

# Bad Faith Trade Mark Applications in China

This is an independent report commissioned by the Intellectual Property Office (IPO). Findings and opinions are those of the researchers, not necessarily the views of the IPO or the Government.

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## Executive summary

The Intellectual Property Office (IPO) commissioned Future Thinking to conduct a programme of research among UK businesses. The core objectives of the research were to understand the extent of bad faith trade mark applications and to gain insights into how they affect UK businesses operating in China. The research consisted of 133 quantitative interviews and a total of 12 depth interviews with businesses and trade bodies. For the purposes of this research bad faith trade mark applications are defined as a company registering another's name or mark with intent to either sell it back to the rightful owner for profit or deliberately use that company's established name to market their own products – outside normal commercial practices.

China is an important market for UK businesses; with many identifying it as a long-term priority market. Businesses no longer see China as just a manufacturing hub; many now sell their products and services within China. This has been facilitated by the country's unprecedented growth and the population's increasing spending power.

While China presents many opportunities for businesses, it also has many challenges. Bureaucracy, cultural differences and language were all identified as key issues by businesses. Intellectual property is however highlighted as the top challenge, with a third of businesses surveyed experiencing an IP problem in China. This is not to say IP problems do not occur elsewhere; businesses surveyed have also been affected in the UK, India, the US and many other markets.

Around a quarter of businesses participating in the research experienced a bad faith trade mark application. Businesses highlight exposure as particularly high in China; many have experienced more than one bad faith trade mark application, with some businesses currently opposing several applications. Bad faith trade mark applications are not just affecting businesses that have not sufficiently protected their brands; in some cases, those impacted are global brands with very robust IP strategies and protection.

UK businesses do not always protect their brands sufficiently; only half of those surveyed indicated that they have registered trade marks in China. Some wrongly assume that their UK trade mark registration also covers them for the Chinese market. For others, the cost of protecting in all operational markets is a barrier so they do not register in some markets including China.

Bad faith trade mark applications can have a very negative effect; some businesses have ceased to operate in China while others have been unable to enter the Chinese market as a result. This usually occurs when a business learns of the bad faith application after the trade mark has been successfully registered.

The majority of businesses experiencing a bad faith trade mark application incurred some costs as a result. The costs of opposing a bad faith trade mark application (legal fees and filing costs) vary from case to case; some businesses have paid £2,000, while for others costs have been as high as £40,000.

There are also some costs businesses are less able to quantify such as the loss of expansion opportunities and diversion of resources from important areas like new product development which ultimately impact businesses profitability. Among smaller businesses, a bad faith trade

mark application can also take a personal toll with the stress of dealing with the situation highlighted as a problem.

Anecdotal evidence held by the IPO suggested that bad faith trade mark applications were primarily driven by the intention of selling back to the rightful owner. However, this research indicates that half of businesses affected by a bad faith trade mark believe that applicants intended to use and manufacture under the trade mark and benefit from the reputational value of the original brand.

The majority of businesses affected by bad faith trade mark applications have since taken measures to strengthen their IP. Many believe that other UK companies should ensure that China is included within their IP strategy and is one of the countries on their trade mark and IP filing list. Early filing will mean that if the UK business eventually decides to enter the Chinese market they already have protection in place and they are also able to oppose any bad faith trade mark applications and in the meantime any potential alternative applicants will be deterred by their registered trade mark.

One tool businesses advocate and find invaluable is the protection of their trade marks through a trade mark watch service. This has the benefit of alerting them to any attempt to use or register trade marks or marks very similar to their brand across different markets. Early detection of a bad faith trade mark application allows a business to oppose the registration before it is granted which is particularly useful in China.

China's IP system has developed rapidly, the first law was implemented in 1983, and there has been a steady programme of reform ever since. This included significant amendments to the Chinese Trade Mark law which were implemented in March 2014. Two of UK businesses' major concerns about the Chinese trade mark system are addressed in the new law but these changes have not yet filtered through to businesses.

Many UK businesses believe it currently takes too long to obtain a resolution to a bad faith trade mark application in China - Oppositions can take between two to three years and with an appeal it can be up to five years. While the time it takes may be comparable to some markets businesses operate in, companies often compare the resolution time to the UK which is significantly shorter than China. Furthermore, the frustrations with the time it takes to obtain a resolution are also borne out of the fact that if a trade mark is already registered in China, the UK business is unable to trade under their trade mark while they oppose the registration. However, faster trade mark procedure processing times is one of the key elements of the new Trade Mark Law.

UK businesses would welcome further reforms to the Chinese Trade Mark law and call on the UK government to continue the dialogue with the Chinese authorities to further improve Chinese IP laws.

# Background

The Intellectual Property Office (IPO) has anecdotal evidence from businesses and other stakeholders suggesting bad faith trade mark applications are common in China. In its role to stimulate innovation and enhance international competitiveness, the IPO commissioned research to understand the extent of bad faith trade mark applications and the extent to which UK businesses are being impacted.

China continues to be an important market for UK businesses; as such, it is important to ensure that intellectual property (IP) is sufficiently protected and businesses understand how IP works in China.

The core objectives of the research were to:

- Understand how businesses are being impacted by bad faith trade mark applications in China
- Estimate the costs to UK business
- Understand any associated barriers to protecting IP

The evidence from this research will help to inform the debate on bad faith trade mark applications in China and provide insights into how the UK government may be able to address this important issue.

## China's Trade Mark Law

The Chinese Government takes IP and bad faith trade mark applications very seriously. They have recently revised trade mark laws and the changes are currently finding their way through the Chinese IP system. These changes include:

- Provisions to restrict bad faith registrations by business partners
- Mandatory deadlines for initial examinations to be complete
- Raising standards by introducing voluntary examinations for trademark agencies
- Introducing a trade mark agency directory with a quality of work indicator

These and other changes have put some pressure on the current system and resulted in a heavy backlog of applications and according to some IP experts resulted in incorrect and inconsistent decisions to bad faith trade mark application oppositions.

