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Trademarks/Copyrights

IP Challenges for Food & Beverage in China



Andrew Sim and Courtney Macintosh

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In China's highly competitive restaurant industry, operators of food and beverage outlets need to ensure that their brands can successfully distinguish themselves from the competition.

IP protection plays a key role in brand success, and this article discusses three rising IP challenges facing F&B companies in China, and where the boundaries between online and offline markets are increasingly blurred. These challenges involve trade dress protection, trademark infringement by online delivery services, and the theft of online consumer rewards, such as coupons.

Beyond trademark enforcement, F&B operators will need to make inventive use of a variety of tools to manage these issues effectively.

Trade Dress

Trade dress protection is getting increasing attention in China. In August, a famous Chinese restaurant chain using the name "Green Tea Restaurants" (translation) initiated a suit in a Beijing court, alleging that 14 other restaurants had infringed among other things its unique trade dress.

In September, a similar suit was initiated in the Hefei City Intermediate Court by He Fei Dou Kou Movie Themed Restaurant. In that case, the plaintiff claimed that the defendant copied the trade dress of its movie-themed restaurant.

Both cases have been widely reported in the Chinese media, and while it is too early to know their outcomes, their high profile nature underscores the increasing attention paid to trade dress infringement for food and beverage companies in China.

Article 5(2) of the PRC Anti-Unfair Competition Law (AUCL) protects famous trade dress by prohibiting the use of other companies' "famous" decorations. The Supreme People's Court has interpreted famous decorations to include "decorations of a business venue ...and the trappings of personnel" (Article 3 of the Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases of Unfair Competition (Fa Shi (2007) No. 2).

The fame requirement is a high threshold for obtaining trade dress protection under the AUCL, and many F&B companies, particularly those just entering the Chinese market, will find it very difficult to prove that their trade dress is famous. This is because the question is whether the trade dress is famous in China— fame in other markets is largely irrelevant in this analysis.

What's more, this high bar is unlikely to change soon. In February, the State Council issued draft amendments to the AUCL, but those amendments maintain the requirement that decorations be famous.

Therefore, companies should take proactive measures to protect their trade dress outside of the general protection under the AUCL. Specifically, companies are advised to register key aspects of their trade dress through dedicated IP protections in the form of trademarks, design and copyright.

This strategy was successfully employed in 2006 by a company called Shanghai Za Zhe Ge Da Restaurant Management Ltd. (Ge Da). Ge Da operates restaurants under the name North East People Dumpling King (translation).

Ge Da's restaurants had the look and feel of a traditional dumpling restaurant commonly associated with the northeastern part of China. Ge Da applied for design patents covering all aspects of their decorations. It found a highly similar unauthorized restaurant operating in Nanjing and promptly filed a complaint with the Nanjing City Administration for Industry and Commerce (AIC). According to media reports, the complaint included "a pile of design patents" covering everything from wall paper and light fixtures to employee uniforms, and it was successfully prosecuted with the local AIC, without Ge Da having to resort to court litigation.

Food Delivery Services

Another issue is unauthorized food delivery services, mostly offered through popular third party electronic commerce platforms.

Delivery service providers might target stores of a particular F&B operator, or they might offer services covering a wide variety of different outlets.

Problems arise when the delivery service providers use a company's trademarks and logos. Customers believe that they are in fact the F&B company and assume that it will take responsibility for any service issues. The F&B operator may then be blamed for problems caused by that unrelated delivery company.

It is difficult for F&B operators to ban delivery services from their outlets, and they cannot easily identify those customers buying for the purchase of delivery. Operators can and should enforce their trademarks against delivery service providers who engage in infringing activities such as:

- Using the operator's trademark in their domain name, or as their trading account name if the delivery service is operating on a third party e-commerce platform;
- Using the operator's copyrighted works, such as product images, or logos on their trading pages; or
- Prominently and misleadingly using the operator's trademark in their enterprise name.

Companies should also consider defensive trademark filings to cover "express delivery services" in Class 39 of the Nice Classification.

Most F&B operators will already have trademark coverage for "restaurant and catering" services in Class 43. Under the PRC trademark classification system, Class 39 and 43 services are considered dissimilar, so a Class 43 registration may not prevent someone else from registering the same mark in Class 39 for express delivery services.

Coupons

Many F&B operators use digital coupons as part of their social media advertising. The coupons are often distributed as rewards for customer membership in loyalty programs or repeat purchases.

Some operators have found their coupons sold on third party e-commerce platforms— often they were misappropriated through computer hacking.

The sale of these coupons has harmful economic consequences and also negatively impacts a company's ability to control its brand and customer relationships.

Operators who try to rely on their trademarks to resolve this issue may come away disappointed. If those coupons are genuine and not counterfeit, then the trademark law does not give registrants the right to prevent their unauthorized sale. Many e-commerce platforms will not remove links or close accounts on this basis.

However, if operators can prove that the coupons were taken without permission, they can request that the platforms remove the coupons on the grounds that the vendor's possession and sale of the coupons amounts to a tort, under Article 2 of the PRC Tort Law, which states that whoever infringes on the civil rights and interests of others shall be liable for "tortious acts."

Article 36 of the PRC Tort Law states that, if an internet service provider fails to take action after becoming aware that its user is committing a tortious act, for example property conversion, the service provider can be jointly and severally liable for injury and damage suffered following the failure to take action.

To this end, many third party e-commerce platforms already have rules prohibiting the sale of items obtained through illegal means, and F&B operators can use these rules to remove links selling stolen coupons. If a particular platform does not have such rules, then F&B companies still have the tort law.

The remaining challenge for operators will be in establishing systems to track coupons and identify those coupons that have been illegally acquired.

Beyond the Basics

Operators wishing to thrive in China's restaurant industry need to look beyond enforcement of their existing trademarks to protect their brand image. They also need to take proactive steps to adapt to the unique circumstances in the country, including the increasing importance of online activities and the popularity of delivery services.

Some important steps include:

- Registering key aspects of trade dress through copyright, design patents and trademark;
- Monitoring online activity to police against unauthorized use of their trademarks;
- Filing defensive trademark protection for ancillary goods and services, such as delivery services; and
- Using technology to track online coupons and other customer rewards to protect against theft.

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