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THE CHALLENGES MULTINATIONAL CORPORATIONS FACE IN PROTECTING THEIR WELL-KNOWN TRADEMARKS IN CHINA

I. INTRODUCTION

With the largest population in the world and an abundance of opportunities, China is considered by most foreign enterprises to be the “last great commercial frontier.”¹ Since opening its doors to the global community in 1979, the People’s Republic of China (China),² a nation of more than one billion consumers, has attracted foreign investors seeking to enter this vast market.³ Though companies are finding commercial opportunities in China, they are met by a number of challenges in the area of intellectual property (IP), including an increasing number of trademark violations⁴ by domestic companies infringing on

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

2. For this note, China refers to the People’s Republic of China, excluding Hong Kong. Although Hong Kong has been a Special Administrative Region of the PRC since 1997, China’s intellectual property laws will not apply to Hong Kong until 2047. See John Zarocostas, *Hong Kong Maintains Free-Trade Image*, J. COMMERCE, Dec. 9, 1998, at 3A.

3. Jessica Jiong Zhou, *Trademark Law & Enforcement in China: A Transnational Perspective*, 20 WIS. INT’L L.J. 415 (2002).

4. Article 52 of the Trademark Law of China reads:

Any of the following acts shall be an infringement of the exclusive right to use a registered trademark:

1. to use a trademark that is identical with or similar to a registered trademark in respect of the identical or similar goods without the authorization from the trademark registrant;
2. to sell goods that he knows bear a counterfeited registered trademark;
3. to counterfeit, or to make, without authorization, representations of a registered trademark of another person, or to sell such representations of a registered trademark as were counterfeited, or made without authorization;
4. to replace, without the consent of the trademark registrant, its or his registered trademark and market again the goods bearing the replaced trademark; or
5. to cause, in other respects, prejudice to the exclusive right of another person to use a registered trademark.

Trademark Law of the People’s Republic of China art. 52 (promulgated by the Standing Comm. of the Fifth Nat’l People’s Cong., Oct. 27, 2001, effective Dec. 1, 2001), *translated in* http://www.sipo.gov.cn/sipo_English/flfg/xgflfg/t20020416_34755.htm [hereinafter TL 2001].

the well-known marks of foreign companies.⁵ In particular, China's inconsistent treatment of foreign well-known marks poses serious concerns for overseas investors.⁶ Many foreign firms have expressed apprehension about entering the Chinese marketplace because of an inability to register their trademark as well-known.⁷ Therefore, effective trademark protection is critical to economic reform in China.⁸ The Chinese have recognized that respect for well-known marks is central to their economic reform,⁹ and have thus taken significant steps to provide greater protection of trademarks through their accession to international agreements, promulgation of rules and regulations, and amendments to their trademark law.¹⁰

Despite all of China's trademark and IP laws being in accordance with WTO requirements, the number of cases concerning trademark violations has risen dramatically in recent years.¹¹ In 2003, American coffee retailer Starbucks filed a lawsuit against a Shanghai-based café for trademark infringement, claiming that its logo and brand name had been copied by the Shanghai coffeehouse.¹² The case exemplifies the common problem of trademark piracy, where a domestic entity registers the well-known mark in China before the foreign trademark owner and then attempts to trade on the goodwill attached to the trademark or sell the registration to

5. *China Improves Trademark Protection for Overseas Investors*, PEOPLE'S DAILY (China), Aug. 5, 2000, available at http://english.people.com.cn/english/200008/05/eng20000805_47371.html. For the purposes of this note, "domestic" corporations are corporations incorporated under the laws of China, which are established and based in China.

6. 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, 222 (2004). There is currently no formal, universal definition for a "well-known" mark. A "well-known" trademark is considered to be a mark which is known to a substantial portion of the relevant public as being associated with the particular goods or services. *Id.*

7. Foreign companies were hesitant to enter the Chinese marketplace because after being denied registration of their marks there was "no precedent of protection from illegitimate business practices." *Id.* at 226.

8. PETER FENG, *INTELLECTUAL PROPERTY IN CHINA* 358 (2d ed. 2003).

9. *Id.* at 358.

10. Zhou, *supra* note 3, at 425–26.

11. In 2004, the Administrations for Industry and Commerce handled 51,851 trademark violations cases, a 38.31 percent increase from 2003. Of these, 5,494 of these cases involved a foreign entity, which is 1.6 times greater than the number in 2003. SIPO, *White Paper on the Intellectual Property Rights Protection in China in 2004*, http://www.sipo.gov.cn/sipo_english/ndbg/bps/t20050427_45415.htm (last visited Feb. 6, 2006).

12. Toh Han Shih, *Starbucks Sues in Shanghai Café Sign Spat*, SOUTH CHINA MORNING POST, Jan. 31, 2004, available at 2004 WLNR 6018187.

the owner for a handsome profit.¹³ The recently decided case demonstrates the progress China has made in trademark protection since joining the WTO, but also illustrates some of the challenges foreign companies still face in protecting their trademark in China.¹⁴

This note explores the challenges multinational corporations face in protecting their well-known trademarks in China by examining the Starbucks case and argues that although China is heading in the right direction in its IP reform, its success is challenged by China's weak and ineffective enforcement of IP laws. Part II of the note examines the development of trademark law in China, focusing on protection of well-known marks. Part III discusses trademark infringement claims filed by multinational corporations against domestic corporations, including the Starbucks case. Part IV evaluates the outlook for foreign investors under the current IP system, examining both the improvements China has made to IP laws and the challenges that multinational corporations still face in protecting their trademarks under the current system. Part V evaluates the current trademark enforcement system and proposes some changes to improve enforcement. Finally, the note concludes that while the Starbucks decision demonstrates that China is moving in the right direction with its trademark reform, to demonstrate that China is committed to protecting well-known trademarks, the Starbucks decision must be upheld on appeal. A favorable decision in favor of Starbucks on appeal and a stronger enforcement system will ensure that foreign well-known trademarks will be protected in China and thereby, China will remain attractive to foreign investors.

II. CHINA'S INTELLECTUAL PROPERTY PROTECTION SYSTEM

China has come to understand the importance of foreign investment to its economic reform and growth.¹⁵ After years of reform to meet World Trade Organization (WTO) standards, China acceded to the WTO on December 1, 2001.¹⁶ China's accession to the WTO promises greater market access for foreign investors and a more predictable commercial environment, which means there will likely be many more foreign com-

13. Cahan, *supra* note 6, at 220.

14. *Id.* at 221.

15. China offers preferential treatment, including tax incentives, to foreign investors to encourage investments in China. See John Zhengdong Huang, *An Introduction to Foreign Investment Laws in the People's Republic of China*, 28 J. MARSHALL L. REV. 471, 483 (1995).

16. WTO, Accession of the People's Republic of China, WT/L/432, Nov. 23, 2001. See also Karen Halverson, *China's WTO Accession: Economic, Legal and Political Implications*, 27 B.C. INT'L & COMP. L. REV. 319 (2004).

panies seeking to enter China's market.¹⁷ With China's entry into the WTO, the rules governing the Chinese marketplace have changed dramatically.¹⁸ China has come to realize the importance of protecting the intellectual property rights (IPR) of foreign corporations that seek to invest in the nation.¹⁹ Accordingly, China has strengthened its legal framework and amended its IPR and related laws and regulations to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).²⁰

A. Brief History of IPR in China

The concept of trademark in China can be traced back as early as the Northern Zhou Dynasty (556–580 A.D.).²¹ The first Chinese intellectual property law was promulgated in the Tang Dynasty (618–906 A.D.),²² although the first formal trademark law was not enacted until 1904, during the Qing Dynasty.²³ IPR emerged in China in the late 1800s with the invention of the gunboat, the introduction of opium and the doctrines of “most favored nation” trading status and extraterritoriality.²⁴ But progress on trademark and IP laws in China came to a halt in 1949, with the

17. White, *supra* note 1.

18. “Since joining the WTO China has adopted or amended over 140 laws and regulations and deleted another 500 laws.” Cahan, *supra* note 6, at 223.

19. As further evidence of China's commitment to fighting intellectual piracy, a Beijing court recently ordered a flea market selling counterfeit clothing to pay up to 100,000 yuan in compensation to the foreign brand owners. This is believed to be the first time a Chinese court has punished a retail landlord for the infringing acts of a tenant. Amy Gu, *Coffee Shop Appeals on Starbucks Trademark*, STANDARD (Hong Kong), Jan. 19, 2006, available at http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=10237&sid=6291676&con_type=1&d_str=20060119.

20. Cahan, *supra* note 6, at 223; See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Results of the Uruguay Round, arts. 22–24, 33 I.L.M. 81 (1994) Including Trade in Counterfeit Goods, Dec. 15, 1993, pt. II, sec. 3, arts. 22–24 [hereinafter TRIPS] (setting forth general provisions, enforcement of and standards concerning intellectual property rights).

21. The early trademarks in the Zhou Dynasty were marks used by the Chinese to identify the source of the products. During the later Tang Dynasty, the marks were used by merchants to distinguish their goods from the goods of another. Some merchants and craftsmen designed their own logos to protect the reputation of their business. Some of the logos created during this time, such as the “Jingdezhen” mark, which designates the geographic origin, are still in use today. Zhou, *supra* note 3, at 417–18.

22. The Tang Dynasty enacted the first copyright law to handle the widespread use of printing. *Id.* at 417.

23. This trademark law was largely administered by foreigners who took control of China's trade during this time. *Id.* at 418.

24. FENG, *supra* note 8, at 3.

fall of the Nationalist government and the emergence of the People's Republic of China (PRC). When the Chinese Communist Party (CCP) came into power, all the laws, including IP laws, were abrogated.²⁵ It was not until the post-Mao Zedong era of the 1980s that China began building a formal legal system.²⁶

In remodeling their economic and political infrastructures to create a business environment more inviting to foreign investors, China followed accepted commercial principles of the Western world.²⁷ One of the areas heavily influenced by Western principles was in the creation of intellectual property laws.²⁸ China realized that in order to promote economic development in China and attract foreign investment, it was necessary to improve intellectual property protection.²⁹ Thus, China began signing treaties and joining IP rights organizations, starting with the World Intellectual Property Organization (WIPO) in 1980.³⁰

On December 1, 2001, China was formally admitted as a member of the WTO.³¹ To comply with WTO commitments, China made numerous changes to its laws and regulations including its trademark laws. To fulfill obligations to TRIPS and other international agreements, China has improved its legal framework by amending its trademark laws and has started to issue judicial interpretations and administrative regulations related to trademark protection.³² These measures demonstrate that China is committed to building a market economy and understands the role that an effective trademark protection system plays in this effort.

25. *Id.*

26. Prior to 1982, when the current Chinese constitution was enacted, China viewed its legal system in an inconsistent manner. Weiqui Long, *Intellectual Property in China*, 31 ST. MARY'S L.J. 63 (1999).

27. Julia Cheng, Note, *China's Copyright System: Rising to the Spirit of TRIPS Requires an Internal Focus and WTO Membership*, 21 FORDHAM INT'L L.J. 1941, 1942 (1998).

28. *See id.* at 1943.

29. "China's long-time inability to join the World Trade Organization (WTO) had been largely attributable to political oppositions from the U.S. and Europe, claiming, among other things, that China could not provide adequate protection for intellectual property rights." Zhou, *supra* note 3, at 416.

30. China joined the WIPO on June 3, 1980. Convention Establishing the World Intellectual Property Organization, July 14, 1967, 828 U.N.T.S. 3.

31. China joined the WTO on November 11, 2001, but was not formally admitted as a member until December 1, 2001. WTO, *supra* note 16.