The Chinese authorities have recruited new examiners to alleviate the situation; however, the recruits are largely inexperienced and are struggling to deal with the different situations and complexities of the many applications submitted.

The pressures have also resulted in a higher number than normal of trade mark applications rejected on technicalities for example if the wrong term has been used or copies instead of original documents submitted. Experts have acknowledged the will of the Chinese government

to ensure that the system is efficient and they believe that these teething problems will be resolved in time.

It is against this background that this research has been conducted. However, the majority of the incidences raised by respondents in this report occurred prior to the change in law. Whilst the situation may be improving there remain issues that need to be addressed.

## Method

The research programme consisted of quantitative and qualitative elements. The research was targeted at businesses trading in China or with registered trade marks in China. To aid our understanding of the extent of bad faith trade mark applications, qualitative interviews were also conducted with trade bodies.

- An online survey received a total of 133 responses from UK businesses operating in China
- 8 in-depth interviews were conducted with businesses impacted by bad faith trade mark applications
- 1 in-depth interview was conducted with a law firm to help to contextualise the findings
- 3 in-depth interviews were conducted with trade bodies representing businesses

In order to maximise reach to those who have been impacted by bad faith trade mark applications, the following sample sources were used:

- China-Britain Business Council members
- IPO stakeholder sample
- Trade bodies
- Online panel of UK businesses from a third party panel provider

Of the 133 businesses completing the online survey, 36 had been impacted by a bad faith trade mark application in China. The sample for this survey is not representative of UK businesses operating in China; therefore we are unable to put a specific measure on the proportion of UK businesses which have been impacted by bad faith trade mark applications. This survey looks at the experiences of those responding and identifies themes and patterns.

The quantitative fieldwork was conducted between 2 February - 10 March 2015 and the qualitative interviews were conducted between 2 - 26 March 2015.

This report incorporates both the quantitative and qualitative findings, with quotations from businesses used throughout to add context.

## Technical note

- Due to rounding percentages may not always add to 100%
- For some questions, survey participants could give more than one response. In such instances, percentages may be greater than 100%

## Main findings

This report is based on the views of businesses and trade bodies participating in the bad faith trade mark applications research.

A bad-faith trade mark application can be defined as a company registering another's name or mark with intent to either sell it back to the rightful owner for profit or deliberately use that company's established name to market their own products – outside normal commercial practices.

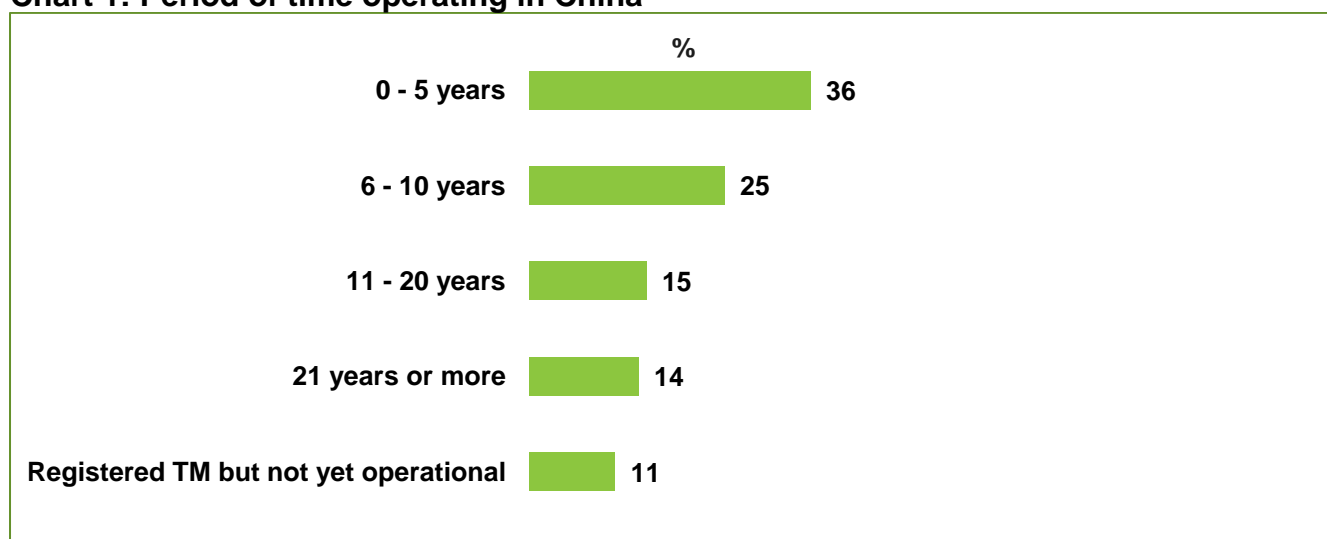
The research had a specific focus on China; however businesses' experiences of IP problems in other markets were also explored.

### Doing business in China

UK businesses perceive China as a key global market; the country's large population, rapid development and increasing consumer spending power present many opportunities for companies. Many businesses acknowledge China as culturally different to the UK and other territories they operate in. However, they recognise the importance of understanding the culture to operate effectively in this market; to this end, many work in successful partnerships with Chinese businesses and intend to continue trading in China for the foreseeable future.

Businesses participating in this research either operate in China or have registered trade marks but are not yet trading. Three in ten are well established and have been operating in China for over ten years.

**Chart 1: Period of time operating in China**



Q3. And how long has your business been operating in China?  
Base: All businesses participating (133)



UK businesses surveyed are from a range of sectors including engineering, technology, fashion and manufacturing. Some businesses initially used China as a manufacturing hub, however, there is now a trend towards UK businesses also selling their products in China.

