

Trademarks in China

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We are thrilled to announce that once again, five of R&P's professionals are listed in the latest, 2017 edition of Asialaw Leading Lawyers – the guide to Asia-Pacific's leading lawyers in private practice at national and regional law firms:

Maarten Roos	Corporate / M&A, Intellectual Property Dispute Resolution & Litigation
Chen Yun	Banking & Finance
Robin Tabbers	Corporate / M&A, Labour & Employment
Kathleen Cao	Corporate / M&A
Victoria Lei	Corporate / M&A

We are very proud of the continued recognition for our leading professionals in this extremely competitive market. We could not have achieved this without the support of all our colleagues and the loyalty of our many clients.

Please visit our website www.rplawyers.com if you are interested in our recent legal articles about:

- Differences between Chinese and international trademark application procedures
- Knowing your Chinese business partners through proper due diligence

Did you know that R&P also has a thriving **M&A practice**? Please go to **page 6** to read about our most recent deal.

R&P China Lawyers is a boutique Chinese law firm headquartered in Shanghai, providing high-end legal services to foreign businesses active in China.

R&P Legal Briefing is written to inform clients and friends of the latest developments in Chinese law and practices.

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New Provisions for Trademark Applications in China – Selecting the Right Classes

By Victoria Lei

On 10 January 2017, China’s Supreme People’s Court promulgated the Provisions on Several Issues concerning the Trial of Administrative Cases Involving Trademark Right Approval and Confirmation (the “**Provisions**”, effective 1 March 2017).

Article 23 of the provisions sets forth a clear rule that could impact the protection of foreign brands in an adverse way:

In the case where a prior user claims that an applicant applies for registration of its trademark (which has been used by the prior user and has a certain influence) on the goods that are not similar to its own goods, and this violates Article 32 of the PRC Trademark Law, the people’s court does not support such claim.

Article 32 of the PRC Trademark Law: No application for trademark registration may infringe upon the existing rights of others, and bad-faith registration by illicit means of a trademark with a certain reputation already used by another party shall be prohibited.

Challenges for trademark protection

Prior to the Provisions, China’s trademark laws did not explicitly regard the similarity of goods as one of the factors to cancel or invalidate bad faith marks, but Article 23 changes this. In other words, a Chinese court may not support a claim against a bad-faith applicant for return of a trademark if the criteria of “similarity of goods” is met, even when such mark was squatted in bad faith. We illustrate this with a hypothetical case:

A foreign company has been in the business of clothing retail since 2010 and registered its trademarks in China under class 25 (clothing, footwear, headgear). With the development of its business, the company decides in 2015 to expand

its range to include the sale of bags, watches and jewellery. But when it tries to register its brand in class 14 (watches, jewellery) and class 18 (bags), it finds that a squatter applied for its mark in these classes as early as 2014. Under the Provisions and specifically Article 23, an invalidation of the squatter's trademarks would fail because the foreign company did not yet sell watches, jewellery and bags in 2014, so the squatter's application at the time could not have been made in bad faith.

In practice, it would not even make a difference if the foreign company had sold bags outside China before 2014, since in this case the burden is to prove the brand's reputation and name recognition for similar products in China before 2014 – even if it is obvious in practice that the trademark in class 14 and class 18 was squatted. While this does not mean the company can never get its mark back, it does take significant amount of effort, time and resources. All these could have been avoided if the company registered its brand as trademark in all relevant classes in the first place.

Importance of Trademark Class Selection

Trademark squatting in China is not uncommon. We regularly see cases in which foreign companies were not well advised to register their trade name/logo for all their current products and relevant products in China. When the time comes to explore the China market or to expand into other product lines, companies are tied up and may even become subject to legal actions initiated by the squatters. In addition, the import and export of their own branded goods may be hindered if the trademark was registered by someone else in China, as Customs will recognize and enforce the trademark on behalf of such "owner". According to statistics announced by China Trademark Office (CTMO) on 19 January

2017, the number of trademark applications in 2016 amounted to 3.691 million, with year over year growth of 28.4%. This makes China easily the jurisdiction handling the most trademark applications. By the end of 2016, the number of valid application was 12.376 million. Trademark squatting has contributed to such a high volume and so every foreign brand must be worried about squatters registering their brands before they have the chance.