32. Cahan, *supra* note 6, at 222.

B. Trademark Law in China

A trademark can be a company's most valuable asset.³³ A trademark is "a distinctive sign which identifies certain goods or services as those produced or provided by a specific person or enterprise."³⁴ Companies place value on trademarks because such marks identify and distinguish their goods or services from that of another.³⁵ There are a select number of names which are of enormous economic value. Analysts have suggested that "Nike" could be worth as much as seven billion dollars, while "Coca-Cola" has a value of ten times as much.³⁶ With globalization, international trademark rules have been developed to protect these marks in the international marketplace.³⁷ But many of these international rules rely upon the individual member nations to provide trademark protection in their respective countries.

In China, trademarks are primarily governed by the Trademark Law of the People's Republic of China (Trademark Law)³⁸ and the Implementing Regulations of the Trademark Law (Implementing Regulations).³⁹ The Trademark Law was first adopted in 1982 and was based upon a first-to-file system⁴⁰ for obtaining trademark rights.⁴¹ The most significant achievement of the law was that it protected a trademark owner's

33. *Id.* at 219.

34. WIPO, <http://www.wipo.int/about-ip/en/trademarks.html>. Trademarks seek to prevent a likelihood of confusion for consumers. 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).

35. Reid, *supra* note 34, at 72. Trademarks represent the goodwill created by the company. *Id.*

36. James Gleick, *Get Out of My Namespace*, N.Y. TIMES MAG., Mar. 21, 2004, at 44.

37. Cahan, *supra* note 6, at 222.

38. See generally TL 2001, *supra* note 4.

39. Implementing Regulations of the Trademark Law (promulgated by Decree No. 358 of the State Council, Aug. 3, 2002, effective Sept. 15, 2002) (P.R.C.), available at <http://sbj.saic.gov.cn/english/show.asp?id=53&bm=flfg> [hereinafter Implementing Regulations]; Zhou, *supra* note 3, at 429-30.

40. Under the first-to-file rule, one is not required to provide evidence of prior use or ownership of the trademark to register it. However, one must prove actual use within a specified time to avoid losing the rights to that trademark. In contrast, a first-to-use system, found in the United States and Canada, require actual use of the trademark before one is allowed to acquire a right in that trademark. Scott A. McKenzie, Comment, *Global Protection of Trademark Intellectual Property Rights: A Comparison of Infringement and Remedies Available in China Versus the European Union*, 34 GONZ. L. REV. 527, 559-60 (1998).

41. TL 2001, *supra* note 4, art. 4. A "first-to-file" rule provides that the first applicant to file a registration for the trademark, rather than the first-to-use the trademark, is the legal owner of the trademark. Long, *supra* note 26, at 76.

exclusive right to use a registered mark and provided a private right of action for acts of infringement.⁴² Under the law, both enterprises and individuals were eligible to apply for trademark registration.⁴³

In addition to promulgation of domestic trademark laws, China sought to comply with international standards on IPR protection by signing onto international and multinational treaties and conventions.⁴⁴ In the early 1980s, China took steps to strengthen trademark protection, starting with the adoption of the Paris Convention for the Protection of Industrial Property (Paris Convention).⁴⁵ The Paris Convention was established to provide consistent application of uniform legal principles for persons, regardless of citizenship, seeking IPR protection in a member nation.⁴⁶ Subsequently in 1988, China adopted the International Classification of Goods and Services under the Nice Agreement, and became a formal member of the Nice Agreement in 1994.⁴⁷ In 1989, China signed the Madrid Agreement for the International Registration of Marks,⁴⁸ which governs international trademark registration.⁴⁹ Under the Madrid Agreement, China can reject trademarks which are not in conformity with the Chinese trademark registration policy.⁵⁰

These international conventions, treaties and agreements ratified by the National People's Congress play important roles in the legislative protection of IPR.⁵¹ The Chinese Constitution⁵² provides that these interna-

42. Zhou, *supra* note 3, at 426.

43. *Id.* The registration of the trademark was valid for ten years after approval, followed by a ten year renewal option. Trademark Law of the People's Republic of China of 1993, *translated in* 2 China L. Foreign Bus. (CCH) P 11-500 (1993) [hereinafter TL 1993].

44. Zhou, *supra* note 3, at 430.

45. The Convention aims to establish universal legal principles and the consistent application of those principles regardless of the citizenship of the individual seeking intellectual property rights protection. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as last revised July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention].

46. *Id.*

47. The Nice Classification system provides a list of classes (thirty-four classes for goods and eleven classes for services) and the Alphabetical List of Goods and Services. Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, June 15, 1957, as last revised May 13, 1977, 23 U.S.T. 1336, 550 U.N.T.S. 45.

48. Madrid Agreement Concerning the International Registration of Marks, Apr. 14, 1891, 828 U.N.T.S. 389 [hereinafter Madrid Agreement].

49. Measures for the Implementation of International Registration under Madrid Agreement, Apr. 17, 2003 (P.R.C.), *available at* <http://sbj.saic.gov.cn/english/show.asp?id=63&bm=flfg> [hereinafter Madrid Implementation Agreement].

50. Madrid Agreement, *supra* note 48, art. VII.

51. Long, *supra* note 26, at 67.

tional treaties will not only have the equivalent status as domestic laws, but these international laws will supersede domestic laws which fall within their scope.⁵³ In the past, China has been accused of failing to meet their obligations under international agreements,⁵⁴ but has in recent years made an effort to ensure its laws are in full compliance with international standards.

In order to comply with international standards and in response to criticism that China's trademark protection system failed to provide adequate enforcement against trademark infringement, both the Trademark Law and Implementing Regulations were revised in 1993.⁵⁵ But the amended laws still failed to meet international standards. In order to conform more closely to international standards and meet its obligations under TRIPS, the Trademark Law was amended on October 27, 2001 (TL 2001).⁵⁶ TL 2001 provides a claim for priority in accordance with the Paris Convention.⁵⁷ It also transferred the power of final adjudication of disputes from an administrative mechanism to a judicial mechanism.⁵⁸ The new mechanism provides for judicial review of all Trademark Review and Adjudication Board (TRAB) decisions, including cases involving the validity of trademark registration, allowing parties to institute legal proceedings if they are dissatisfied with the decision of the TRAB.⁵⁹

52. See XIAN FA (1999) (P.R.C.). China has adopted four constitutions (Zhonghua, Renmin, Gongheguo, and Xianfa), in 1954, 1975, 1978, and 1982. The current constitution, adopted in 1982, was amended in 1988, 1993, and 1999. XIAN FA (1999) (P.R.C.).

53. Long, *supra* note 26, at 67.

54. The United States has threatened, on three separate occasions in recent years, to use economic sanctions against China for failure to adequately protect IPR. One such occasion was in 1995, when the United States accused China of failure to abide by International Agreement Special 301. Andrew Evans, *Taming the Counterfeit Dragon: The WTO, TRIPS and Chinese Amendments to Intellectual Property Laws*, 31 GA. J. INT'L & COMP. L. 587, 597 (2003).

55. Zhou, *supra* note 3, at 427; Preston M. Trobert & Jia Zhao, *People's Republic of China*, in INTELLECTUAL PROPERTY LAWS OF EAST ASIA 233 (Alan S. Gutterman & Robert Brown eds., 1997). The revised Trademark Law extended the scope of protection to include service trademarks. A service mark is a mark related to services, as opposed to a trademark which is associated with goods. DELI YANG, INTELLECTUAL PROPERTY AND DOING BUSINESS IN CHINA 43 (Pervex N. Ghauri ed., 2003).

56. The Standing Committee of the National People's Congress adopted the amended Trademark Law at its twenty-fourth meeting. FENG, *supra* note 8, at 299. The TL 2001 brought China's legislation on trademark protection into full compliance with TRIPS standards. Cahan, *supra* note 6, at 231.

57. Compare TL 2001, *supra* note 4, with Paris Convention, *supra* note 45.

58. See TL 2001, *supra* note 4, art. 43.

59. FENG, *supra* note 8, at 300.

China also revised its intellectual property laws to respond to the growing number of foreign investors in China. If a foreign individual or company wishes to apply for trademark registration in China, it must do so through a Chinese trademark agent authorized by the State Administration for Industry & Commerce (SAIC).⁶⁰ Furthermore, any application for registration of a trademark must be submitted in the Chinese language.⁶¹ This means that multinational corporations must determine how to translate their name into Chinese characters before their name can be registered.⁶² Often when foreign corporations try to register this translated name, these corporations discover that their name has already been registered by a domestic trademark pirate. To fight these trademark pirates, China can rely on the “well-known marks doctrine.”⁶³

C. Well-Known Marks

Trademarks that are considered “well-known” in China are afforded a greater scope of protection.⁶⁴ The well-known marks doctrine provides that a mark will be protected in a nation, even if it is not actually used or registered in that nation, if the mark is well-known in that nation.⁶⁵ The doctrine is especially important to first-to-file nations, such as China, which generally do not protect unregistered marks.⁶⁶ The well-known marks doctrine also allows owners of well-known marks to prevent any-

60. Implementing Regulations, *supra* note 39, art. 7.

61. *Id.* art. 8.

62. A corporation has a number of options available when deciding how to translate its name. First, the name may be translated into Chinese characters based on pronunciation, by selecting Chinese characters which sound like the foreign brand name. Second, the name may be translated by selecting Chinese characters that sound close to the company name, but also carry certain meanings. Third, the name can be translated using a combination of the two methods. Yi Zhang, *Basics About Chinese Names*, <http://www.lexicool.com/article-chinese-names-yi-zhang.asp>.

63. The “well-known” marks doctrine is also sometimes referred to as the “famous marks doctrine.” In the Untied States, the “famous marks doctrine” can also refer to the status of a mark as a “famous mark” for the purposes of the United States Federal Anti-Dilution Act of 1996. A famous mark is a very strong mark that is widely recognized. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARK & UNFAIR COMPETITION § 29:61 (4th ed. 2002). A famous mark is known to a large portion of the public. Famous marks have a higher degree of reputation than well-known marks and therefore merit broader protection. A famous mark must be registered in at least the trademark owners home nation and have a value formulated by an internationally accepted method. Cahan, *supra* note 6, at 222.

64. TL 2001, *supra* note 4, art. 13.

65. MCCARTHY, *supra* note 63, § 29:61.

66. *Id.*

one from capitalizing on that mark and reputation in a country where that mark has not yet been used or registered. But the extent of protection offered to a well-known mark varies from country to country.⁶⁷ In China, the doctrine fights trademark pirates who register a well-known trademark before the rightful owner. If a mark is well-known, the trademark owner can apply for cancellation of the mark with the TRAB, request SAIC to stop the unauthorized use of identical or similar marks⁶⁸ or bring a case in the People's Court to stop use of the infringing mark.⁶⁹

The foundation of modern treaties and domestic laws providing protection for well-known marks internationally is Article 6*bis* of the Paris Convention.⁷⁰ Since China is a member of the Paris Convention, if a mark is considered well-known under the Paris Convention, China must recognize this well-known mark. This recognition is significant, because if the trademark is well-known, a member of the Paris Convention must protect the trademark even if it has not been registered.⁷¹ Thus, a well-known mark which is given protection under the Paris Convention would be an exception to China's first-to-file rule, which generally grants rights to the first to register the mark in China. While the date of application for trademark registration is the date on which the Trademark Office receives the application, if the applicant filed a trademark application in a country which is a member state of the Paris Convention, then the date of the Chinese application will relate back to the date of the original filing.⁷²

Well-known marks are also protected by TRIPS.⁷³ With respect to well-known marks, TRIPS has made more progress than the Paris Convention through the expansion of protection to include well-known service marks.⁷⁴ TRIPS also provides protection of well-known trademarks from use in different commodities and services, and a rough standard on how to determine well-known trademarks.⁷⁵ TRIPS also goes further

67. Bella I. Safro & Thomas S. Keaty, *What's in a Name? Protection of Well-Known Trademarks Under International and National Law*, 6 TUL. J. TECH. & INTELL. PROP. 33, 34 (2004).

68. Implementing Regulations, *supra* note 39, art. 45.

69. TL 2001, *supra* note 4, art. 53.

70. Cahan, *supra* note 6, at 227.

71. Paris Convention, *supra* note 45, art. 6*bis*.

72. *Id.* art. 4.