IP problems, bureaucracy and cultural differences are the three top challenges for businesses operating in China.

**Table 1: Business challenges in China**

Intellectual property problems	38%
Bureaucracy	36%
Cultural differences	32%
Language	29%
Corruption	29%
Chinese intellectual property legislation	29%
Logistical issues	20%
Finding employees with the necessary skills	17%
Cyber security	16%
Consumer demands/expectations	13%
Anti monopoly legislation	12%

Q11. And what would you say are the three key challenges for your company trading in China?

Base: All businesses participating (133)

Survey participants had the option to provide multiple answers to this question

Around two in five businesses highlight IP problems as a challenge for their business in China. There is a perception that IP problems in China have been exacerbated by the availability of information through the internet as infringing parties can easily get access to a brand and copy trade marks very quickly.

*“The world has got smaller, the internet is there so now people know what's happening in other countries much [more] easily and brand growth and brand development is much wider than it ever was.”*

IP Firm

Businesses acknowledge that Chinese IP laws are relatively new and therefore perceive the IP system as still going through a ‘learning curve’. The country’s exceptional economic growth has prompted the Chinese government to initiate a broad programme of reform to IP laws, including trade mark laws. Some businesses are aware of these recent reforms; however they believe that the changes have not gone far enough as bad faith trade mark applications are still prevalent and continue to have an adverse impact on their ability to effectively conduct business in China.

UK businesses do not always take the necessary precautions when starting operations in China. Only half of those participating in the research have registered their trade mark in China and those who have been operating in China for less than two years are least likely to have registered a trade mark.

The majority of businesses experiencing bad faith trade mark applications acknowledge the importance of registering their trade marks in China and believe that UK businesses should include China into their global trade mark and IP filing strategy as it is increasingly becoming an important market. Some believe that registration of trade marks should be done well in advance of announcing their intentions for the Chinese market.

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*“If you are about to do a launch there, start filing before you announce anything.”*

Media; Large company

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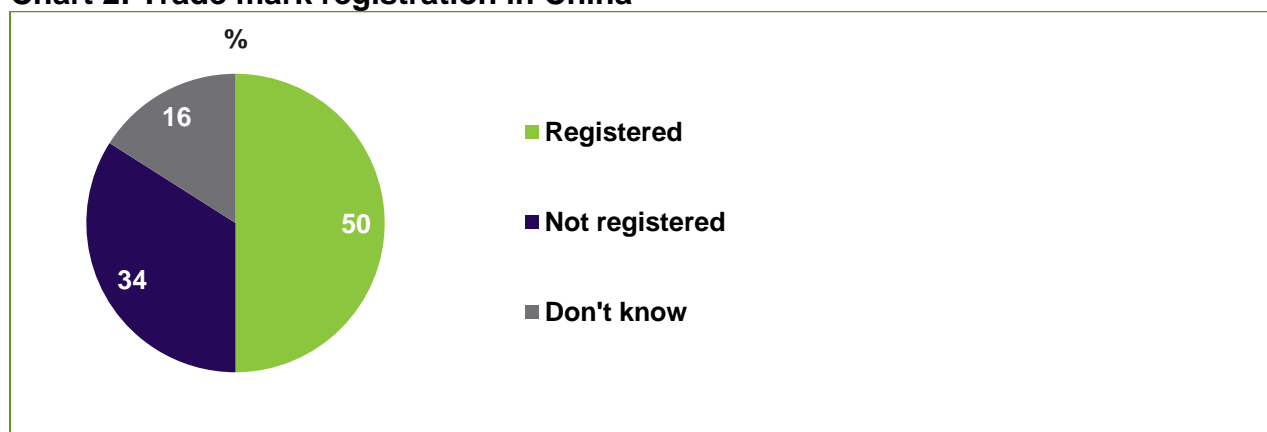
*“If I have a client who's got a new brand that they're about to launch I always tell them even if China's not in your mind at the moment still register a trademark there... Things might change in two or three years' time and what would happen when you want to go into the Chinese market you find out somebody else has already hijacked your brand?”*

IP Firm

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Some businesses fail to understand that IP laws are territorial and as such, any protection they may have in the UK or in other territories would not cover them in China. Others do not trade mark because of costs associated with filing in multiple markets. This is a particular issue for smaller businesses who already face many business challenges and wrongly do not perceive IP as a key priority.

**Chart 2: Trade mark registration in China**



Q13. Have you registered any trade marks in China?

Base: All businesses participating (133)

A barrier to early registration is the belief held by some that registering a trade mark in China is not a priority if a UK business is only manufacturing and not selling in China. Similarly, some, particularly start-ups, face other challenges in building their business and IP is not perceived as a priority.

*“It was down to our lack of knowledge. We had no in-house lawyers, and were quite a small embryonic brand, so we underestimated the importance of registering - it was a low priority at the time as our focus was on making and selling.”*

Manufacturing and retail; Medium size company

Table 2 shows that businesses with registered trade marks are generally protecting their marks prior to moving into the Chinese market (77%). However, a small proportion only registered their trade marks after investing time and resource in China. Such an approach can be costly as businesses could find that the trade mark is already registered which would mean they are unable to continue with their Chinese operation using that trade mark. This has been the case for two businesses participating in the research.

**Table 2: Registration of Chinese trade mark**

	%
Prior to deciding to move into the Chinese market	41%
After we had decided to move into the Chinese market but prior to investing any time and resources setting up	36%
After we moved into the Chinese market and invested time and resources setting up	12%
Don't remember	11%

Q14. At what point did you apply for your first trade mark in China?