At R&P China Lawyers, we advise on the selection of classes and conduct similarity research in all relevant classes to see if the client's mark was squatted. As for the selection of classes, we analyse clients' goods or services and choose all classes that relate to their business. For example, clients whose main products are in class 25 (clothes) are also recommended to register their trademarks in class 14 (watches, jewellery), class 18 (bags), and/or class 9 (sunglasses); and clients whose main business is in beer or non-alcohol beverages (class 32) should also consider registering in class 33 (alcoholic beverages, except beer). If no existing trademark/applications are found, we suggest registering in these classes, if only to prevent others from squatting the trademark for such related classes and products.

Conclusion

Whether your company is looking to enter the Chinese market or if you already have a presence in China, it is highly recommended that you register your trademarks and brand names in all potential relevant classes. This is especially important if your company is still in its growth stage in China and is looking to expand into other product lines in the future. The risk of someone else registering your brand name in other product lines is high and it will always be extremely costly (in time, money and other resources) to reclaim your trademarks.



In Practice: New Rules for Expatriate Work Permits

By Maarten Roos

In late 2016, China introduced a new classification system for expats that want to work in China. The system categorizes foreign applicants into three categories (A, B and C), and established a point system with points awarded for various qualifications including age, education, experience, salary, and Chinese language ability. The more points an applicant has, the higher the category that he (or she) is in, and the easier the application process for a work permit and the subsequent residence visa should become.

The new system has now been implemented in a number of cities including Shanghai, and it is now becoming clear what this all means in practice.

1. Very few foreign applicants meet the requirements of Category A, while most senior and mid-level expat managers will automatically fall into Category B. The handling authorities know this, and so they will generally presume that an applicant falls in this category. And so there is no need to start counting points unless there are unusual circumstances (for example, a combination of lack of education, lack of experience or very low salary).

2. Compared to the previous regime, a Category B applicant does need to prepare additional materials.

Two documents that will require additional effort to prepare include:

- a) The certificate of “no criminal record” issued in the home country, which must be duly notarized and legalized.
- b) The copy of the highest diploma, which must be notarized and legalized.

How to obtain these documents (incl. how to have them notarized / legalized) will depend on national procedures at home, though close liaison with the authorities in China is recommended to ensure that the documents will be accepted.

3. Procedures are a bit more complex as well. A health check needs to be completed at the very start of the application process – and it is best to do this health check in China. Moreover, the application for temporary Z visa must now be done abroad – a foreigner can no longer come in on a business visa and then apply directly for the work permit and residence permit. More generally the application will take longer to complete, though some agents **may still be able to fast-track certain steps.**

4. The procedures for extension of a work visa and residence permit have not yet been complicated. This means that at least for now, once a foreigner is in then he (or she) is in to stay – until he (or she) reaches retirement age. Policies for dealing with applicants old than 55 (for women) or 60 (for male) vary per location, and have generally become stricter than before.

What this Means for Your Business in China

It is clear that foreign-invested companies wanting to hire expatriate managers face new hurdles. Timing and managing the application process have become even more important than before. Also, some expatriates will require support in their home countries to prepare the right documentation.

At the same time, special cases have become more difficult to get approved. This includes applicants without work experience, those without at least a bachelor's degree, and those that are older than the Chinese retirement age. The good news is that the rules by definition do not exclude any foreigner

from obtaining the right to work and live in China. However, if the applicant does not have the right qualifications, a lot of extra effort may be required for just a chance to be considered.

