



'Trade mark squatting' is a common practice in China and many well-known Australian brands have been affected.

Brand bandits

Bad-faith trade marks in China

Wine industry lawyer **Mark Hamilton**, from Grope Hamilton Lawyers, examines how winemakers exporting to our most important overseas market can protect their trade mark rights.

Bad faith filings by registry pirates in China continue to pose enormous challenges to brand owners, large and small, foreign and domestic (www.managingip.com, 2016).

Even Penfolds' brand fell victim to Chinese trade mark pirates.

Chinese pirates, well-informed about the current limitations of the law, have become increasingly adept at extracting ever higher compensation from victim companies. These victim companies often have little choice but to pay up in order to eliminate potential obstacles to the production and distribution of their brands in China (www.managingip.com, 2016).

Other foreign companies, including Apple, have run into problems with Chinese individuals and companies racing to register trade marks before they are able to enter the market.



Trade mark enforcement in China is problematic and costly, although amendments in 2014, intended to address 'bad faith' filings, represent a potential step forward to a more lawful environment for trade marks in China.

Trade mark problems in China

The problem of someone else registering your wine brand in China is a common one, because of China's first-to-file trade mark registration system. It appears that courts in China are beginning to recognise the inherent problem of local serial pirates registering foreign trade marks *en masse*

both in terms of bad faith but also in terms of clogging up the courts (*Whole Foods v Everyday Value*).

The main reasons a person may register your trade mark in China include (IP Australia, 2016):

- A genuine need to use that trade mark for their products or services
- An intent to produce replicas of your products
- An ill-intent to sell you the right to use the trade mark.

The main exception to the first to file rule is if you can prove that someone else has registered your trade mark in bad faith. In rare instances, you might be able to recover the trade mark through legal action, however, this can be very costly and time consuming (IP Australia, 2016). Alternatively, you may be able to seek removal of the China registration for non-use, if that is the case.

International protection

An Australian trade mark registration only secures your rights within Australia. If a winery wishes to sell its product or services in other countries, then it will need to register trade marks in those jurisdictions as well. If a winery doesn't register its mark, it runs the risk of another party appropriating its trade mark. This is a dilemma as brand owners may not wish to incur the cost of registration in overseas markets until there is a clear intention to export goods to that country.

A trade mark can be protected overseas either on a country by country basis, or via the Madrid Protocol international registration system. Trade mark protection via an international registration can cover nearly 100 countries that are currently signatory to the Madrid Protocol. A full list of these countries is available on www.wipo.int (<http://www.wipo.int>).

First to file vs first to use – the critical distinction

Trade mark owners should be aware that different countries have different rules when it comes to recognition of trade mark rights. Some countries follow a 'first to file' rule, whereas others, like Australia, recognise the rights of those who are 'first to use' a trade mark. A first-to-file trade mark system grants rights to the person who first filed a trade mark application, even if another party can show prior use of the trade mark. Some countries which follow a 'first to file' system include China, Italy, Australia, Portugal and Sweden (IP Australia, 2016).

Should a winery export goods to, or manufacture goods in, any 'first to file' countries, it is crucial that it files its trade mark application as early as possible to minimise the risk of another party obtaining the rights for its trade mark. In 'first to use' countries like Australia and America, a common law system exists whereby the first person to use a trade mark will have priority over a person who files a trade mark application at a later date (IP Australia, 2016).

Trade mark squatting

Trade mark squatting occurs when someone intentionally files a trade mark application for another party's registered trade mark in a country where the other party does not hold a trade mark registration. These are also referred to as 'bad faith' filings. The squatter takes advantage of a particular country's first-to-file trade mark system to secure trade mark registration, usually with the aim of selling the registration to the foreign trade mark owner at an inflated price. This practice is quite common in China and many well-known Australian brands

The problem of someone else registering your wine brand in China is a common one

have been affected by this practice. Australian applicants should therefore seek early protection if goods are being manufactured in another country and imported to Australia (IP Australia, 2016). It is best to do this as part of the pre-business (confidential) planning process.

Legal action for replica trade marks

If a winery feels that its mark has been registered to reproduce replicate products, then it will need to provide the following evidence to take legal action:

- Prove that it owned the trade mark in another country before the trade mark application was made in China
- Prove that it has a history of use in China prior to the Chinese trade mark application.

If it produced goods sold in China, then it should be able to easily provide invoices, customs, records, contracts, advertisement campaigns or websites translated into Chinese.