Base: All with registered trade marks in China (66)

## IP Problems

IP problems are common and businesses are exposed in many markets.

- 32% of UK businesses have experienced an IP problem within the UK
- 33% in China
- 30% in other territories (Italy, India, USA and Mexico are reported as prevalent)

Businesses are as likely to experience an infringement in the UK as they are in China or in other territories. However, compared to the UK and other territories, China stands out as having a particularly high level of bad faith trade mark applications.

**Table 3: Type of IP infringement experienced**

	UK	China
Base: All businesses participating	<b>133</b>	<b>133</b>
Any IP problem	32%	33%
Bad faith trade mark application	9%	27%
Trade Mark issue	21%	17%
Domain name issue	13%	17%
Patent issue	9%	12%
Design right issue	8%	12%
Theft of trade secrets	4%	5%

Q34. What intellectual property issues have you experienced?

Survey participants had the option to provide multiple answers to this question

Businesses are generally proactive about protecting their trade marks in all regions; although some place greater emphasis on protection in the markets where there is a greater risk of IP issues.

Trade bodies highlight IP problems in general as a particular issue for their members operating in China. The market is perceived as problematic and it is difficult to keep track of infringers because they are constantly finding sophisticated ways of circumventing IP laws.

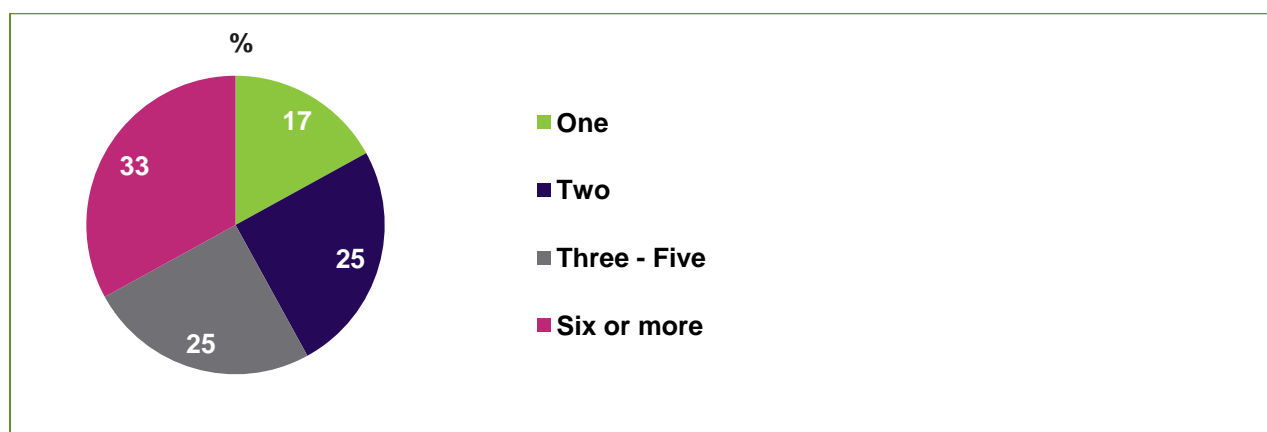
*“And it’s quite interesting, one of the issues we have as a trade association is there are only so many funds to be able to fight and we have to pick our battles so we spend probably the majority of our membership funds fighting trade marks which is really bad news.”*

Trade body

## Scale of bad faith trade mark applications in China

A quarter (27%) of businesses participating in the research had experienced a bad faith trade mark application in China. Those affected include established global corporations with robust IP strategies and a long history of operating in China as well as micro businesses, newer to the Chinese market and still finding their feet.

**Chart 3: Number of bad faith trade mark applications**



Q17. How many bad faith trade mark applications has your company experienced in China?

Base: All impacted by bad faith trade mark application (36)

*“IP infringements and bad faith trade mark applications are very prevalent in China in fact our agent employed people to purely scour the web; that’s all they are doing literally day in day out.”*

Manufacturing; Medium size company

Nearly all businesses reporting a bad faith trade mark application have at least one registered trade mark. However, it is worth noting that some businesses were unable to register their trade mark due to an on-going bad faith trade mark application opposition in China.

Affected businesses indicate that even when they fully protect their trade marks and other IP, they are still exposed. It is common for businesses to experience several bad faith trade mark applications; 83% of business who experienced a bad faith trade mark application, encountered more than one and some have over twenty oppositions and cancellations cases all at different stages currently lodged with the Chinese IP office.

*“We filed the trade mark before we started manufacturing in China, so it’s not like we’ve just ignored the whole thing.”*

Manufacturing; Micro size company

Although bad faith trade mark applications are affecting both small and large businesses, those with more recognisable brand names are at greater risk because individuals seek to trade off their brand credibility. Businesses generally believe that UK brands are well regarded among Chinese consumers and are associated with quality and good craftsmanship and are sometimes favoured over local brands. Therefore, infringing parties seek to benefit from these positive associations at the expense of UK businesses.

Some believe that the Chinese consumers are becoming more discerning and that they will start to reject brands and products that are not *original*.

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*“Even the consumer perspective is very different now in that they aspire to be this middle class ideal... they don't want copycat material; they want originals. And it's almost this sense of pride that they've got the original.”*

Trade body

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There is some consensus that the Chinese government is steering its economy away from focusing on manufacturing and is now promoting greater innovation among local businesses. UK businesses believe that with a greater focus on domestic innovation in China there is likely to be a move away from imitating other economies and Chinese businesses will start to face the same IP problems currently affecting UK businesses. There is a perception that the Chinese government will eventually have to respond to bad faith trade mark applications as more local investors are impacted.