Recent Deals: M&A in China

Fugro N.V. (AMS:FUR) and Global Marine Holdings LLC (“GMG”) recently signed an agreement under which GMG will acquire Fugro’s trenching and cable laying business in exchange for an equity stake of around 24% in the combined business, valued at US\$ 65 million, and a one year secured vendor loan of US\$ 7.5 million. **A team of R&P China Lawyers (Rogier van Bijnen and Kathleen Cao) acted as Fugro’s PRC legal counsel on this transaction.**

Fugro is the world’s leading, independent provider of geo-intelligence and asset integrity solutions, and acquires and analyses data on topography and the subsurface, soil composition, meteorological and environmental conditions, and provides related advice.

To learn more about M&A in China, we recommend that you read the recently-published **China chapter of Corporate Acquisitions and Mergers** (Wolters Kluwer, 2017), in which Rogier van Bijnen and Maarten Roos provide an extensive introduction to the Chinese legal framework for foreign M&A in China.

R&P frequently supports clients on mid-market **M&A deals, divestments and restructurings.** For more information on R&P’s transaction practice, please call your usual contact or email us at info@rplawyers.com.



New Hope in the Battle against Trademark Squatters in China

By Maarten Roos

China has become a huge market for international consumer goods. Many larger international brands have established their own brick and mortar retail outlets, but even more foreign companies are trying to reach Chinese consumers through the Internet. After all, China's is the world's biggest e-commerce market, with no less than 7% of total retail sales (approx. USD 200 billion) being completed online.

Trademark Challenge

One key legal challenge hindering the expansion of successful international brands to China is trademark protection – or lack thereof. The problem can be summarized as follows:

- To protect a trademark in China, it must be **registered in China** (protection abroad does not translate into protection in China);
- China's system is based on the **first-to-file principle**, which means that the party that files first will have priority in obtaining the trademark rights;
- As a result, for mid-sized brands that are new to China, it is very common to find that another party – either professional **trademark squatter** or an “entrepreneur” in the same industry – has already obtained the exclusive rights to its brands in China.

Challenges to Selling in China without Trademarks

If another party has registered the trademark, the foreign brand owner will face a number of distinct challenges when selling in China:

- It may not be able to sell its goods on certain online platforms such as Tmall, as these often require proof of ownership of the relevant trademark rights;
- Continued use of the trademark may lead to legal action by the trademark squatter, including injunctions, customs / port seizures, and even civil lawsuits;
- The trademark squatter can freely use the trademark to compete with the foreign brand owner.

Invalidating Bad-faith Trademarks

The best way to prevent trademark squatting is to file for trademarks in China before a trademark squatter has the chance to do so. But if it is already too late, then legal steps will be needed to challenge the bad-faith filing. Trying to invalidate an existing trademark is difficult and can be costly, and will require as much evidence as possible to prove:

- That the trademark was in use in China prior to the bad-faith application, and had gained a certain reputation;
- That the applicant knew of the foreign brand, e.g. because they were in a distributor relationship or there is some other kind of direct link;
- That the foreign brand owner holds the copyright to the trademark; and/or
- That the applicant is a professional trademark squatter, i.e. because it has applied for many other brands as well.

Applications for invalidation based on bad faith are not easy to win, as they place the full burden on the foreign brand owner to prove the bad faith. The good news is that the China Trademark Office (CTMO) and Trademark Review Board (TRAB) are increasingly finding against trademark squatters if some of the conditions above have been met.

If bad faith cannot be proved then the other options are to file an application to cancel the trademark for non-use (if the trademark has been granted for at least three years, but has not been used); try to negotiate for a transfer of the trademark, either directly or through an

(anonymous) third party; or come up with a new brand name (including in Chinese characters) for the Chinese market.

New Hope: Michael Jordan to the Rescue

At this point in time, the system remains stacked in favor of bad-faith applicants. The large case-load of the CTMO (more than three million applications in 2016!) and the relatively strict policy standards that it currently applies, make it easier for the CTMO to support existing trademarks than to find against them. However, there is hope. In a recent decision, the Supreme People's Court found in favor of Michael Jordan in his quest to get the rights to his Chinese name 乔丹, which was first registered by Chinese retailer Qiaodan. By doing so, China's highest court took a stance against bad-faith registrations, which hopefully may lead to more recognition in the future of the rights of foreign brand owners.

