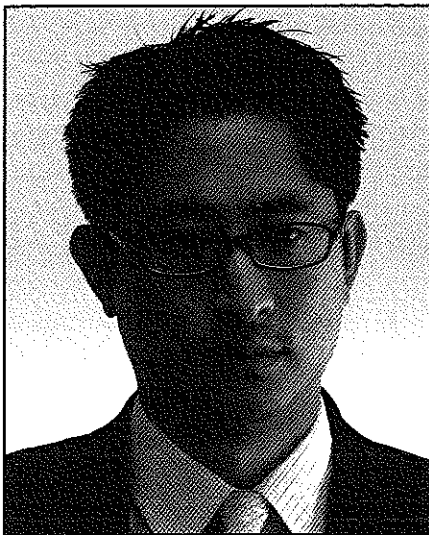


New Matter

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The Newest IP Threat in China: IP Hijacking (Part 2 of 2)

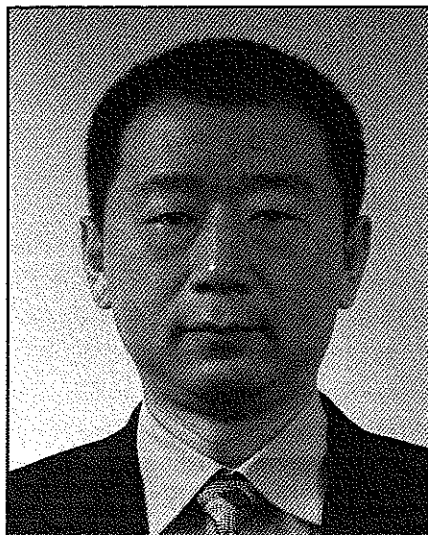


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This is the second of a two-part series of articles relating to IP protection in China. Part one is available online through IPSection.org.

INTRODUCTION

PART ONE OF THIS SERIES discussed the rise in the awareness of Chinese entities regarding the importance of IP rights. As a result, the number of patent and trademark applications filed by Chinese entities has significantly increased in the last few years. The latest statistics from



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the first half of 2008 from the State Intellectual Property Office (SIPO) indicate that this trend is continuing, as Chinese entities continue to apply for more and more patents, particularly for utility models and design patents:

- » SIPO has received 345,569 patent applications in the first half of 2008—a 28.5% increase from the same period in 2007;

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- ▶ Of the 345,569 applications, 84% were filed by Chinese entities;
- ▶ Of the 345,569 applications, 213,481 applications (nearly 62%) are utility model and design patent applications. Utility model and design patent applications are not substantively examined, meaning that if an application is filed, it will be granted. These 213,481 applications represent a 30% increase over the same period in 2007.

Part 1 of this series also discussed two “worst case” case studies of IP hijacking—the *Chint v. Schneider* utility model patent case and the “G2000” v. “2000” trademark case. In both cases, the IP hijacker managed to use China’s legal system to obtain a large damages verdict against the rightful owner of the IP.

Part 2 will now discuss measures to prevent IP hijacking in the first instance, as well as actions to take upon discovering that IP rights have been hijacked.

STEPS TO PREVENT HIJACKING OF YOUR IP RIGHTS

The best preventative measures that you can take are to *register your IP rights early and register your IP rights broadly*. As China is generally a “first to file” country, *be the first to file*.

Trademarks and Trade Names

With respect to trademarks, China uses the standard 45 international Classes for goods and services. However, the Chinese Trademark Office (CTMO) also recognizes numerous Subclasses within each Class. Registering a trademark in one Subclass does not give the

registrant trademark rights in another Subclass in the same Class. This creates a situation perfect for IP hijackers, who scan the CTMO Registry for gaps in a registrant’s portfolio and then file applications in these gaps.

Beyond hijacking of trademarks, Chinese enterprises also often hijack trade names. Trade name hijacking refers to when Chinese enterprises register a business entity incorporating a famous trademark in the business entity’s name. Trade name hijacking is possible because there are two separate government organs in China—the CTMO handles trademark registrations, while local Administrations for Industry & Commerce (AIC) have jurisdiction over business entity formation, including approving the business name.¹

Further compounding the problem is the Chinese language with its numerous homonyms, where numerous Chinese characters—each with a different meaning—have the same pronunciation. Enterprising hijackers often register various Chinese transliterations and homonyms of a foreign company’s trademarks.