One business indicated that they were in the process of applying for well-known trade mark status in China. This will allow the business to benefit from better multi-class (or multi sub-class) protection in the Chinese trade mark system and will allow them to oppose others registering for similar goods and services.<sup>1</sup>

The IPO had previously believed that most bad faith trade mark applicants intended to sell the trade mark back to the rightful owners without using the trade mark. However, more than half of businesses impacted by bad faith trade mark applications indicate that the main motivation for the application was to do business using the trade mark. This is highlighted by small, medium and large businesses from a range of sectors.

The use of a bad faith trade mark to do business can be very damaging as it has a direct impact on both the UK business' brand name or marks and consumer perceptions of their product. It is not uncommon for the infringing parties to also produce lower quality products and often not to the same specification as the authentic goods. While this is an issue for all those affected, it is a particular problem for businesses with products which rely on their reputation for safety.

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*“We really care, I cannot have fake goods that have our name out there ruining the brand and potentially being dangerous or causing an accident; I just can't deal with it.”*

Manufacturing; Micro size company

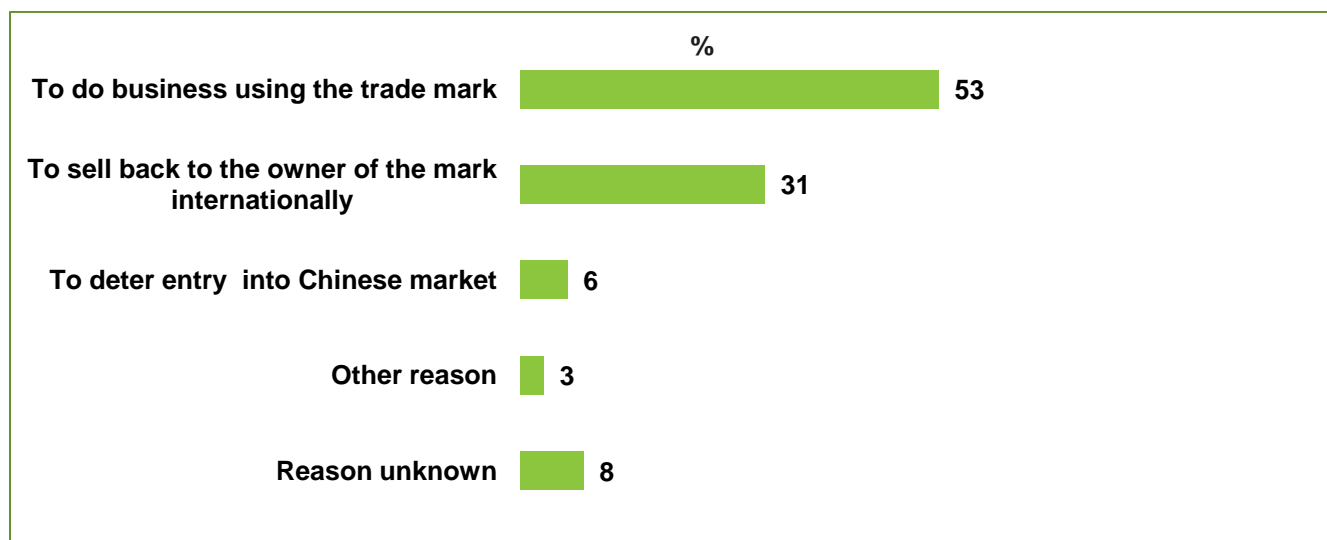
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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/269552/British\\_Embassy\\_Beijing\\_-\\_China\\_Well-Known\\_Trademarks\\_Factsheet\\_-\\_Jan\\_2013\\_-\\_with\\_CBBC\\_logo.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269552/British_Embassy_Beijing_-_China_Well-Known_Trademarks_Factsheet_-_Jan_2013_-_with_CBBC_logo.pdf)

**Chart 4: Motivation for bad faith trade mark application**



Q18. What would you say was the MAIN motivation of the bad faith application(s)?

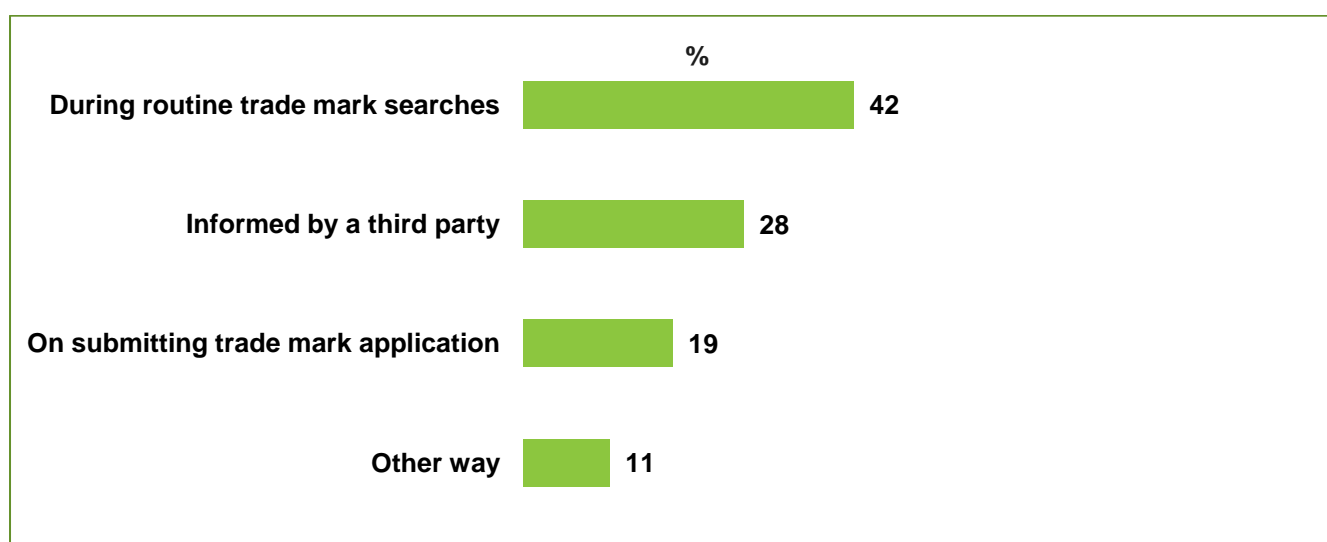
Base: All impacted by bad faith trade mark application (36)

A third of businesses affected indicated that the motivation for the bad faith trade mark application was to sell back the trade mark to the rightful owner. Businesses are generally against buying back trade marks as the financial gains can encourage more bad faith applications.