73. TRIPS, *supra* note 20, art. 16.

74. *See id.*, art. 16.2.

75. YANG, *supra* note 55, at 148. Article 16.2 of TRIPS provides that "in determining whether a trademark is well-known, Members shall take into 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." TRIPS, *supra* note 20, art. 16.2.

than prior international treaties and requires a member country to protect a well-known trademark or service mark, even if that mark was not registered in the country in question.⁷⁶

In response to demands by the United States for formal protection of well-known marks under the TRIPS guidelines and to encourage more foreign companies to apply for trademark registration, the SAIC issued the Interim Provisional Regulations on the Verification and Control of Well-Known Trademarks (Provisions) in 1996.⁷⁷ The Provisions loosely defined well-known trademarks as “registered trademarks which are of high repute and well-known to the relevant sector of the public.”⁷⁸ The Provisions granted the Trademark Office (CTMO) of SAIC, along with the TRAB, power of final review and adjudication of cases. Article 5 of the Provisions also established rather stringent requirements and procedures for the recognition of well-known marks.⁷⁹ Under these rules, no foreign well-known marks were registered by SAIC in the period of 1996–1999.⁸⁰

This led the United States and some European nations to put pressure on China to provide sufficient protection to foreign trademarks and im-

76. Cahan, *supra* note 6, at 230. Article 16.3 of TRIPS states:

Article 6bis of the Paris Convention (1967) shall apply, *mutatis mutandis*, to goods or services which are not similar to those in respect to which a trademark is registered, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the registered trademark and provided that the interests of the owner of the registered trademark are likely to be damaged by such use. This article intended to provide an exception to the principle of specialty, which stipulates that trademarks are only protected in relation to the same or similar goods or services that the mark has been registered for. In certain circumstances this article of TRIPS extends trademark protection to non-competing goods and services.

TRIPS, *supra* note 20, art. 16.3.

77. Cahan, *supra* note 6, at 225.

78. Provisional Regulations on the Verification and Control of Well-Known Trademarks (promulgated by the State Admin. for Industry and Commerce of the P.R.C., Aug. 14, 1996), art. 2, *translated in* http://www.wanhuida.com/english_ver/Law/Index.asp?InfoTypeID=9#.

79. FENG, *supra* note 8, at 358. The failure of foreign marks to be granted well-known status may have resulted from the SAIC interpretation used by the court which made it difficult for a mark presented in English to be considered well-known, since most of the Chinese public is unable to read English. Cahan, *supra* note 6, at 226.

80. Between 1996–1999, SAIC granted registration to eighty-seven marks as well-known, but none of these marks were registered by a foreign corporation. Cahan, *supra* note 6, at 226.

prove their laws on well-known trademarks.⁸¹ As previously mentioned, the Trademark Law was amended in 2001 to provide greater protection to well-known marks.⁸² The TL 2001 sets out the standards for certification and protection of well-known marks in Article 14.⁸³ While the new law does not explicitly define a well-known mark, it provides factors that should be considered in making a determination of a well-known mark.⁸⁴ Under TL 2001, the legal owner of an unregistered but well-known mark may bring a claim of opposition or cancellation of the previously registered mark.⁸⁵ Although the amended law maintains the “first-to-file” system, it grants some protection to an unregistered trademark owner against infringement. Operating under the principle of “exclusive right to use,”⁸⁶ the law provides that any “mala fide”⁸⁷ pre-emptive registration may be viewed as encroaching on the rightful owner’s goodwill in the unregistered well-known mark, established through use, if the pre-emptive registration is a duplication, imitation, or translation of the rightful owner’s unregistered mark, and is for identical or similar goods or services, and it is likely to mislead or confuse the public.⁸⁸ Therefore, after a well-known trademark has been established in China in accordance with Article 14,⁸⁹ any application or registration conflicting with the well-known mark will be rejected or prohibited from use.⁹⁰ Furthermore, the law is intended to provide well-known trademark status and protection to Chinese and foreign brands alike, as required by international treaties.⁹¹

In another step towards compliance with their international agreements,⁹² China strengthened their protection for well-known marks by

81. *Id.*

82. TL 2001, *supra* note 4, art. 13.

83. FENG, *supra* note 8, at 300; TL 2001, *supra* note 4, art. 14.

84. These include (1) reputation of the mark to the relevant public; (2) time of continued use of the mark; (3) consecutive time, 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 reputation of the mark. TL 2001, *supra* note 4, art. 14.

85. *Id.* arts. 13, 30.

86. “A trademark provides protection to the owner of the mark by ensuring the exclusive right to use it to identify goods or services, or to authorize another to use it in return for payment.” WIPO, *supra* note 34.

87. A “mala fide” registration is a registration in bad faith. FENG, *supra* note 8, at 368.

88. *Id.*

89. TL 2001, *supra* note 4, art. 14.

90. FENG, *supra* note 8, at 368.

91. Cahan, *supra* note 6, at 231.

92. See Paris Convention, *supra* note 45; TRIPS, *supra* note 20; Agreement Regarding Intellectual Property Rights, Feb. 26, 1995, P.R.C.-U.S., 34 I.L.M. 881 (1995).

promulgating three new regulations: the Rules for Recognition and Protection for Well-Known Trademarks,⁹³ the Implementation Policy for the Madrid International Registration,⁹⁴ and the Measures Regarding Registration and Administration of Collective Marks and Certification Marks.⁹⁵

The Provisions on the Determination and Protection on Well-Known Trade Marks (WKTm), which came into force on June 1, 2003, replaced the Provisions from 1996.⁹⁶ The WKTm provides more detailed procedures on filing applications for well-known trademark status and on filing claims for relief against infringements.⁹⁷ According to WKTm, well-known trademarks are defined as trademarks that are widely known to the relevant public and enjoy a high reputation in China.⁹⁸ Another major change made by WKTm is the elimination of the state-maintained record of the trademarks that have been given well-known status. Under WKTm, for each new dispute that arises, trademark owners may now file opposition to a trademark application made by a third party or file for revocation of a registered trademark by applying for recognition of their trademark as well-known by submitting relevant evidence.⁹⁹ Despite the promulgation of such new laws, the number of infringement claims, particularly those filed by foreign companies against Chinese companies, continues to rise.¹⁰⁰ Moreover, despite the amended trademark laws and WKTm, foreign marks still do not receive equal treatment with domestic marks. Out of forty-three marks given well-known status under the Implementing Regulations of the Trademark Law and the Recognition and Protection Rules of the Well-Known Trademarks in 2004, forty were for companies based in mainland China.¹⁰¹

93. Provisions on the Determination and Protection of Well-Known Marks, Apr. 17, 2003 (P.R.C.), available at <http://sbj.saic.gov.cn/english/show.asp?id=57&bm=flfg> [hereinafter WKTm].

94. Madrid Implementation Agreement, *supra* note 49.

95. Measures Regarding Registration and Administration of Collective Trademarks and Certification Trademarks, Apr. 17, 2003 (P.R.C.), available at <http://sbj.saic.gov.cn/english/show.asp?id=60&bm=flfg>.

96. WKTm, *supra* note 93, art. 17.

97. International Trademark Association, *Asia Pacific Update*, Oct. 2003, <http://www.inta.org/asiapacific/ap200310.html#5>.

98. WKTm, *supra* note 93, art. 2. WKTm further provides that “[r]elevant sectors of the public shall include consumers of the type of goods and/or services to which the mark applies, operators who manufacture the said goods or provide the said services, and sellers and other persons involved in the channels of distribution of the type of goods and/or services to which the mark applies.” *Id.*

99. International Trademark Association, *supra* note 97.

100. SIPO, *supra* note 11.

101. Cahan, *supra* note 6, at 232.

III. TRADEMARK INFRINGEMENT CLAIMS

After China's entry into the WTO, the nation eased restrictions on its trade and markets for foreign investment,¹⁰² and has enhanced its appeal to foreign investors.¹⁰³ Similar to Starbucks, many multinational corporations see the economic potential of investing in China. However, a major concern for these foreign investors is the protection of their well-known trademarks.¹⁰⁴ The Starbucks case highlights the importance of special protection for well-known marks in a "first-to-file system" like China. Unlike the United States, which uses a "first-to-use" trademark registration policy,¹⁰⁵ in China, trademarks can be registered by a company, which may not be connected to the registered trademark.¹⁰⁶ Under such a "first-to-file" system, a trademark can be registered by a third-party, called a trademark pirate, who has no connection to the mark. This leads to a situation where the legal trademark owner must take administrative or judicial action to stop the unauthorized use of its mark.

A. Claims Against Domestic Defendants

The Starbucks decision is significant because it is the first case decided under the amended TL 2001 and WKTM, which were enacted to provide greater protection to well-known marks.¹⁰⁷ In cases prior to WKTM, foreign companies were often not successful in protecting their well-known marks. South Korea's Hyundai Motors paid an undisclosed sum to a Beijing company, Zhejiang Xiandai Group (Zhejiang), which had registered

102. China has agreed to a significant reduction of tariffs to open up their market to foreign goods and has agreed to a five-year phase out of import quotas. DANIEL C.K. CHOW, A PRIMER ON FOREIGN INVESTMENT ENTERPRISES AND PROTECTION OF INTELLECTUAL PROPERTY IN CHINA 251 (2002).

103. White, *supra* note 1, at 35. China has taken a number of steps to protect and attract foreign investors, including enacting new foreign investment laws, amending its Constitution and establishing the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), to administer China's foreign trade and economic cooperation arrangements. The responsibilities of MOFTEC include: (1) to promulgate laws, regulations and policies; (2) to coordinate foreign trade, investment, and economic development; (3) to create nationally strategic plans; and (4) to administer all foreign investment contracts, laws, and regulations. *Id.* at 37. In 2005, China was the largest recipient of foreign direct investment. Foreign direct investment in China reached a record \$60.6 billion in 2005. *World Investment Report 2005*, BUS. LINE, Oct. 11, 2005, available at 2005 WLNR 16474946.

104. CHOW, *supra* note 102, at 179, 186.

105. Lanham Act, 15 U.S.C. § 1051 (2004).

106. Long, *supra* note 26, at 75.

107. Associated Press, *Starbucks Aims for 30,000 Stores Globally*, N.Y. TIMES, Oct. 14, 2004, available at <http://www.nytimes.com/aponline/business/AP-Starbucks-Growth.html?ex=1098805520&ei=1&en=32589ca41cdd75cb> (last visited Oct. 14, 2004).

and used the “xiandai qiche” trademark—the widely accepted Chinese translation for Hyundai Motors.¹⁰⁸ After being unable to register “xiandai qiche,” Beijing Hyundai Motors approached Zhejiang about purchasing the trademark after the first of its Sonata models finished production in Beijing at the end of 2002.¹⁰⁹ The “xiandai” trademark had been registered by Zhejiang for 43 products, including cars, in 1996. The registration of the trademark cost 100,000 yuan (approximately US\$12,000), but sources close to Zhejiang estimate that Zhang Pengfei, the chairman of the company, earned about 40 million yuan (approximately US\$5 million) from the sale of the trademark to Hyundai.¹¹⁰

In a more recent case, Toyota, a Japanese auto manufacturer, filed suit against the Geely Group, a domestic auto manufacturer for trademark infringement at the end of 2003.¹¹¹ Toyota claimed that the logo of Geely’s signature economy model car, the Merrie, was very similar to that of Toyota, and therefore infringed on Toyota’s well-known trademark. To support this claim, lawyers for Toyota provided a report by the Beijing-based Shaohai Market Investigation, which provided that out of 317 consumers surveyed, almost 67 percent believed the Merrie logo to be that of Toyota, while only 6.9 percent were able to associate the logo with Geely.¹¹² But in November 2003, the No. 5 Civil Division of the Beijing No. 2 Intermediate People’s Court handed down a decision that the two logos were sufficiently different. The Court, relying on China’s Trademark Law, held that the survey should only be composed of consumers or potential consumers.¹¹³ Moreover, the Court felt that Toyota’s claim lacked “legal basis and fact,” because not only are the logos sufficiently different, but consumers will not be confused because other characteristics of the vehicles, particularly the price, are vastly different.¹¹⁴ The case is significant because although China does not follow a com-

108. David Fang, *Hyundai Pays High Price to Win Back Trademark Rights*, SOUTH CHINA MORNING POST, Feb. 21, 2004, available at 2004 WLNR 5967039.