Given the foregoing issues, in order to prevent IP hijacking of your trademarks and trade names, you should:

- ▶ Make sure to register important trademarks in every single Subclass of your core goods and services Classes.
- ▶ Consider registering important trademarks in tangential Classes. For example, assume a company owns a famous trademark “CHEVRON” for lubricants and fuels (Class 4). That company should also consider registering “CHEVRON” in at least Classes 1 (chemicals), 7 (machinery), and 12 (vehicles). Otherwise, the company should be prepared to fight IP hijackers selling

“CHEVRON” branded chemicals or machinery or even vehicles (or vehicle parts).

- ▶ Even if no Chinese name has been selected, and there are no plans to launch the goods or services in China, register Chinese translations and transliterations of important trademarks. The importance of this cannot be understated. In a market of over 1 billion people, the Chinese themselves (including the Chinese media) *absolutely will assign* a Chinese name to your products. In other words, be on the forefront of naming—and protecting—your product in Chinese. Companies that have failed to do so in China are legion.

For example, Dell, Inc. recently received a final decision in a long-running trademark and trade name dispute against Beijing Dai Er Language Training School. “DAI ER” is the Chinese transliteration of “DELL” officially used by Dell in China.

Because Dell had broadly registered the “DELL” trademark in China across many Classes, including Class 41 (education), the Chinese court enjoined the School’s use of “DELL ENGLISH,” “DELL ENGLISH INTERNATIONAL,” and “DELL INTERNATIONAL ENGLISH” in its business and marketing activities.

However, this was a hollow victory. Not only were the assessed damages only \$25,000 USD (a typically low amount for a trademark infringement case), but more importantly, Dell was *unable to stop* the School’s broad use of “DAI ER” in the School’s name and extensive advertising.

At its core, the decision hinged on Dell’s use and registration of various *other* transliterations of “DELL” into Chinese, including “DI ER” and “DE ER”, as well as Dell’s single “DAI ER”

registration in Class 9 as of 1999. The School, which was incorporated in 2000, was actually *the first to register* "DAI ER" in Class 41 (education) as of 2001. Accordingly, the School was properly using "DAI ER" on its training centers, websites, training materials, class permits, and advertisements within the scope of its Class 41 registration.² The Chinese court therefore rejected Dell's claims of trademark infringement, false advertising, and unfair competition with respect to "DAI ER."

Patents

What about preventing the hijacking of patents? The same principles to prevent trademark hijacking apply to patents. Register early, register broadly, and register often.

However, most Chinese hijackers do not attempt to hijack invention patents—invention patents are too technically complex and require too much investment of time and money. Instead, hijackers focus on utility model and design patents—the "quick hits" that are easy and cheap to apply for, are *not* substantively examined, and which *almost always issue* so long as relevant procedural formalities are met.

To prevent hijacking of your patent rights as utility models and design patents, you should:

- ▶▶ Take advantage of the liberal application process for utility model and design patents. While the IP owner may have no intention of ever using the utility model and design patents, having these registrations prevents IP hijackers from obtaining these rights and later using them against the IP owner—either as a shield to infringement claims brought by the rightful IP owner, or worse, as a sword to sue the rightful IP owner for infringement.

▶▶ Consider the "Spoiler Strategy." There are a number of reasons why a company would decide not to apply for a patent in China, including the expense. In this situation, consider using the "Spoiler Strategy," whereby you disclose the technology or the design of your product in a dated publication (preferably in China). While this precludes your company from obtaining a utility model or design patent, your company never planned to apply for these in the first place (for whatever reason). Your earlier disclosure then provides you with a good challenge to the validity of hijacked utility models or hijacked design patents in China.

Think Like an IP Hijacker

IP hijackers are creative and clever, often filing applications in areas that you would never consider. Recently, a multinational corporation (MNC) found itself in a trademark battle with a hijacker over an old mark that the MNC planned to revive in China. During the administrative and legal proceedings over the trademarks, the IP hijacker applied for and obtained a design patent on the packaging of its products, which closely resembled the MNC's packaging. The hijacker then sued the MNC for design patent infringement for sales of the MNC's products in China. The battle is still ongoing.

Another option to consider is to apply for copyrights in your home jurisdiction on all important original works of authorship. Because China is a member of the Berne Convention, having a copyright certificate from your home jurisdiction as evidence is persuasive in convincing Chinese government entities that you are the rightful owner of the IP.