Penfolds scored a legal win in China in early 2017

Legal action where the winery's trade mark is held to ransom

If the trade mark holder is not using the trade mark and wants the winery to buy it from them, the winery has two options, depending on how long the trade mark has been registered:

- If the trade mark has been registered for more than three years, the winery can apply for the cancellation of the trade mark or use the cancellation procedure as a leverage to have the owner sell the mark to the winery
- If the trade mark has been registered for less than three years, the cancellation procedure is not available. The options are to buy it back or to choose a new brand for use in the Chinese market.

Being proactive with IP strategy before engaging with the Chinese market is strongly advised as taking legal action is time consuming and costly. This is just good business pre-planning.

Some lessons to be learnt

- China is Australia's largest trading partner, so safeguarding IP should be a primary business consideration
- If a winery is thinking about entering the Chinese market, make sure you understand the trade mark application processes
- Before establishing a business in China, the business owner should consider what commercial IP decisions it needs to make.

The 2014 changes to Chinese trade mark law

In May 2014, the National People's Congress passed an amendment to the PRC Trademark Law that introduced several provisions intended to permit victim brands to address bad faith registrations and thereby cut down the overall number of filings and their related administrative burden. Regrettably, each of these new tools has proved to be of limited utility to date (www.managingip.com, 2016).

However, recent decisions by the Chinese Trademark Office (CTMO) in oppositions involving 'serial pirates' suggest a potentially important policy shift in the making (www.managingip.com, 2016).

Article 7 – Good faith

The CTMO's ground-breaking decisions are based upon Article 7 of the Trademark law. Newly-added in 2014, this provision requires applicants to abide by the principle of good faith when applying for marks, thereby implicitly prohibiting the filing of applications in bad faith (www.managingip.com, 2016).

During the drafting process, many brand owners had hoped that Article 7 would provide a safety net for resolving disputes over bad faith registration that would not otherwise be actionable under the law's other provisions (www.managingip.com, 2016). But Chinese authorities made clear during the draft law's consultation period that Article 7 could not be solely relied upon to sustain an opposition (www.managingip.com, 2016). As a result, it had been assumed that Article 7 would only be useful in unusual situations, and only following costly appeals to the Beijing IP Court and the Beijing Higher People's Court (www.managingip.com, 2016). Fortunately, the CTMO began issuing decisions in late 2015 that suggest a willingness to apply Article 7 even in decisions in the first instance. A detailed analysis of this developing law is beyond the scope of this article, but it is promising that there is evidence that the trade mark system in China is moving in a rational direction.

Given the fact that the system in China is of one nation-state, enforcement through one set of court proceedings is possible.

The Penfolds brand Chinese saga

Penfolds' trade mark legal win in January 2017 was an encouraging sign for Australian businesses considering exporting to China.

The court victory that will allow Treasury Wine Estates (TWE) to use its preferred 'transliteration' for the brand 'Penfolds' in China is seen as a landmark victory.

The decision, in the Beijing High People's Court, found that an intellectual property squatter, who had registered the "Ben Fu" trademark in 2009, had since failed to make 'genuine' use of it. The court ruled the trade mark be cancelled, allowing TWE to use the branding freely for its wines in China. This followed a two year court battle.

"This decision ... demonstrates China's commitment to a strong IP system and fair judiciary," David Bennett, the new IP counsellor at Beijing's Australian Embassy, said. This signals momentum in China towards a rule of law based intellectual property system comparable to that understood by Australian exporters.

Someone at TWE obviously made a major error in failing to select a brand and register a brand name as a trade mark prior to commencing trading in China under that brand. A fundamental error, which has no doubt cost much time and money. TWE could have done this as 'Ben Fu' is in fact not a true 'literalisation' of the name 'Penfolds', unlike, say, in the case of Apple. TWE could have selected any one of a number of brand names for registration.

Mark Hamilton is a leading Australian wine lawyer with substantial practical industry experience through Hamilton's winery. He can be contacted on (08) 8231 0088 or 0412 842 359 or by email at mhamilton@gropehamiltonlawyers.com.au. Website: www.gropehamiltonlawyers.com.au

GW

Don't miss a THING!

DailyWineNews

An essential snapshot of wine business, research and marketing news from Australian and international wine media sources.

Distributed to over 12,000 subscribers.

Subscription is free and easy!
Visit www.winetitles.com.au
to sign up today.

Join the list of leading suppliers who use *Daily Wine News* for an **instant advertising message to the industry!**

Contact Nicole Evans on
+618 8369 9513

or n.evans@winetitles.com.au for details