109. *Id.*

110. *Id.*

111. Liu Li, *Logo Likeness Doesn’t Hold in Court*, CHINA DAILY, June 9, 2004, available at http://www.sipo.gov.cn/sipo_english/gfxx/iprspecial/t20040906_34278.htm.

112. *Id.*

113. The deputy presiding judge, Shao Minyan, stated, “According to Chinese law, similar trademarks mean that the charged trademark is easy to mislead consumers in thinking it has special relation with products of the registered trademark of the plaintiff.” *Id.*

114. The court found in comparing the logos that “although the exterior outlines are both elliptical, the Japanese logo is simple, whereas the Chinese logo is comparatively more complicated.” *Id.*

mon law system,¹¹⁵ many believe that it will likely influence future automobile trademark lawsuits.¹¹⁶

The Toyota and Hyundai cases demonstrate the favoritism that Chinese courts sometimes accord to a local entity over a foreign company. Such favoritism raises concerns by foreign companies who fear that China's IP laws are not being applied consistently or fairly. However, in certain cases, including the Starbucks case, the courts have found in favor of the foreign company. In one case similar to the Starbucks case, the international beverage company Coca-Cola successfully stopped a Chinese company from using a mark similar to theirs. Coca-Cola alleged infringement through transliteration of its mark.¹¹⁷ Transliteration has been a common way for by companies to render their mark in Chinese. Through this method, a company chooses Chinese characters that represent the foreign word's sound.¹¹⁸ In this 1997 case, Coca-Cola filed suit against a can manufacturer in Zhejiang province who used the Chinese words "Ke Le," which is the transliteration of "Cola" and the second element of Coca-Cola's famous mark, to market their can products.¹¹⁹ In creating their Chinese mark, Coca-Cola used both the transliteration and conceptual method.¹²⁰ The Company chose "ke kou ke le," which in Mandarin sounds very close to Coca-Cola, and the literal translation of the words has the positive meaning of "permitting the mouth to rejoice."¹²¹ Coca-Cola brought a successful action with the Administration for Industry and Commerce, under both its English and Chinese trademark registrations.¹²² Coca-Cola was able to stop the "Chinese factory from using the Chinese transliteration of Cola as a mark for their can products, because it would mislead consumers to associate the unauthorized cans with the Coca-Cola Company."¹²³ Similarly, the court in the Starbucks case also considered whether the Chinese translation of a foreign well-known brand name would mislead consumers.

115. China operates under a civil law system. Michele Lee, Note and Comment, *Franchising in China: Legal Challenges When First Entering the Chinese Market*, 19 AM. U. INT'L L. REV. 949, 986 (2004).

116. Li, *supra* note 111.

117. Cahan, *supra* note 6, at 240.

118. This is also known as the "phoenetic method." *Branding Lost (and Found) in Translation*, CHINA BRIEF, June 2004, available at <http://www.amcham-china.org.cn/amcham/show/content.php?Id=100&menuid=04&submid=04>.

119. Cahan, *supra* note 6, at 241.

120. The "conceptual method" uses Chinese characters that represent the literal meaning of the foreign words. *Branding Lost (and Found) in Translation*, *supra* note 118.

121. Cahan, *supra* note 6, at 241.

122. *Id.* at 240.

123. *Id.*

B. The Starbucks Case

As a result of increased trade across borders, the global intellectual property community has recognized the need for protection of trademark rights in different languages.¹²⁴ To address this issue, China's TL 2001 provides that using a phonetically similar mark to another's trademark on a similar product or service is a ground upon which to base a claim for trademark infringement.¹²⁵ Starbucks, the U.S.-based coffee company, alleged this type of trademark infringement in their suit against a Shanghai coffeehouse filed in December 2003. Starbucks, named after a character from the classic American novel *Moby Dick*,¹²⁶ claimed trademark infringement against a Shanghai company, Xingbake Coffee Shop Ltd. (Shanghai Xingbake).¹²⁷ The two coffeehouses share the same three characters—xing, ba, ke—in Chinese pinyin.¹²⁸ In Chinese, “Xing” means “star” and “bake” phonetically sounds like “bucks.”¹²⁹

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.¹³⁰ The business registered “Xingbake” as their Chinese name, and subsequently opened coffeehouses using that name in Taiwan and Hong Kong.¹³¹ In May 2000, seeking to expand into the Shanghai market, Starbucks and the President Group jointly established the Shanghai President Starbucks Shareholding Company and subsequently discovered that Shanghai Xingbake registered the enterprise name “Xingbake” with local authorities in March 2000.¹³² Although Starbucks had not yet entered the Shanghai market at that time, “Xingbake” had been used in Taiwan as the Chinese translation for Starbucks

124. Safro & Keaty, *supra* note 67, at 35.

125. See Mingli Chen & Corinne Marie Pouliquen, *Doing Business in China: Protecting Your Trademark Assets*, INT'L LEGAL NEWS, May 3, 2004, http://www.iln.com/2004_newsletter/may/na_epstein_becker_pouliquen.htm.

126. *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, AGENCE FRANCE PRESSE, Aug. 6, 2003, available at 2003 WL 69497517.

127. Shih, *supra* note 12.

128. Zhang Yong, *Starbucks Sues over Trademark Infringement*, CHINA DAILY, Feb. 16, 2004, available at http://www.chinadaily.com.cn/english/doc/200402/16/content_306362.htm. Pinyin is a system of writing Mandarin Chinese in Romanization. Edward A. Gargan, *Chinese as it's Written: Wildly Different Strokes*, N.Y. TIMES, Nov. 10, 1986, at A4.

129. *Id.*

130. *Starbucks Sues Domestic Coffee Bar Chain for Trademark Infringement*, CHINA IP EXPRESS, Feb. 13, 2004, available at http://www.iprights.com/publications/chinaipexpress/ciex_196.asp.

131. *Id.*

132. *Id.*

since 1998.¹³³ Fearful that the trade name Shanghai Xingbake would lead to customer confusion, Starbucks tried to stop Shanghai Xingbake from using "Xingbake" in its name.¹³⁴

After an unsuccessful attempt to reach an out of court settlement, Starbucks sought administrative protection of its trademark from the Shanghai AIC, the local branch of the SAIC. The Shanghai AIC issued an order in September 2000 that called for the café to remove any signs, logos, and names similar to Starbucks.¹³⁵ Shanghai Xingbake failed to obey the order and subsequently opened another outlet in July 2003, on the city's trendy Nanjing Road.¹³⁶ Starbucks then warned Shanghai Xingbake to remove all logos and names similar to Starbucks, but the manager of Shanghai Xingbake refused to do so.¹³⁷

The manager for the Shanghai Xingbake felt there had been no trademark infringement.¹³⁸ He claimed since the company "never applied for any Chinese or English trademarks . . . there is no trademark infringement at all."¹³⁹ Rather, he argued that Starbucks' complaint was invalid because Shanghai Xingbake is using a "legitimate company title, instead of a trademark."¹⁴⁰ However, according to attorneys for Starbucks, a trademark is of greater importance than a trade or company name under Chinese law in this particular situation.¹⁴¹ In initiating the suit, lawyers for Starbucks argued that "big brand owners like Starbucks have invested

133. Yong, *supra* note 128.

134. *Id.*

135. Shih, *supra* note 12.

136. *Id.* Prior to the decision, Shanghai Xingbake had plans to open an additional thirty to fifty franchise outlets in downtown Shanghai. *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, *supra* note 126.

137. *Starbucks Should Probably Win an Intellectual Property Case Against a Similarly Named Local Wire*, EIU VIEWSWIRE CHINA, Mar. 17, 2004, available at 2004 WLNR 13988794.

138. Yong, *supra* note 128.

139. *Id.*

140. *Id.* Shanghai Xingbake's argument relies on a Chinese law which treats trademark registrations and registrations of enterprise names separately. There is currently no regulation that provides that once a name has been registered as a trademark name, it cannot be registered as an enterprise name. In China, trademarks are registered with the CTMO, whereas enterprise names are registered with the local AICs. Generally, there is no conflict between trademarks and enterprise names. The conflict arises between well-known trademarks and enterprise names, as it did in the Starbucks case. Interview by Emma Barraclough with An Qinghu, Director General, China Trade Mark Office, *Inside World's Busiest Trade Mark Registry: Trade Mark Applications in China have Risen by 80,000 in Each of the Past Two Years and the Rapid Growth Looks Set to Continue*, MANAGING INTELL. PROP., Nov. 1, 2004, at 25 [hereinafter Qinghu Interview].

141. *Starbucks Should Probably Win an Intellectual Property Case Against a Similarly Named Local Wire*, *supra* note 137.

heavily into building their brands. In this case, the integrity of the brand is at stake.”¹⁴²

In its suit, Starbucks wanted Shanghai Xingbake to cease using “Xingbake,” as well as its logo, which is of a similar color and design as that of Starbucks.¹⁴³ With such similarities between the two coffeehouses, Starbucks argued that the probability of consumer confusion is high.¹⁴⁴ The manager of Shanghai Xingbake argued that its logo was not copied, but was designed by its own staff member.¹⁴⁵ In addition, he argued that he registered the trade name on October 20, 1999, whereas Starbucks did not apply for its name until January 2000.¹⁴⁶ Moreover, he asserted that at the time Shanghai Xingbake registered its name, most Chinese people were unfamiliar with Starbucks.¹⁴⁷ The manager said that any similarity between the two brand names is coincidence, because he had not heard of Starbucks at the time.¹⁴⁸ But Starbucks argued that the facts and circumstances of the case supported its claims that the Shanghai Xingbake is operating in bad faith. Starbucks registered their trademark for the purpose of operating a coffee shop, which is also what Shanghai Xingbake is doing.¹⁴⁹

Starbucks also sought damages of 500,000 yuan (approximately US\$62,500), the maximum amount of damages allowable under TL 2001.¹⁵⁰ While the case was pending in the Second Intermediate People’s Court of China, the court froze Shanghai Xingbake’s bank account and seized objects related to the case, including name cards and menus.¹⁵¹ On December 31, 2005, the court handed down a decision finding that Shanghai Xingbake had 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.¹⁵² The court ordered both branches of Shanghai

142. Shih, *supra* note 12.

143. *Id.*

144. *Id.*

145. *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, *supra* note 126.

146. *Starbucks Sues Domestic Coffee Bar Chain for Trademark Infringement*, *supra* note 130.

147. *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, *supra* note 126.

148. *Id.*

149. *Id.*

150. *Starbucks Sues Domestic Coffee Bar Chain for Trademark Infringement*, *supra* note 130.

151. Shih, *supra* note 12.

152. Monica Soto Ouchi, *Starbucks in Battle to Protect its Name*, SEATTLE TIMES, Oct. 9, 2005, available at http://seattletimes.nwsourc.com/html/business/technology/2002549239_starside09.html.