Conclusion re: Preventative Measures

The best way to prevent IP hijacking is to register early and register broadly. Fortunately, the costs of filing an application in China are still relatively low.

However, there are always situations where an IP owner cannot file broadly, whether because of budgetary constraints, simple oversight, or other concerns. The next two sections discuss how to determine whether your IP rights have been hijacked, and then suggest actions to take against hijackers.

DISCOVERING WHETHER YOUR IP HAS BEEN HIJACKED

In order to determine whether your IP rights have been hijacked, it is necessary to conduct an IP audit. There are many IP agents in China that can help you conduct an IP audit to determine: (i) what IP rights you currently have applied for and registered in China; (ii) whether there are gaps in your IP portfolio; and (iii) whether any of these gaps have been filled by enterprising IP hijackers. If your company employs legal personnel in China, your Chinese employees can also review the online databases and hard-copy gazettes for potentially hijacked IP.

It is also important to educate local Chinese employees to report sightings of potentially infringing products; for example, at trade fairs or international exhibitions. Often, a follow-up investigation of the manufacturer or distributor of potentially infringing products may uncover hijacked applications or registrations in the name of the manufacturer, the distributor, and/or their legal representatives.

Finally, if you are already aware of the identity of your competitors, then monitoring their IP portfolio and marketing materials may also reveal situations where your IP has been hijacked.

RECOVERING YOUR HIJACKED IP

While the specifics may vary depending on the type of hijacked IP, generally, there are several general methods to deal with IP hijackers. These include: (i) direct contact and negotiations with the hijacker; (ii) administrative proceedings; (iii) challenges in Chinese courts; and/or (iv) a combination of the above.

Direct Contact with Hijackers

After discovering that your IP has been hijacked, use an investigator to uncover information about the applicant/registrant. The information revealed not only provides background information about the applicant/registrant, but also may uncover evidence useful to an administrative or court challenge to the hijacked IP.

Once this information is obtained, you can—either directly or through a third party intermediary—contact the hijacker and work out a deal to buy back the hijacked IP.

Before making initial contact, consider whether to send a warning letter to the hijacker. On the one hand, some IP hijackers may withdraw or transfer the hijacked application out of concern for liability or simply because it is not worth their effort to fight. On the other hand, some IP hijackers may ignore the warning letter and/or then drive up the purchase price in later negotiations.

Administrative Action

Various agencies have administrative methods for resolving disputes. The CTMO permits oppositions by third parties to published trademark applications (within 90 days of publication) and cancellations to already registered trademarks.

SIPO also permits third parties to file informal oppositions to published invention patent applications for the examiner's reference (but not against

utility models or design patents). Issued patents are also subject to invalidation actions.

Unfortunately, the backlog is incredibly high at the administrative agencies. For example, an opposition before the CTMO is currently taking 4–5 years to resolve in the first instance. Including an administrative appeal and then further legal review by a Chinese court could take an additional 5–6 years. Patent invalidation actions are a bit faster—taking on average 1–2 years.

In addition to timing concerns, administrative agencies are generally conservative in favor of the first applicant/registrant. CTMO and SIPO also lack jurisdiction to do anything other than cancel or transfer the IP right, *i.e.*, they have no power to order the IP hijacker to take or not take any other actions.

File a Civil Action for Infringement

Using the Chinese courts has several advantages over proceeding before the CTMO and SIPO. First, the courts have the power to determine infringement and issue injunctions. Second, the courts tend to be more flexible on issues of priority than CTMO and SIPO. Third, one can bring alternative causes of action together in a civil action, *i.e.*, not just trademark infringement, but also unfair competition and copyright infringement. Finally, the threat of legal action before a court of law is a more palpable threat to an IP hijacker when compared to administrative proceedings.

However, there are many factors as to whether and when an IP owner can sue for infringement before the Chinese courts. A full discussion of these factors would require a separate article, but, just to take trademarks and trade names as an example, the following factors require examination:

- ▶ Do you own a trademark registration in the relevant Class and Subclass in China? If not, is your trademark a “well-known trademark” in China, whereby a Chinese court would grant it broad cross-class protection?
- ▶ Does the IP hijacker own a registered trademark in China (even if hijacked)? If yes, is the IP hijacker using the trademark exactly as it is registered? If so, then a Chinese court will likely refuse to accept your complaint and refer you to the CTMO for administrative challenges.
- ▶ Is the IP hijacker engaging in other unfairly competitive acts beyond simple trademark hijacking? For example, is the IP hijacker imitating your famous packaging, using your mark in its company or domain name, or using various alterations of its registered trademark? If so, then consider suing for unfair competition (instead of or in addition to trademark infringement).