## Resolving bad faith trade mark applications

Chart 5 highlights how businesses found out they had been impacted by a bad faith trade mark application.

**Chart 5: Learning of bad faith trade mark application**



Base: All impacted by bad faith trade mark application? (36)  
Q19. How did you first learn about the most recent bad faith trade mark application?

Trade mark watch services are widely used by businesses and most believe that they are extremely effective at picking up trade mark and other IP infringements. Trade mark watch services also allow businesses to focus on running their companies in the knowledge that IP is being sufficiently monitored.

*“Well I think having a trade mark watching service can be worth its weight in gold.”*

Manufacturing; Micro size company

*“We employ external attorneys and they have a watch service so we get notified every day of every trade mark that’s been registered.”*

Manufacturing; Medium size company

*“We have now engaged an IP expert and trademark agent, and are trade marking proactively in lots of countries.”*

Manufacturing and retail; Medium size company

Trade mark watch services are an invaluable tool as bad faith trade mark applications can be detected at the initial filing stage. This allows a business to issue a cease and desist notification or to lodge a cancellation or opposition through the Chinese IP office before a trade mark is granted. Early detection also allows a business to use their trade mark until a ruling is made by the China Trade Mark Office.



Businesses also learn about bad faith trade mark applications from a range of other sources including employees, and business partners based in China.

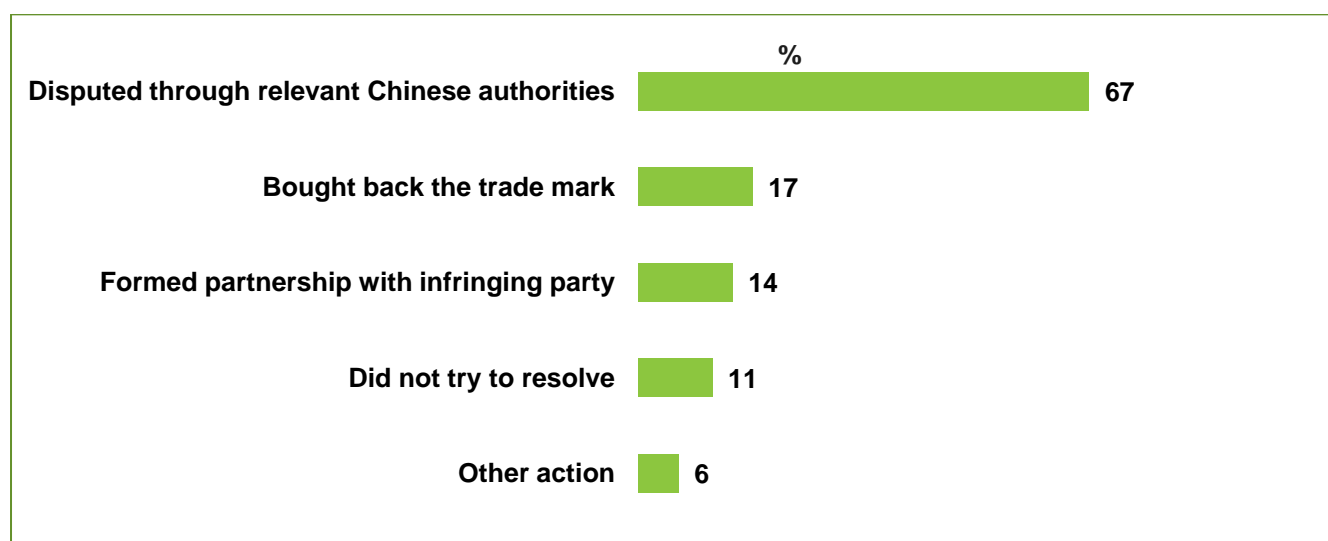
When businesses discover a bad faith trade mark application after the trade mark has been successfully registered, the consequences are much greater as they are legally unable to continue trading under the trade mark.

*“The individual had the same logo as us and the same name as us, in the same category as us and thought that he would just file the trademark.”*

Manufacturing; Micro size company

Most businesses impacted by a bad faith trade mark application take action to try and resolve the application through official channels (67%). Very few have formed partnerships with infringing parties; and this is usually out of necessity. In such instances, businesses find that a manufacturing partner or a business associate has trade marked their name and opposing the registration would delay or limit their ability to trade in China.

#### Chart 6: Steps taken to resolve BFTMA



Q20. What steps did you take to try and resolve your organisations most recent bad faith trade mark application?  
Base: All impacted by bad faith trade mark application (36)

Few businesses have bought back their trade mark. While this is not generally a strategy that businesses approve of, sometimes it is deemed as the best course of action, particularly in cases where the business' legal counsel believes they have a low chance of obtaining the trade mark or when halting their operation to fight the bad faith application would adversely affect their business.

Those not taking action to resolve a bad faith trade mark application highlight costs as a barrier to pursuing an opposition, and some did not feel the bad faith trade mark would limit their ability to do business in China.

Businesses experiencing a bad faith trade mark application were asked whether they had obtained a resolution to each of their oppositions and if this had been done through engagement with the Chinese authorities.