Xingbake to cease using “xingbake” and ordered Shanghai Xingbake to pay 500,000 yuan to Starbucks.¹⁵³

Although Shanghai Xingbake filed an appeal against the court’s decision,¹⁵⁴ the case is of great importance because it is the first decision made by a local court on infringement of a well-known mark under the revised trademark law, TL 2001 and WKTm.¹⁵⁵ In China, the first to register a mark will generally prevail in an infringement claim.¹⁵⁶ However, under TL 2001 and WKTm, which was passed as a result of pressure from foreign companies to protect their well-known brands, well-known marks are accorded special protection.¹⁵⁷ The Shanghai No. 2 Intermediate People’s Court found that the marks “Starbucks” and “Xingbake,” along with its logo design are considered well-known marks in China as a result of “their widespread use, publicity and reputation.”¹⁵⁸ Thus, as a well-known mark, although Starbucks registered the mark in Shanghai after Shanghai Xingbake, Starbucks was able to prevail.¹⁵⁹ Moreover, since Xingbake is a well-known mark, the court found that Shanghai Xingbake was acting in bad faith by using the mark in an attempt to benefit from the goodwill and reputation of Starbucks.¹⁶⁰

The Starbucks decision is not only evidence that Chinese courts will protect the well-known marks of foreign corporations from infringement

153. Yin Ping, *Judge rules for Starbucks in Copyright Violation Case*, CHINA DAILY, Jan. 2, 2006, available at www.chinadaily.com.cn/english/doc/2006-01/02/content_508607.htm.

154. Shanghai Xingbake argues that the Shanghai No. 2 Intermediate People’s Court should have taken into account the date on which Shanghai Xingbake registered its trademark, rather than when the mark was first used and that it registered “xingbake” in October 1999, two months before Starbucks, although it did not open its business until the following year. Amy Gu, *Coffee Shop Appeals on Starbucks Trademark*, STANDARD (Hong Kong), Jan. 19, 2006, available at http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=10237&sid=6291676&con_type=1&d_str=20060119.

155. Associated Press, *supra* note 107.

156. Ouchi, *supra* note 152.

157. *Id.*

158. Ping, *supra* note 153; Kenny Wong & Eugene Low, *Starbucks Well-Known Marks Win Out Over Local Name Registration*, Feb. 6, 2006, <http://www.commliba.org/modules.php?name=News&file=article&sid=145>. According to an Interpretation by the Supreme People’s Court, the higher/intermediate People’s Courts have jurisdiction to identify a well-known trademark in trademark disputes upon request of the party concerned according to Article 14 of the TL 2001. Interpretations of the Supreme People’s Court of Several Issues Concerning the Application of the Law to the Trial of Civil Dispute Cases Involving Trademarks, art. 22, Oct. 10, 2002, effective Oct. 16, 2002 (P.R.C.), translated in <http://www.colaw.cn/findlaw/ip/trademarks.htm>.

159. Ping, *supra* note 153.

160. Wong & Low, *supra* note 158.

by domestic entities,¹⁶¹ but also provides some guidance as to what constitutes a well-known mark in the Chinese courts. This is especially important since China has been criticized for the lack of consistency in their determinations of well-known marks¹⁶² and has been asked to publish the criteria that it used for assessing trademarks and to provide guidance on how the office will apply the new well-known trademarks laws in practice.¹⁶³ One factor the courts appear to consider is evidence that the brand owner placed advertisements in several countries over a period of time.¹⁶⁴ The Shanghai Court in the Starbucks listed “publicity” as a factor it considered in making the well-known determination.¹⁶⁵ Similarly, in an earlier decision, *Inter IKEA Systems B.V. v. Beijing CINET Co.*, the Intellectual Property Chamber of Beijing’s Second Intermediate People’s Court found IKEA to be a well-known mark because their goods and services had been advertised for an extended period of time around the world.¹⁶⁶ Another factor cited by the Starbucks court in making the determination of a well-known mark was reputation,¹⁶⁷ which was also considered in *IKEA*.¹⁶⁸ The Starbucks court may have also considered evidence of registrations in other countries around the world as a factor for well-known status. This factor comes from an ad hoc determination of “Pizza Hut” as a well-known mark by the CTMO.¹⁶⁹ In making this

161. *Id.*

162. Qinghu Interview, *supra* note 140.

163. *Id.*

164. Edward Eugene Lehman, Camilla Ojansivu, & Stan Abrams, *Well-Known Trademark Protection in the People’s Republic of China—Evolution of the System*, 26 *FORDHAM INT’L L.J.* 257, 272 (2003).

165. Ping, *supra* note 153.

166. Lehman, Ojansivu, & Abrams, *supra* note 164, at 272.

167. Ping, *supra* note 153.

168. The court considered that IKEA had enjoyed tremendous popularity in the world and prestige among its customers. Lehman, Ojansivu, & Abrams, *supra* note 164, at 272.

169. Well-known status was granted to Pizza Hut by a Chinese court in 1987. There, an Australian company applied to register the trademark “Pizza Hut” for cake products in China. However, the Chinese Trademark Office, based on the evidence of its registrations of the mark in over forty countries, found that the Pizza Hut Company, an American company, was the original creator of the trademark. The application by the Australian company was rejected and by virtue of the court decision, the “Pizza Hut” mark was granted well-known status. Lehman, Ojansivu & Abrams, *supra* note 164, at 259. The decision to grant Pizza Hut well-known status was economically beneficial for China. In the years following the Pizza Hut decision, Pizza Hut announced it would open fifty more chains to join the fifty chains already open across China. *Pizza Hut to Open 50 More Chain Stores in China*, *PEOPLE’S DAILY*, available at http://english.people.com.cn/english/20010821_77830.html.

decision, the CTMO concluded that Pizza Hut was well-known based on the company's registration of its mark in over forty countries.¹⁷⁰

The Starbucks decision was an important victory for Starbucks and China. The company, one of the world's largest coffee chains, views Shanghai, where thirty-eight of the eighty-three Starbucks' outlets in China are located, as a battleground in its fight to establish dominance in the Chinese market.¹⁷¹ As part of its global growth strategy, Starbucks has decided to focus its efforts on a few countries where it sees great potential.¹⁷² In particular, Starbucks will focus on expanding in China, which the company believes could become one of its largest markets.¹⁷³ China also reaps economic benefits from the decision. If Starbucks had received an unfavorable decision, Starbucks might have scaled back their plans for expansion in the country. But now that its trademark has been recognized as well-known in China, Starbucks can continue to invest in China, with peace of mind that its trademark will be accorded special protection. Moreover, in addition to expanding the number of stores in China, Starbucks is also spending money in China to promote socially responsible projects.¹⁷⁴

The decision is also good news for potential investors. In the past, foreign corporations criticized Chinese courts for their favoritism of the local party in infringement actions, but this decision seems to suggest the tides may be turning. Now, it is the domestic corporation who alleges mistreatment by the People's Court. After the decision came down, Jiang Xian, Shanghai Xingbake's attorney, argued that "[t]he court was too nice to the American company. It should have treated the companies, whatever their nationalities, in the same, fair way."¹⁷⁵ But it is too early to tell whether other courts will follow the Starbucks decision, despite it being widely reported in the news. China has a civil law system, where prior decisions have no binding authority, although they can be used as persuasive authority.¹⁷⁶ However, although there is no reporting system

170. *Pizza Hut to Open 50 More Chain Stores in China*, *supra* note 169.

171. *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, *supra* note 126.

172. The company decided to adopt this strategy, rather than expanding rapidly into many new countries. Other markets where the company sees potential include Russia, Brazil and India. Associated Press, *supra* note 107.

173. *Id.*

174. In September 2005, Starbucks announced the creation of a \$5 million fund to promote education in China. In creating the fund, Starbucks seeks to "raise its profile in a market it hopes will be its second largest after the United States." *Starbucks Announces \$5 million Fund in China*, CHINA DAILY, Sept. 19, 2005, available at http://www.china-daily.com.cn/english.doc/2005-09/19/content_479140.htm.

175. Gu, *supra* note 154.

176. Lee, *supra* note 115.

of cases between the provinces,¹⁷⁷ there is evidence that courts are applying China's well-known trademarks laws consistently. In June 2004, Starbucks filed a civil lawsuit against a coffeehouse, located in a five-star hotel in Qingdao, which was using the "Starbucks" mark. On December 21, 2005, the court in that case held that its unauthorized use of the Xing, Ba, Ke characters, along with Starbucks, Frappuccino and a logo similar to Starbucks' logo infringed Starbucks trademark rights.¹⁷⁸ These two victories are strong signs to foreign investors that Chinese courts are applying Chinese trademark laws in a consistent manner and are treating foreign and domestic parties alike.

V. OUTLOOK FOR MULTINATIONAL CORPORATIONS ENTERING THE CHINESE MARKET

The Starbucks decision was an important case for the Chinese trademark protection system. The case demonstrates the progress China has made in protecting well-known marks, but also draws attention to the challenges that foreign corporations still face in protecting their trademarks. Although China has fulfilled its obligations under TRIPS and other international treaties,¹⁷⁹ protection of intellectual property, particularly China's weak enforcement of IP laws, remains a major source of contention between China and foreign nations.¹⁸⁰

A. Trademark Laws and Regulations

China has made great improvements to their IPR protection system. With China's accession into the WTO, China has overhauled all of its IP laws to meet international standards.¹⁸¹ China's modern laws provide

177. There is currently no formal reporting system between the provinces or between the central government and the provinces. Nanping Liu, *A Vulnerable Justice: Finality of Civil Judgments in China*, 13 COLUM. J. ASIAN L. 35, 98 n.109 (1999).

178. Emma Barraclough, *Starbucks and Ferrero Celebrate China Victories*, MANAGING INTELL. PROP., Feb. 2006, available at <http://www.managingip.com/includes/magazine/PRINT.asp?SID=610648&ISS=21306&PUBID=34>.

179. International treaties have been among the least effective methods of protecting IPR. This is primarily a result of a failure to provide a global enforcement mechanism. Moreover, China and other nations have demonstrated that compliance with obligations of treaties and actually protecting intellectual property rights are not the same thing. Greg Creer, Note and Comment, *The International Threat to Intellectual Property Rights Through Emerging Markets*, 22 WIS. INT'L L.J. 213, 241 (2004).

180. *Japan Asks China to Step Up Enforcement Against Trademark Breaches*, ASIAN ECON. NEWS, Oct. 25, 2004, available at LEXIS, ACC-No. 123588168.

181. Zhou, *supra* note 3, at 430.

remedies for trademark law violations, including civil liability, administrative sanctions and criminal punishment.¹⁸²

In 1978, China entered into a legal reform program to create a legal system that would foster economic growth.¹⁸³ Since then, China has passed more than 350 laws and 6,000 regulations to support the development of an international business economy. However, the effectiveness of such laws is challenged by a number of factors. First, although, the “rule of law” exists in China,¹⁸⁴ at least in theory, the Chinese people continue to distrust a system of formal laws.¹⁸⁵ Second, as a result of inconsistent interpretation of laws and the Constitution, where existing legislation sometimes contradicts the Constitution,¹⁸⁶ it is difficult to determine which laws should be followed. A third difficulty with Chinese legislation is that vagueness leaves room for corruption and inconsistent administration of laws by provinces who adjust the laws to meet their needs.¹⁸⁷

The ambiguity which exists in trademark law poses a serious concern for those who administer the laws and those who try to follow them. In particular, there is no clear definition of what constitutes a well-known mark in China. Both the Paris Convention and TRIPS fail to explicitly define the process for verification of a well-known mark.¹⁸⁸ Under the Paris Convention, the definition of what constitutes a well-known mark is left to the “competent authority” of the nation in which protection is sought.¹⁸⁹ In China, the lack of a specific definition of a well-known mark has caused significant problems, including self-awarded well-known trademarks, well-known trademark trading, and counterfeit

182. Reid, *supra* note 34, at 91.

183. Pitman B. Potter, *Legal Reform in China: Institutions, Culture, and Selective Adaptation*, 29 LAW & SOC. INQUIRY 465 (2004).

184. See William C. Jones, *Trying to Understand the Current Chinese Legal System*, in UNDERSTANDING CHINA'S LEGAL SYSTEM 39–40 (C. Stephen Hsu ed., 2003) (arguing that it is unclear what “rule of law” meant to Chinese officials who asserted the idea during Den Xiaoping's early reforms and that a very broad view would be that “rule of law” suggested that all institutions were associated in some way with the concept of law).

185. Glenn R. Butterson, *Pirates, Dragons and U.S. Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement*, 38 Ariz. L. Rev. 1081, 1114 (1996).

