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Intellectual Property

Navigating IP Challenges Through the Belly of the Middle Kingdom

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China provides great opportunities for foreign companies, given its role as the world's largest consumer market for the food and beverage industry, as well the growing sophistication of its fast-expanding middle-class. Food safety scandals in recent years have undermined the confidence and trust of Chinese consumers in domestically produced food. Coupled with a rapid rise in average household incomes, Chinese demand for imported F&B products will continue to grow. To catch up with this boon, there are many pitfalls to avoid, and these include putting in place adequate and effective measures to protect intellectual property rights in China.

Protect Your Brand Before Market Entry.

A trustworthy brand and good product reputation is key to success in the F&B market in China.

Generally speaking, a trademark registration offers the best form of protection, as registration costs are relatively cheap and it has the potential to last for an indefinite period of time, subject to timely renewals.

The *PRC Trademark Law* imposes a strict first-to-file rule for obtaining trademark rights, whereby the first party to file for registration of a mark pre-empts later applicants. Prior use of an unregistered mark will give rise to limited rights. If it can be shown that a mark has been used in China and that the mark has achieved a certain degree of influence, such prior use can be referred to as a basis for opposing later pre-emptive applications by third parties to register the mark for identical or similar goods.

While the Trademark Office and the TRAB are occasionally receptive to oppositions and invalidations when it is shown that a party has applied to register numerous trademarks in bad faith, the situations where an application can be deemed to be in bad faith are not clearly delineated in the Trademark Law or related legislation. In addition, both the Trademark Office and the TRAB take a conservative approach when determining whether a trademark application has been filed in bad faith, with evidence of extensive trademark piracy generally needed before the Trademark Office and TRAB will recognize that the applicant is a trademark pirate.

Although China uses the Nice Classification of Goods and Services like many other countries, the China Trademark Office uses its own classification index which further divides each international class into subclasses. This means that the protection for a trademark registration is often limited to the specific subclasses the registration has designated. For instance, if a brand owner only registers its trademark for beer, it may be

difficult to take enforcement action against another party who has registered an identical mark for fruit juices. Consequently, trademark owners are strongly advised to file for their marks early and for as wide a range of goods and services as appropriate.

Develop Chinese-Language Trademarks.

It is not legally necessary to devise and register a Chinese-language equivalent for each foreign-language trademark. However, trademark owners are generally well advised to register and actively use a single Chinese-language counterpart for each of their foreign-language marks.

Consumers in the PRC with a limited knowledge of foreign languages inevitably identify products by their Chinese names. If a foreign company does not develop a Chinese mark itself, users may choose one for it. In such cases, there is no guarantee that the resulting Chinese name will flatter the company's product or otherwise be in keeping with the brand image that the company wishes to project.

A good example of the pitfalls is the *Castel* case. In a recent decision, the Supreme People's Court issued the final judgment in a civil case against the French wine group for its use of "Ka Si Te," the Chinese characters it had been using as its Chinese name. The problem was that a Chinese wine distributor had already registered the mark, and in 2009 sued Castel for trademark infringement of its registered mark in Class 33 for alcoholic beverages except beers. The Zhejiang Provincial Higher People's Court initially found trademark infringement and awarded damages over 33 million yuan (\$5.08 million). Although the Supreme People's Court reduced the damages by 500,000 yuan (\$77,000) by then the litigation had lasted for over six years, during which time Castel had also changed its Chinese name.

Such incidents highlight the need for foreign companies to plan ahead for the protection of its IP rights prior to entering the Chinese market.

Protect Shape of Product or Packaging.

Packaging plays a crucial role in consumers' buying decisions. Emerging in the Chinese market are copycat packaging that can confuse people and a potentially inferior product may taint the goodwill and reputation of an imported brand.

Packaging can be protected in various forms of IP - trademarks, patent and copyright. Brand owners may consider registering the shape or their product or its packaging as a two-dimension or three-dimension trademark. Registration of 3D marks as trademarks are allowed in China, provided the mark is distinctive. However, they can be difficult to register and enforce. Brand owners should seek legal advice before market entry.

Technical features of packaging can be protected as utility model (a lesser patent with lower patentability requirements) or invention patents, but packaging is more commonly protected as a design patent. Design patents offer important protection for innovative designs. De-

sign patents are defined as the shape, pattern of a product, or the combination thereof, or the combination of the color with shape and pattern that have rich aesthetic appeal and are fit for industrial application. For companies in the food and beverage industry, design patents can be a useful tool for protecting unique packaging and product container.

Copyright is another option for protecting product logos, stylized marks, packaging, product brochures as well as product labels. Voluntary registration is available with the Copyright Protection Centre of China.

Trade dress protection is available in China under the *PRC Anti-Unfair Competition Law*, which prohibits the use of product packaging and decoration which are unique to a famous product. However, this may be difficult for foreign brand owners to rely upon if they have not entered the Chinese market or only have done so for a short period of time. Product fame in China is one of the criteria for relying on trade dress protection, and documentary evidence establishing this fame will need to be original or notarized and legalized to have evidentiary weight in a Chinese court.

In many situations, copyright, trade dress rights and design patents can provide cumulative protection. For instance, the mark and logo of a bottled beverage product may be protected as trademarks; the bottle label may be protected as a trademark and copyright work; the product packaging and decoration may be subject to trade dress protection; and finally, design patent may offer protection for the unique shape of the bottle.

Keep Trade Secrets Secret and Safe.

Trade secrets can also be important for F&B companies in China. A trade secret is generally defined as technical or business information that is unknown to the public, with commercial value that is guarded by confidentiality measures. In the F&B sector, trade secrets often come in the form of recipes, formulations, manufacturing know-how, quality control methods, production techniques and other related processes. Once trade secrets become publicly known, they can no longer be protected as trade secrets.

It is important to keep trade secrets safe by limiting access, through techniques such as using passwords and installing physical controls to prevent unauthorized access. Preventative measures should be set up by instituting a trade secrets protection policy, training employees and requiring them to sign employment contracts with non-disclosure and confidentiality provisions.

Most trade secrets misappropriation involve an employee leaving the company to work for a competitor. China-based employees should be asked to sign a bilingual employment contract (so that they cannot later dispute the confidentiality obligations) and confidentiality provisions and working mechanisms should be developed to deal with business partners in China.

Register Geographical Indication as Collective Mark.

A geographical indication (GI) is a name or sign used to identify the origin, quality, reputation or other characteristics of a product such as Cognac or Prosciutto di Parma for Parma ham. As the use of a GI often acts as a certification that a product possesses certain qualities or enjoys a certain reputation due to its geographical origin, it can markedly reduce promotion efforts by competitors who may try to pass off their products as being from this particular geographical origin.

A GI can be registered as a collective or certification mark with the Chinese Trademark Office by a GI organization. To prevent copycat products misleading consumers, the GI should also be registered with the General Administration of Quality Supervision, Inspection and Quarantine.

Agile Approach to the Internet of Food.

China has one of the biggest e-commerce markets in the world. Given the proliferation of e-commerce websites,

Chinese copycats are taking advantage of various online sales channels to gain easier and broader access to potential consumers and hiding their tracks. In some cases, the copycats may also operate standalone websites which have the “look and feel” of the foreign brand owners’ websites. These websites may even provide internet links to the genuine websites, so as to lend credibility to their counterfeit products. In other cases, the copycats may be selling a mix of genuine and fake products on their websites.

As an emerging market with a growing middle-class population, China presents great opportunities to potential players in the food and beverage industry. Securing IP protection is critical to long-term success in China.

In a future issue, we will discuss how to fight counterfeit F&B products in China.