Prepare/Maintain Evidence of Priority

Whether proceeding administratively or in civil litigation, the rightful IP owner generally has to prove priority. This is more difficult than it sounds, requiring significant preparation and lots of support from both the home office and the China operations (if any). Why? Because of China's strict rules of evidence.

All crucial documents must either be originals or be notarized by Chinese notary publics; otherwise, the Chinese agency or court may not accept the documents as evidence. If documents were created overseas, the documents must be (1) notarized in the home country, (2)

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25. See *id.* at 1118.
26. *Id.*
27. See 35 U.S.C. § 103(a) (2007) (“A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.”).
28. See *supra*, note 17 at 1368 (“As a threshold matter, we note that that distinction is applicable only to process claims”).
29. See *supra*, note 13 at 1376 (“Bristol is correct that new uses of known processes may be patentable. See 35 U.S.C. § 101 (1994) (“Whoever invents or discovers any new and useful process...may obtain a patent therefor.”); 35 U.S.C. § 100(b) (1994) (“The term ‘process’ means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter or material.”)).
30. Although the terms “method” and “process” are somewhat interchangeable in patent claim drafting, it would be safer to use “process” in view of the statutory basis for the *Abbott Labs.* holding.
31. 550 U.S. ___, 13 (2007).
32. See *id.* at 12.
33. See *Leapfrog Enterprises, Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1162 (Fed. Cir. 2007) (“we do not agree with Leapfrog that the court failed to give proper consideration to secondary considerations. The district court explicitly stated in its opinion that Leapfrog had provided substantial evidence of commercial success, praise, and long-felt need, but that, given the strength of the prima facie obviousness showing, the evidence on secondary considerations was inadequate to overcome a final conclusion that claim 25 would have been obvious. We have no basis to disagree with the district court’s conclusion”).
34. See *supra*, note 31 at 14.

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legalized by the Chinese Consulate in the home country, and (3) translated by a Chinese Government certified translation agency

Even if the documents are readily accessible, this is an incredibly burdensome process. In cases where original documents critical to proving priority are very old, *i.e.*, that your company was selling products in China incorporating the disputed technology as of 5 or 10 years ago, this task becomes nearly impossible. Often, the original documents are lost, destroyed, and/or were never kept in the first place.

For this reason, it is very important to maintain good *original* records of sales of your products in China, good *original* records of advertisements of your products in China, and good *original* records of any disclosures of your products made in China (see “Spoiler Strategy” discussion). A good document retention policy in China can be the difference-maker in a battle with an IP hijacker. In the *Chint v. Schneider* case, the inability to locate good evidence of priority in China might cost Schneider over 44 million dollars!

CONCLUSION

China is a civil law country where IP rights are created by registration. The first entity to file is presumed to be the proper registrant for IP rights. Under this system, the best way to prevent IP hijacking is to file your IP rights as early and as extensively as possible.

This is the case even if your company does not anticipate using these IP rights in China in the near future. If you do not register, you can bet that an IP hijacker in China eventually will. Once the situation reaches the stage of need-

ing to recover your IP rights, it becomes exponentially more difficult, time-consuming and disruptive, and expensive when compared to a preemptive strategy focused on preventing IP hijacking in the first place. ■

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Endnotes

1. Creative IP hijackers also hijack trade names internationally, by setting up shell corporations in Hong Kong incorporating a famous trademark in the business name. This Hong Kong corporation will then “license” the use of its name to a Chinese entity. It is not unusual to see products manufactured in China bearing, for example, a notation such as “Produced under license from Hong Kong Pierre Cardin [or Polo] [or Nautica] [or Gap] Manufacturing Corporation.” Fighting IP hijacking in Hong Kong is beyond the scope of this article.
2. The School was clearly free-riding on Dell’s worldwide reputation. For example, it referred to the School as “created in the US and acquiring its reputation in China”, its programs as “DAI ER English International Brand”, and its teachers as “DAI ER Professors,” etc.