186. Lee, *supra* note 115, at 962.

187. *Id.* at 962–63.

188. YANG, *supra* note 55, at 149.

189. MCCARTHY, *supra* note 63, § 29:62.

trademarks.¹⁹⁰ The lack of certainty has also led many foreign companies to be hesitant to apply for well-known status.¹⁹¹

The current WKTM offers a more detailed explanation of the meaning of a well-known trademark than the prior Provisions.¹⁹² WKTM defines a well-known trademark as “a mark that is widely known to the respective public and also maintains high reputation in China,”¹⁹³ and the 2001 TL provides a number of factors to consider in determining if a mark is well-known.¹⁹⁴ However, the definition and the factors remain broad and subjective, allowing for interpretation by the courts and administrative agencies. This subjective nature can be especially problematic in a nation such as China, whose legal system has been criticized for lack of independence and local protectionism.¹⁹⁵ For guidance, China could look to the factors considered by WIPO in making a determination of a well-known trademark,¹⁹⁶ as well as the standards used by Western nations in determining well-known status.

190. YANG, *supra* note 55, at 151.

191. Since 1996, the TMO has recognized over two thousand well-known marks, all of which are domestic enterprise-owned marks. FENG, *supra* note 8, at 360.

192. WKTM, *supra* note 93.

193. The Regulations further provide that the “relevant public” means the respective consumers using goods or services represented by the trademark, other persons manufacturing such goods or providing such services, and sellers and respective people involved in sales channels. *Id.* art. 2.

194. TL 2001, *supra* note 4, art. 14.

195. See Lehman, Ojansivu & Abrams, *supra* note 164, at 270–71.

196. WIPO adopted these factors in the Joint Resolution Concerning Provisions on the Protection of Well-Known Marks. Article 2(1) of this Joint Resolution provides a number of factors that should be considered when making a determination of a well-known trademark:

(1) Factors for Consideration

(a) In determining whether a mark is a well-known mark, the competent authority shall take into account any circumstances from which it may be inferred that the mark is well known.

(b) In particular, the competent authority shall consider information submitted to it with respect to factors from which it may be inferred that the mark is, or is not, well known, including, but not limited to, information concerning the following:

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 promotion of the mark, including advertising or publicity and the presentation, at fairs

B. Chinese Social and Political Culture

Another obstacle in strengthening China's IPR protection comes from China's history and culture, which do not elevate IPR in the same manner as Western nations.¹⁹⁷ In Ancient China, treatises were created by "borrowing" from classics and the work of other scholars without giving formal credit to the sources.¹⁹⁸ From about 100 B.C. until 1911 A.D., the principles of Confucianism dominated Chinese society and culture.¹⁹⁹ Confucian principles celebrate the good of the community over the pursuit of individual reward.²⁰⁰ These principles were carried over when the PRC was established in October 1949 by the CCP.²⁰¹ The Party formulated a body of law, heavily influenced by Marxist-Leninist principles. The laws did not consider literary, scientific and artistic works to be per-

or exhibitions, of the goods and/or services to which the mark applies;

4. the duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark;

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 mark.

(c) The above factors, which are guidelines to assist the competent authority to determine whether the mark is a well-known mark, are not pre-conditions for reaching that determination. Rather, the determination in each case will depend upon the particular circumstances of that case. In some cases all of the factors may be relevant. In other cases some of the factors may be relevant. In still other cases none of the factors may be relevant, and the decision may be based on additional factors that are not listed in subparagraph (b), above. Such additional factors may be relevant, alone, or in combination with one or more of the factors listed in subparagraph (b), above.

Gen. Rep. of the Assemblies of the Members States of World Intellectual Property Organization (WIPO), Joint Resolution Concerning Provisions on the Protection of Well-known Marks, WIPO Doc. A/34/13, art. 2(1) (1999), available at http://www.wipo.int/about-ip/en/development_iplaw/doc/pub833.doc.

197. Reid, *supra* note 34, at 90.

198. *Id.*

199. Evans, *supra* note 54, at 589.

200. *Id.*

201. Kristie M. Kachuriak, *Chinese Copyright Piracy: Analysis of the Problems and Suggestions for Protection of U.S. Copyrights*, 13 DICK. J. INT'L L. 599, 603 (1995). The CCP is the highest authority over both the state and society. The CCP participates in all government institutions through a specially chosen party secretary. Reid, *supra* note 34, at 88.

sonal property. Rather, to remove class inequities, such property was considered to be collectively owned by the state.²⁰² It was only following the death of Mao in 1976 that China gave recognition to intellectual property rights.²⁰³

Despite the creation of such laws, the protection of IPR is hindered by the Confucian tradition, which cherishes the concept of “li” in societal relationships.²⁰⁴ The Chinese people are guided by a tradition which encourages individuals to understand their responsibilities and obligations to others and be prepared to take into consideration the views of others, in order to avoid confrontation and create a harmonious society.²⁰⁵ As a result of this tradition, there was little demand for a system of litigation to protect individual rights, including intellectual property rights.²⁰⁶

These Confucian principles have also had a strong influence on China’s political culture. Many aspects of Confucianism were embraced by the Communists and continue to flourish in Chinese society today.²⁰⁷ In China, laws are considered the “concrete formulation of the Party’s policy.”²⁰⁸ These Confucian and Communist principles provide the ideological bases of most of China’s laws, which do not address the idea of providing “property-like protection for products of individual intellect.”²⁰⁹ This has created a political climate under which China does not promote IPR in the same manner as the United States and other Western nations.²¹⁰

China’s political culture has been cited as a central reason for the weakness of the nation’s intellectual property laws and enforcement.²¹¹ A memorandum from the United States Department of State noted that “China’s leaders must increasingly build consensus for new policies

202. Kachuriak, *supra* note 201, at 603.

203. Intellectual property rights were first defined in the General Principles of the Civil Law (effective January 1, 1987) as civil rights of citizens and legal persons. *Id.* at 604.

204. The concept of “li” is broadly translated as etiquette or “rites.” Butterson, *supra* note 185, at 1109.

205. Peter K. Yu, *The Second Coming of Intellectual Property Rights in China*, 24, OCCASIONAL PAPERS IN INTELLECTUAL PROPERTY, NO. 11, from Benjamin N. Cardozo School of Law Yeshiva University (2002).

206. *Id.*

207. Butterson, *supra* note 185, at 1113.

208. FENG, *supra* note 8, at 11.

209. Reid, *supra* note 34, at 92.

210. *Id.* at 90.

211. The Chinese political system, under which the state determines which ideas may be disseminated, clashes with a system protecting IPR, where an individual has the right to decide who may use their expression of ideas and how they may be used. WILLIAM P. ALFORD, *TO STEAL A BOOK IS AN ELEGANCE OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION* 119 (1995).

among party members, influential nonparty members, and the population at large.”²¹² China will continue to face difficulties in building a truly effective intellectual property regime, unless they are able to make a change in the political culture. Therefore, in addition to the promulgation of laws, China must educate its officials and the Chinese public on the nature of IP and encourage protection of IPR.

IV. CHALLENGES IN ENFORCEMENT

Although the Starbucks decision provides hope that China is moving towards a stronger IP system of protection for foreign brands, multinational corporations still face a number of challenges, especially from China's weak enforcement of IP laws. Although China has made significant progress in the laws governing trademarks, China has not yet established an effective enforcement system to protect trademarks. This raises serious concerns for foreign investors because enforcement is the key to protection of IPR in China.²¹³ Although foreign pressure on China has been effective in getting IPR protection laws promulgated, the pressure has been less successful in strengthening enforcement.²¹⁴

A. Administrative Mechanisms of Protection

Under China's "dual track" enforcement system, IPR are enforced by both administrative agencies and the courts.²¹⁵ A trademark owner may either go to the local AIC to report a case of infringement, or pursue a civil or criminal action in a court. For trademark infringement claims, most parties still currently prefer to use administrative measures.²¹⁶ China has established a number of administrative bodies to strengthen protection of IPR. There are three agencies under the State Council who are in charge at the national level: the National Administration for Copyright (NCA), the State Intellectual Property Office (SIPO) and SAIC.²¹⁷

212. Reid, *supra* note 34, at 89.

213. Reid, *supra* note 34.

214. *Id.*

215. In recent years, as a result of reforms for TRIPS compliance, the extensive power of these government agencies has become somewhat curtailed. FENG, *supra* note 8, at 16–17.

216. The administrative mechanism is particularly effective in situations of counterfeit goods. If a counterfeit was found in a market, within days a raid could be conducted. But where there is rampant counterfeiting, the administrative measures are not as effective. *Secrets of Success in China*, MANAGING INTELL. PROP., Apr. 2005, at 10 [hereinafter Roundtable].

217. FENG, *supra* note 8, at 16. The primary responsibilities of the NCA are the implementation and enforcement of the Copyright Law. SIPO is responsible for the development and coordination of China's official IPR policy, but the majority of its daily work

The administrative enforcement for trademark matters is regulated by the CTMO of the SAIC,²¹⁸ but AICs across the nation participate in enforcement of trademark cases and cracking down on trademark counterfeiting and infringement.²¹⁹

The protection of IPR through an administrative mechanism has become increasingly important.²²⁰ According to SIPO, in 2004, SAIC launched a nationwide crackdown upon trademark counterfeiting and infringement, under which AICs from all levels have intensified enforcement of trademark cases.²²¹ But these administrative enforcement efforts are hindered by localism, a lack of financial resources and the inadequacy of penalties against infringers.²²² Localism refers to the emergence of administrative bureaucracy in regions across China as a result of Beijing's decision to enhance local autonomy.²²³ As a result of the decentralization and rise of localism, Beijing's central power was eroded and corrupt local officials filled the power vacuum.²²⁴ This poses problems for protecting IPR because local officials often profit from counterfeit goods through kickbacks or bribes or may even be involved with the production of illegal goods and services.²²⁵ In some cases the

involves patent law administration. *Id.* at 19. The Trademark Office of the SAIC is responsible for trademark registration, administrative recognition of well-known marks and enforcement of trademark protection. Trademark Office Under the State Administration for Industry and Commerce, <http://sbj.saic.gov.cn/english/orgranization/introduction.asp>.

218. Qin Jize, *Creating a Sound Environment for Trademark Growth*, Aug. 9, 2004, http://www.sipo.gov.cn/sipo_English/gfxx/iprspecial/t20040902_34274.htm.

219. SIPO, *supra* note 11. Some trademark owners may first seek assistance from a local AIC to collect evidence of trademark infringement because these offices have their own market information database. Zhou, *supra* note 3, at 441.

220. Zhuge Beihua & Wang Yao, *The Benefits of Administrative Action: While Interest in Court Action Grows Steadily, Administrative Remedies Still Offer Trade Mark Owners in China Many Advantages*, *MANAGING INTELL. PROP.*, Feb. 1, 2005, at S54 (arguing that as the market economy system develops and the legal system improves in China, judicial protection will become the dominant method for protecting trademark rights, but that administrative protection of trademark rights is indispensable at this time).

221. Under the Action Plan of Conducting Special Operation Right of Registered Trademark Protection issued by SAIC, AICs across the nation conducted special operations to protect registered trademarks. Over 24,000 trademark infringement cases were investigated and dealt with by the AIC, including 3,838 cases involving a foreign company. SIPO, *supra* note 11.

222. Evans, *supra* note 54, at 591.

223. With China's decision in 1979 to move from a planned economy to a market economy, Beijing decided to enhance local autonomy to facilitate the transition. Evans, *supra* note 54, at 590.