Overall, 22 out of 36 of those experiencing a bad faith trade mark application have been unable to obtain their company's trade mark. Most cases were opposed through official Chinese channels. 19 out of 36 businesses obtained their trade mark and had the bad faith application revoked. The majority obtained their trade mark through engagement with the Chinese authorities.

**Table 4: Outcome of bad faith trade mark application**

<b>Obtained trade mark</b>	<b>19 out of 36 businesses</b>
Obtained trade mark: no engagement with the Chinese system	4 out of 36 businesses
Obtained trade mark through engagement with the Chinese system	17 out of 36 businesses
<b>Did not obtain trade mark</b>	<b>22 out of out of 36 businesses</b>
Did not obtain trade mark: no engagement with the Chinese system	7 out of 36 businesses
Did not obtain trade mark: engagement with the Chinese system	18 out of 36 businesses
Pulled out of the Chinese market as a result of	

Q24. Which, if any, of the following applies to your business?

Base: All impacted by bad faith trade mark application (36)

Survey participants had the option to provide multiple answers to this question

Five out of thirty six businesses affected by a bad faith trade mark application have since ceased to do business in China as a direct result of a bad faith trade mark application. Costs of pulling out of the market can be significant for businesses; some have had to relocate their manufacturing elsewhere at considerable cost.

Businesses generally follow the advice of their IP lawyers in the UK and in China. Most cases are opposed using multiple arguments; conflict with prior rights and cross-classification for well-known marks are the most commonly used arguments.

**Table 5: Argument used to dispute BFTMA**

Conflict with prior rights	63%
Cross classification protection for well known marks	63%
Being contrary to socialist ethics & customs	41%
Non use	33%

Q24b. Which argument did you use when disputing the bad faith trade mark application in China?

Base: All who engaged with the Chinese system (27)

Survey participants had the option to provide multiple answers to this question

In instances where the trade mark has been successfully registered by a bad-faith applicant, businesses can make a strategic decision to ‘wait and see’ if the other party will make use of the trade mark and then dispute it using the non-use argument. Overall, a third of companies used this argument.

This solution usually works when the bad faith trade mark application does not adversely impact the business’ ability to continue operating in China and other markets. Many believe that the prevalence of bad faith trade mark applications would be greatly reduced if the Chinese IP system adopted the system used in the UK which requires a declaration of intent of use.

Businesses report cases whereby individuals register the same name and marks to those of a UK business but in a class or sub class that is different and when the UK business opposes the bad faith application they lose on the grounds of different classification. Some businesses believe they have been targeted by individuals who have no intention to operate in their class, but instead wish to benefit from the UK brand’s credibility. Most feel that such cases should still be viewed as bad faith trade mark applications.

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*“They want to have the aura effect and pick up some kind of association with a trusted brand.”*

Media; Large company

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Businesses also cite instances whereby a trade mark has been filed in a different class yet the product that is subsequently marketed is in the same class as theirs. This can be damaging for a brand as consumers may end up purchasing a product in the belief that it is marketed by the UK business. In many cases, the products sold by the infringing parties are of a poorer standard and quality to the authentic brand.

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*“People over there will apply in other classes and still sell your products.”*

Manufacturing; Medium size company

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*“I found working in my other firm [that] people who apply for the marks in China are really clever about what they do.”*

Engineering; Large company

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Some businesses are taking more drastic measures to protect their IP and are trade marking their brand in multiple classes or classes peripheral to their product. While this ensures that the business is well protected; it is a costly strategy particularly for small companies.

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*“It’s counter-intuitive, if you’ve been trained in trade mark law, to think you should file in every class, as that’s not the purpose of trademarks. But I’d say in China that you need to shift that thinking and be slightly ahead of the game.”*

Media; Large company

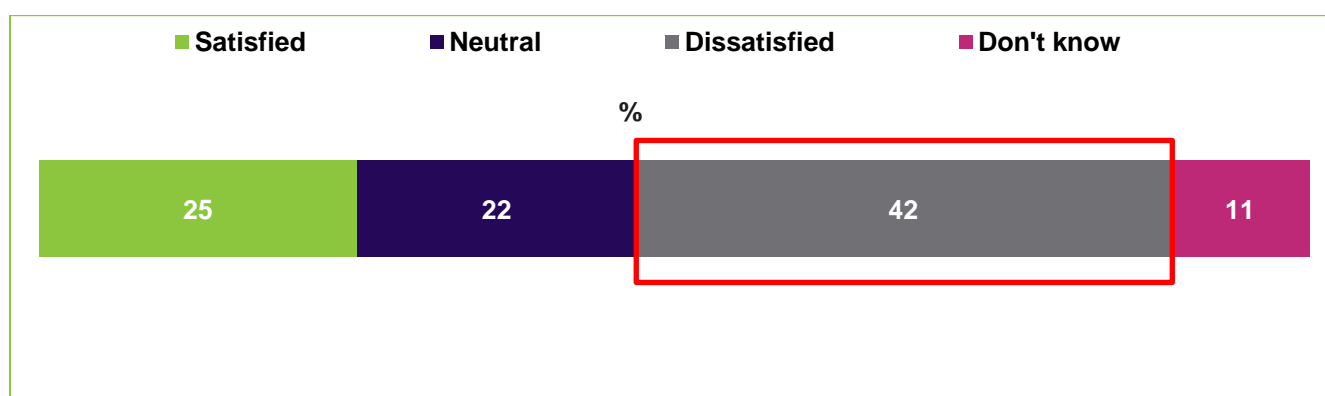
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There is evidence to suggest that oppositions to bad faith trade mark applications are currently more likely to be won at the appeal stage. While the Chinese authorities have put measures in place to make the system more consistent, these changes are yet to benefit UK businesses.

