual Property Rights in the People's Republic of China*, 18 LOY. L.A. INT'L & COMP. L.J. 613, 634 (1996); See also David B. Dreyfus, *Confucianism and Compact Discs: Alternative Dispute Resolution and Its Role in the Protection of United States Intellectual Property Rights in China*, 13 OHIO ST. J. ON DISP. RESOL. 947, 970 (1998) ("Although judicial remedies exist in China for intellectual property infringement cases, the government places an emphasis on administrative and other non-adjudicative resolutions such as mediation and arbitration.").

¹⁸⁷ Dreyfus, *supra* note 186, at 970.

¹⁸⁸ Kolton, *supra* note 149, at 423 (establishing that trademark owners—international brand owners—can consent to arbitration or mediation for settling infringement suits).

¹⁸⁹ Yuan Cheng, *Legal Protection of Trade Secrets in the People's Republic of China*, 5 PAC. RIM L. & POL'Y J. 261, 291 (1996).

¹⁹⁰ Birden, *supra* note 149, at 482.

¹⁹¹ Dreyfus, *supra* note 186, at 970.

¹⁹² Cheng, *supra* note 189, at 291.

¹⁹³ Bai & Da, *supra* note 168, at 1035.

Chinese market. However, it does not mean that international brand owners and the lawyers who represent them can step back and relax.

It is the attorney's job to be the best advocate she can be for her client. Sometimes, that means putting the litigation bat down and keeping her eye on her client's best interests. Although litigation has won pivotal victories for international brand owners in Chinese courts, it is by no means the most effective or efficient means to protect and enforce your client's IPR in China. A more comprehensive and preventative approach integrating culture, education, and confidentiality is needed. If all the recommendations discussed in this comment are followed, an international brand owner's risk of infringement and counterfeiting should decrease and the chance of enforcing its trademark rights in China should increase.