224. *Id.*

225. *Id.* at 591.

local infringer is a local government entity.²²⁶ In one case, the Peninsula Group, an international hotel company, brought an action against a state-owned power company who built a hotel called the "Peninsula Hotel" in Yichang.²²⁷ The Peninsula Group, which operates hotels in New York, Beverly Hills, and the Far East, is currently trying to stop the power company from using its name and logo on the hotel.²²⁸

As demonstrated by the Starbucks case, China's enforcement of judgments by an administrative body is weak. Prior to commencing its suit against Shanghai Xingbake in court, Starbucks obtained an order from the Shanghai AIC that called for the café to remove any signs, logos, and names similar to Starbucks.²²⁹ But Shanghai Xingbake failed to obey the order, and Starbucks pursued judicial actions to protect its rights.²³⁰ If administrative mechanisms of protection were more successful in stopping infringement, fewer parties would need to initiate legal proceedings, thereby reducing the number of legal proceedings in China's backlogged courts.

The inability of administrative agencies to enforce orders is due in part to a lack of financial resources and trained staff.²³¹ The lack of resources has also created a backlog of trademark application review.²³² In 2004, CTMO received the most trademark applications since its creation, with a total of 762,000 for both goods and services. This was an increase of more than 27 percent from the previous year.²³³ For trademark registration applications, the CTMO received 587,926 applications covering goods and services. Of these, 10.26 percent were from foreign applicants.²³⁴ The CTMO was able to examine less than half of the number of

226. *China Pressed to Forcefully Attack Intellectual Property Theft*, STATES NEWS SERVICE, Jan. 13, 2005 (LEXIS, SNS File). Simon Parry, *How to Counterfeit a Five-Star Hotel on the Cheap*, NATIONAL POST, May 1, 2004, available at 2004 WL 76448796.

227. The 154-room hotel, with an exterior that resembles the Hong Kong Peninsula Hotel, is located in Yichang, a tourist destination at the head of China's Three Gorges Dam. The interior of the hotel comes nowhere near the international standards of luxury which are associated with the Peninsula Group. Parry, *supra* note 226.

228. *Id.*

229. Shih, *supra* note 12.

230. *Id.* Article 53 of TL 2001 provides: "Where any interested party is dissatisfied with decision on handling the matter, it or he may, within fifteen days from the date of receipt of the notice, institute legal proceedings in the People's Court according to the Administrative Procedure Law of the People's Republic of China." TL 2001, *supra* note 4, art. 53.

231. Evans, *supra* note 54, at 590.

232. Fang, *supra* note 108.

233. SIPO, *supra* note 11.

234. This is also the first time the number of foreign trademark registration applications exceeded 60,000. *Id.*

trademark registration applications it received²³⁵ According to An Qinghu, the director-general of the CTMO, the office needs a staff of about 245, but currently operates with just 210 employees.²³⁶ But the problem is not simply a lack of staff, but also a lack of training for staff.

Although, it is the responsibility of the local governments to provide the money and personnel to allow the agencies to carry out their duties, they are often reluctant to do so because it is more financially beneficial for them to allow the violators to continue their activities.²³⁷ Although China understands that protection of IPR is essential to their economic reform, many Chinese officials still regard IP protection as a secondary issue.²³⁸

There has been pressure from the international community for China to improve administrative protection of IPR. For example, the United States has argued that to protect American IPR, the Chinese government should extend its administrative power with greater force than allowed under Chinese constitutional principles, such as providing administrative protection of non-existing rights under current Chinese laws and legal principles.²³⁹ Although the United States would like the Chinese government to extend its administrative power further than allowed under the Chinese Constitution to protect IPR, such administrative protection is unlikely because an administrative regulation cannot create rights that do not exist in current law and legal principles.²⁴⁰

B. Judicial Protection of IPR

Judicial protection of IPR will likely play an increased role in trademark protection in the future. In compliance with TRIPS obligations, China must allow judicial review of final decisions from administrative

235. In 2004, of the 587,926 applications it received, the TMO examined 244,852 trademark registration applications. *Id.*

236. Qinghu Interview, *supra* note 140.

237. *Id.* Local authorities, who have a history of defying central orders, are willing to turn a "blind eye" to IP violations of a lucrative local business to prevent the loss of jobs and wealth from the locality. Evans, *supra* note 54, at 591.

238. Judge Jiang Zhipei, the Chief Justice of the Intellectual Property Rights Tribunal of China's Supreme People's Court said, "China is still a developing country. Although a lot of big cities are very developed, there are still many places where people don't have enough to eat. There are more urgent issues to be addressed than IP Protection." Roundtable, *supra* note 216.

239. The suggestion may run into difficulties because in the area of human rights, the United States has argued that the Chinese government exercises too much administrative power. Long, *supra* note 26, at 91.

240. *Id.*

agencies.²⁴¹ To meet these obligations, China has taken significant steps to build a judicial structure to protect IPR. In 1993, the Beijing Intermediate People's Court created its own Intellectual Property Rights Tribunal, the first court to be devoted solely to intellectual property cases.²⁴² Similar intellectual property courts have been established in Shanghai, Tianjin, Guangzhou, Fujian Province, Jiangsu Province, Hainan Province, and the Special Economic Zones.²⁴³

An infringement action can be brought as a civil matter by the trademark owner or as a criminal prosecution.²⁴⁴ A civil court proceeding has some advantages over administrative actions. In a civil court action, the trademark owner can obtain a preliminary injunction from the People's Court either before or at the time a suit is filed.²⁴⁵ A timely decision can also be made in certain civil cases. According to the Chinese Civil Procedure Act, civil cases are usually handled within six months from the filing date, with an additional three months for an appeal.²⁴⁶ However, cases involving foreign parties do not adhere to such a time frame. Rather, as demonstrated by the Starbucks decision, cases involving foreign parties can take years.

Trademark infringement can also be criminally prosecuted under China's Criminal Laws, which make it a crime to intentionally use another party's registered trademark, sell merchandise under a fake trademark, and manufacture any representation of a registered mark without authorization from the registered owner.²⁴⁷ Criminal prosecution has in-

241. FENG, *supra* note 8, at 17.

242. Appeals from the Tribunal would go to a special court affiliated with the Beijing High People's Court. Zhou, *supra* note 3, at 431.

243. *Id.*

244. Meg Utterback, *Options for Enforcement of Intellectual Property Rights in China*, MONDAQ, Feb. 22, 2006, available at 2006 WLNR 3080880.

245. TL 2001, *supra* note 4, art. 57. This measure was put in place to comply with Article 50.1 of TRIPS which provides:

The judicial authorities shall have the authority to order prompt and effective provisional measures: (a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance; (b) to preserve relevant evidence in regard to the alleged infringement.

TRIPS, *supra* note 20, art. 50.1.

246. Both the civil case and the appeal time can be extended for special circumstances. He Zhonglin, *Enforcement of Intellectual Property Law in Post-WTO China*, BCLA Seminar, July 25, 2002, available at <http://chinaiprllaw.com/english/forum/forum40.htm>.

247. Criminal Law (promulgated by the Second Session of the Fifth Nat'l People's Cong. on July 1, 1979, amended by the Fifth Session of the Eighth Nat'l People's Cong.,

creasingly become a more popular choice for enforcement because it serves as the greatest deterrent.²⁴⁸ Criminal enforcement may be initiated by a request from a private party.²⁴⁹ Conviction for trademark infringement crimes may result in imprisonment of up to three years, and in severe cases for certain violations, up to seven years.²⁵⁰ In 2004, the Supreme People's Court issued the "Interpretation by the SPC in Handling Criminal Cases of Infringing Intellectual Property"²⁵¹ to make it easier to bring a criminal prosecution for infringement.²⁵²

Despite the increased importance of judicial enforcement, such enforcement is also plagued by many of the problems impacting administrative enforcement, including lack of resources, difficulty in enforcing judgments and inadequacy of penalties. Another common complaint about enforcement is the difficulty in receiving determinations of infringement and enforcing judgments.²⁵³ The TL 2001 made some improvements in this area.²⁵⁴ The 1993 Trademark Law required proof of subjective knowledge or intention with respect to the sales of counterfeit marked goods.²⁵⁵ The TL 2001 no longer requires the subjective knowledge test, requiring only proof of sales of infringing goods.²⁵⁶ These changes make it somewhat easier to receive a determination of infringement. In addition to providing damages for "illegal gains or actual losses," the TL 2001 also provides compensatory damages for "reason-

Mar. 14, 1997), arts. 213–15 (P.R.C), translated in <http://www.colaw.cn/findlaw/crime/criminallaw1.html> [hereinafter Criminal Law].

248. August Zhang, *China: The Impact of New Judicial Interpretations in Intellectual Property-Related Criminal Cases*, Jan. 5, 2005, available at <http://www.iprights.com/publications/articles/article.asp?articleID=265>.

249. Under the Criminal Procedure Act (1996) and the accompanying judicial interpretations, an individual may report a crime of IP infringement to the police, which can lead to a criminal prosecution. Zhonglin, *supra* note 246.

250. Criminal Law, *supra* note 247, art. 213.

251. Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property (Adopted at the 1331st Session of the Judicial Comm. of the Supreme People's Ct., Nov. 2, 2004, and the 28th Session of the Tenth Procuratorial Comm. of the Sup. People's Procuratorate, Nov. 11, 2004, effective Dec. 22, 2004), translated in <http://www.colaw.cn/findlaw/ip/infringing.htm>.

252. The current Interpretation reduces the numerical thresholds needed to trigger criminal IPR prosecutions compared with the previous Interpretations, which came into effect in 2001. Now, only half of the amount set out in the prior Interpretations is required to trigger criminal prosecution.

253. FENG, *supra* note 8, at 300.

254. The 1993 law disproportionately favored the defendant because of the difficulty in proving the infringer's "illegal gains." *Id.*

255. *Id.*; TL 1993, *supra* note 43, arts. 38(2), 4.

256. FENG, *supra* note 8, at 301; TL 2001, *supra* note 4, art 52(2).

able expenses” incurred by the rightful trademark owner in combating the infringement.²⁵⁷ The People’s Court, in cases where neither illegal gains nor actual losses can be calculated, may in its discretion award damages of up to 500,000 yuan, depending upon the circumstances of the infringement.²⁵⁸

Judicial enforcement is also impeded by the lack of judicial independence. Although the Constitution grants the People’s Court “power of independent adjudication,”²⁵⁹ there are many factors which hinder such independence. The Court must still adhere to the CCP’s “unified leadership,”²⁶⁰ which can lead to the shaping of an outcome by the Party. In addition, the Court remains dependent on the People’s Congress for its annual budget and personnel appointments.²⁶¹ External pressure can be effective because unlike federal judges in the United States, Chinese judges do not have tenure and can thus face removal from their position if they render a verdict that the Party does not like.²⁶² 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.²⁶³

Furthermore, decisions of local judges may be reviewed by individual “Adjudication Committees,” which are authorized to direct the proper verdict or grant appeals to higher courts for certain cases involving important legal or economic matters.²⁶⁴ This creates challenges for protection of IPR because members of the Adjudication Committee are often loyalists to the CCP or individuals with connections to local businesses.²⁶⁵ But China’s WTO accession may put an end to this problem because the WTO is allowed to review Chinese court decisions and determine whether they were adjudicated impartially.²⁶⁶ Such a check is likely to reduce political influence and corruption of the judicial process.²⁶⁷

Although trademark infringement is a serious and growing problem in China, it is not given sufficient attention by the government. Under the law, trademark counterfeiting on any scale will be considered a criminal

257. FENG, *supra* note 8, at 300.

258. *Id.* at 300; TL 2001, *supra* note 4, art. 56.

259. XIANFA art. 126 (2004) (P.R.C.).

260. FENG, *supra* note 8, at 25–26.

261. *Id.*

262. Cheng, *supra* note 27, at 1989.

263. *Id.* at 1992.

264. Evans, *supra* note 54, at 592.

265. *Id.*

266. *Id.* at 614.

267. *Id.*

offense, but other forms of trademark infringement can only be considered to be a civil offense.²⁶⁸ This presents a challenge because of the difference in damages and punishment attached to the offenses. In addition, because the government feels that counterfeiting is a more serious offense than other forms of trademark infringement, the Chinese authorities have paid less attention and provided fewer resources to combating these trademark infringement claims.²⁶⁹

There are additional difficulties for courts at the local level. There is currently no formal communication system between the localities. At the local level, the People's Congresses are allowed to promulgate laws and regulations to implement the laws handed down by the national legislature, and sometimes create laws that fail to comply with the regulations of the national government.²⁷⁰ This makes it difficult for judges to find the applicable law. Furthermore, while the National People's Congress and the Supreme People's Court publish their laws and opinions in official gazettes, their counterparts at the provincial level do not.²⁷¹ This results in an inconsistent application of laws among different localities which adds an additional challenge for trademark protection. However, the review mechanism of the WTO may reduce the influence of local entities on judicial decisions and ensure that there is uniformity and consistency in the decisions.²⁷²

Similar to administrative enforcement, judicial enforcement also suffers from a lack of financial resources and trained professionals. The Chinese judicial system lacks attorneys and judges who are trained and educated about the particulars of national and international IP laws.²⁷³ This problem stems from the Cultural Revolution when all law facilities were closed from 1966–1976.²⁷⁴ As a result, there is not merely a scarcity of trained IP attorneys, but a general scarcity of attorneys.²⁷⁵ The current legal system only produces about seven hundred lawyers a year.²⁷⁶ Moreover, many of these attorneys are too young and inexperienced to serve

268. Counterfeiting is a form of trademark infringement involving an unauthorized identical or substantially similar copy of a trademark. Other forms of trademark infringement, considered less serious under the Chinese law include copying of trade dress, package design, or the partial copying of a trademark that will lead to consumer confusion. CHOW, *supra* note 102, at 186–87.

269. *Id.*

270. Zhou, *supra* note 3, at 434–35.

271. *Id.* at 435.

272. Evans, *supra* note 54, at 614.

273. *Id.* at 593.

274. Butterson, *supra* note 185, at 1119.

275. Cheng, *supra* note 27, at 1993–94.

276. *Id.*

serve as judges, which has created a legal system in which many judges are retired army sergeants, who have never had a formal legal education.²⁷⁷ The lack of trained judges is particularly devastating in China, where judicial proceedings are of an inquisitorial, rather than an adversarial, nature.²⁷⁸

China has sought to remedy this problem by creating the China Intellectual Property Training Center, which was established in 1997 by the government to train professionals on intellectual property matters.²⁷⁹ It is essential that China has judges and lawyers who are knowledgeable in IP matters because of the court's increased role in IPR protection.

C. Strengthening Enforcement

Despite the weaknesses of the current enforcement system, there is hope for improvement. Recognizing the shortcomings of the current system, Chinese officials are beginning to pay more attention to enforcement. In a speech during an event to mark World Intellectual Property Day, Ma Lianyuan, Vice-Director of the State Intellectual Property Office said, "China will shift from its previous focus on IPR legislation to law enforcement and supervision."²⁸⁰ In support of this effort, Beijing launched "China's Action Plan on IPR Protection" in March 2006. A major component of this initiative is aimed at improving IPR law enforcement efforts.²⁸¹ But to improve enforcement, China, rather than giving grand speeches on reform and issuing elaborate initiatives on paper, must pursue methods which emphasize action rather than words. During a trip to Beijing in January 2005, the United States Commerce Secretary Donald Evans announced that "[r]hetoric without results is worthless. We need deeds, not words, from the Chinese government. The lack of tangible and real results creates skepticism at home about China's commitment."²⁸²

277. *Id.*

278. *See id.*

279. The CIPTC is the first national training center dedicated to providing education on intellectual property issues and practice. SIPO, Annual Report, ch. IX, available at http://www.sipo.gov.cn/sipo_English/ndbg/nb/ndbg2004/t20050902_53469.htm.

280. Edward Lanfranco, *China Launches New IPR Plan*, UPI, March 10, 2006, available at <http://www.upi.com/InternationalIntelligence/view.php?StoryID=20060310-093054-6734r>.

281. The initiative, which covers trademark, copyright and patent, includes seven dedicated enforcement campaigns with various code names, eight regular enforcement initiatives and twenty supplementary measures. *Id.*

282. *China Pressed to Forcefully Attack Intellectual Property Theft*, *supra* note 226.

Most of the obstacles to effective enforcement cannot be solved overnight. Education about the importance of IPR is essential to improve enforcement. But educating the public about IPR and training attorneys and judges on the principles and laws governing the protection of trademarks are gradual processes that will take substantial time. Likewise, China cannot fundamentally change the political ideology of the nation in a short time. Pressure from foreign nations, along with China's strong desire for foreign investment will put internal pressure on the CCP to make changes to shift the Party's ideology to value IPR. But this too will be a long process. Therefore, in addition to promoting education, China should pursue more effective enforcement by imposing steeper penalties and improving coordination between the administrative and judicial bodies responsible for enforcing trademark laws.

It has been argued that since many of the infringers are companies, the best way to punish them for infringement would be to use financial punishments.²⁸³ Under TRIPS, China's criminal IP penalties for willful trademark counterfeiting must be "sufficient to provide a deterrent."²⁸⁴ But China's fines and sanctions are currently inadequate to deter infringement. In China, damages can consist of the infringer's profits or the damages sustained by the plaintiff, plus the cost of the action.²⁸⁵ Although most observers of the current Chinese enforcement system agree that awards based on the actual damages sustained by the plaintiff would be more effective in compensating the plaintiff and in deterring infringement, authorities rarely award these damages, preferring to award the infringer's profits.²⁸⁶ This occurs because it is much more difficult to calculate the damages suffered by the plaintiff than to calculate the infringer's profits. Since most enforcement officials are not properly trained to perform such calculations, the less effective method of calculating infringer's profits is used.

The current maximum statutory award of 500,000 yuan (approximately US\$62,500)²⁸⁷ available to a successful plaintiff in China is too low to

283. Professor Zheng Chengsi, a director of the Intellectual Property Centre at the China Academy of Social Sciences, argues that economic punishments would be more successful than stronger criminal sanctions in effective enforcement. Roundtable, *supra* note 216.

284. TRIPS, *supra* note 21, art. 61.

285. TL 2001, *supra* note 4, art. 56.

286. Daniel C.K. Chow, *Enforcement Against Counterfeiting in the People's Republic of China*, 20 NW. J. INT'L & BUS. 447, 458 (2000).

287. TL 2001, *supra* note 4, art. 56. Contrast this to the U.S. system where a successful plaintiff in a civil action against a counterfeiter can recover both defendant's profits and damages sustained by the plaintiff, in addition the costs of the action. Chow, *supra* note 286, at 459.

serve as a deterrent. In the United States, statutory damages can go up to \$100,000 where the counterfeiting was not willful and can go as high as \$1,000,000 when the violation was willful.²⁸⁸ To fulfill its obligations to TRIPS and to provide stronger enforcement of IPR, China should increase the maximum statutory amount awardable under the Trademark Law. China must also provide guidance to judges, administrative officials, lawyers and the general public on the method that will be used to calculate damages in infringement cases. It is only when the public is aware of the severe financial consequences of infringement activities that they can be deterred from infringement.

To strengthen enforcement, China must also improve coordination between the entities responsible for enforcing trademark laws. Effective IPR enforcement requires coordination and cooperation between the vast number of Chinese IP-related agencies and courts on both the national and local levels. Currently, there are a number of agencies and courts involved in enforcement.²⁸⁹ For administrative enforcement, difficulties arise from the lack of coordination between these bodies and from the confusion in determining which of these bodies has jurisdiction over the particular infringement action.²⁹⁰ Multiple agencies may have jurisdiction over a matter, but the lack of communication, along with the rivalries between agencies, frustrates enforcement efforts. Administrative enforcement bodies have also been criticized for failing to refer administrative cases for criminal prosecution to the Supreme People's Court.²⁹¹ By referring infringement cases for prosecution, experts believe that the increase of criminal punishments for infringement will act as a deterrent.²⁹²

China should also consider creating a centralized IP body to lead efforts in coordination between the various agencies and courts at both the national and local levels. This centralized body would supervise the enforcement entities at the local and national levels to ensure that laws are

288. Chow, *supra* note 286, at 459.

289. These agencies include the Trademark Division of the AICs, Economic Subdivisions of the AICs, Technical Supervision Bureau, Customs, Social Order Divisions of the Public Security Bureau, the Economic Crimes Investigation Divisions of the Public Security Bureaus, and others. *Preliminary Report on Counterfeiting Practices in the People's Republic of China: Hearing on "China and the WTO: Compliance and Monitoring"* before the US-China Economic & Security Review Comm., Feb. 5, 2004 (report submitted by Timothy P. Trainer, President, International Anti-Counterfeiting Coalition, Inc.), available at http://www.uscc.gov/hearings/2004hearings/written_testimonies/04_02_05_wrts/timothytrainer.htm.

290. Roundtable, *supra* note 216.

291. Hillary Hollingsworth, *The Quest for Thought Protection: China's Intellectual Property*, 1 BUS. L. BRIEF (AM. U.) 45, 46 (2004).

292. *Id.*

properly enforced. Such oversight could reduce the enforcement problems caused by localism by ensuring that local authorities handle cases in a fair and consistent manner and do not accord the local party special treatment. But even if China does not centralize enforcement powers in a single administrative agency,²⁹³ China must provide guidance to the local authorities in the cities and provinces concerning enforcement of IP laws. Beijing should set out the responsibilities and jurisdiction of each agency, along with procedures for transferring actions between agencies and for criminal prosecution. By improving coordination among the agencies and courts, judicial and administrative resources can be conserved and cases can move through the system in a more efficient manner.

VI. CONCLUSION

Foreign investors should be encouraged by the Starbucks decision. The landmark decision is a sign that the Chinese courts are complying with their TRIPS obligation and granting well-known trademarks the requisite protection. These investors should also be encouraged by the increased recognition of foreign-owned well-known trademarks. In 2005, pursuant to WKTM, China recognized thirty foreign-owned trademarks from nine different countries, as well-known marks in China.²⁹⁴ To further demonstrate that the nation can be trusted to protect well-known marks, the Starbucks decision should be upheld on appeal. Such a decision will not only send a message to potential infringers that China is committed to fighting trademark infringement, but also serve as a sign to potential investors that Chinese courts will consistently apply the Trademark Law and WKTM.

Despite these promising signs of improvement, China's IP infringement rates are among the highest in the world. To ensure that multinational companies remain interested in investing in China, the nation must continue to strengthen their trademark protection. While China has adopted intellectual property laws that fulfill the requirement of TRIPS, for such laws to be effective in combating trademark violations, they must be coupled with a legal system which is founded on the "rule of law" and free market principles. While China has established a legal

293. It has been argued that China may not be ready to have a single centralized enforcement agency that supervises all the other agencies. To create such a centralized body, power and resources would have to be shifted from bodies that currently possess that power. Given the current political climate in China, these parties may not be ready to hand over such power. Chow, *supra* note 286, at 474 n.103.

294. Dorsey & Whitney, *China & Hong Kong: Recent Developments in Intellectual Property*, MONDAQ BUS. BRIEFING, Mar. 7, 2006 (LEXIS, MONDAQ File).

framework providing protection of IPR, the central concern now lies with enforcement of those rights. Without adequate and effective enforcement, the new IP laws enacted by China will have little value. Realizing that improving enforcement is crucial to the success of its IP system, China has shifted its focus from promulgation of laws to enforcement. To strengthen administrative and judicial enforcement, the nation must make fundamental changes to the current political and cultural ideology. China must not only provide training to judges and attorneys, but also must educate the general public on the value of IPR protection.

While many challenges still lie ahead, China's progress should not be overlooked. China's system of IPR protection has made great improvements over a relatively short span. The achievements that China has made in protecting IPR in slightly over two decades have taken hundreds of years in some other nations.²⁹⁵ There is a Chinese proverb which says, "A journey of a thousand miles begins with a single step." Based upon the progress that China has made in a relatively short amount of time, it appears that China has taken a step in the right direction.

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295. Kachuriak, *supra* note 201, at 604.

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