Most businesses participating in the research are still in the process of opposing a bad faith trade mark application. Those who have completed the process indicate that an opposition can take between two to three years. However, with an appeal it can be five years before obtaining a resolution.

Four in ten businesses are dissatisfied with the time it took to get a resolution for their most recent bad faith trade mark application in China.

**Chart 7: Satisfaction with resolution time**



Q25C. How satisfied were you with the time it took to get a resolution for the most recent bad faith trade mark application?

Base: All impacted by bad faith trade mark application (36)

Although there are changes to the Chinese trade mark laws including statutory time limits, these changes are yet to benefit UK businesses.

Nearly all believe that timings for oppositions and appeals are lengthy and have an adverse impact on business productivity. Oppositions to bad faith trade mark applications can take three years and up to five years if the UK business appeals the outcome. Those impacted invariably divert resource from other key areas of their business.

Although the time it takes to get a resolution in China may be comparable to other markets businesses may operate in, companies compare the Chinese system to the UK, which has a considerably shorter trade mark registration time and where oppositions are also resolved much quicker.

*“The majority of them haven’t been completed yet because China takes so long so this is the problem with China.”*

Engineering; Large company

*“It first came up in October 2012 and it’s only just been finally resolved now.”*

Entertainment; Medium size company

If a bad faith trade mark application has been granted to the other party (not the owner of the mark internationally), a business is unable to continue with their Chinese operation while they oppose the application. Even if they are eventually granted the trade mark, the business could be unable to operate under that trade mark for up to five years while the case is on-going.

As a result, some businesses have been forced to register a new trade mark to allow them to operate in China while they fight the bad faith trade mark application. This at least gives them the opportunity to continue business; however this approach can dilute their brand value and send mixed brand messages to customers.

Many businesses affected highlight that the amount of time it takes to resolve a trade mark application diverts them from focusing on integral elements of business. Areas impacted include:

- New product development
- Growing the business
- Nurturing the brand

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*“It’s been such a distraction, and all that management time wasted in re-sourcing, plus the impact on managing the quality while we were setting up again.*

Manufacturing & retail; Medium size company

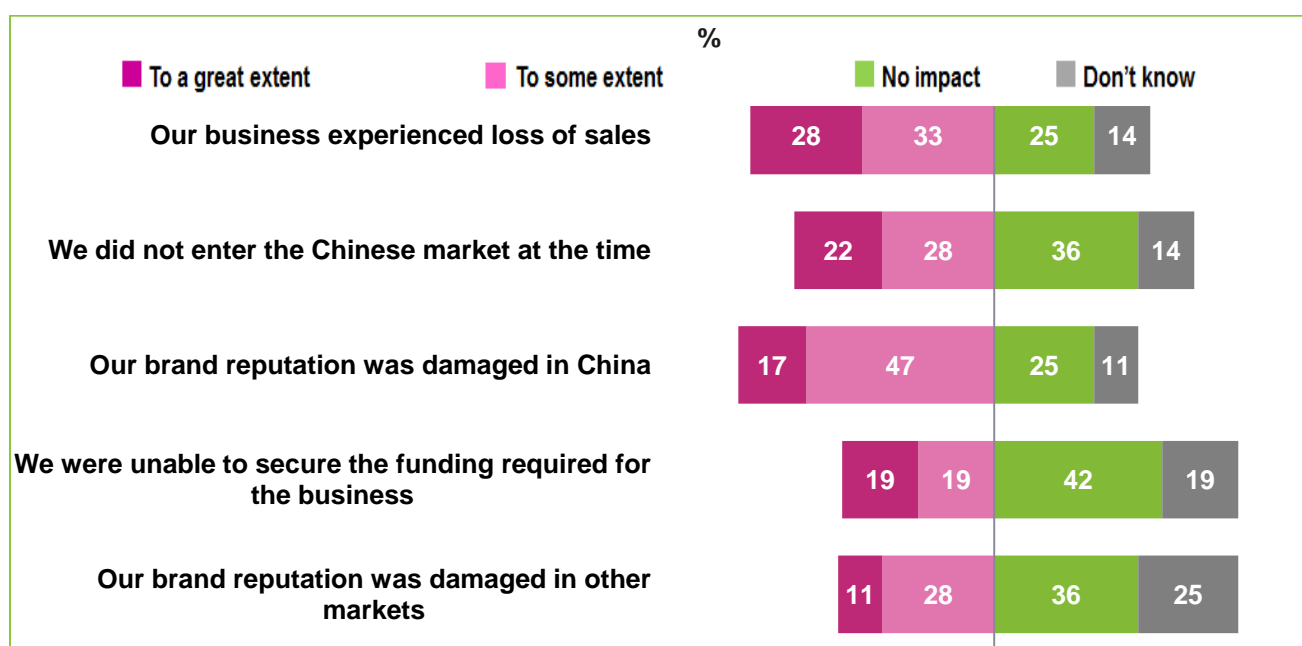
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Some businesses who have experienced bad faith trade mark applications have found that the rival parties have also been selling the products under the trade mark online. Chinese ecommerce platforms require that businesses provide proof of trade mark before they can stop any sales. The amount of time that it takes to fight a bad faith trade mark application means that a rival party can continue trading online for up to five years while the UK business awaits an outcome.

## Impact of bad faith trade mark applications

As illustrated in chart 8, bad faith trade mark applications have an adverse impact on UK businesses.

**Chart 8: Impact on business**



Q25a. To what extent would you say your business was impacted by the following as a result of the bad faith trade mark application?

Base: All impacted by bad faith trade mark application (36)

The loss of sales is the most common consequence of a bad faith trade mark application; six in ten businesses indicate that the bad faith trade mark application has affected their sales to a great extent or to some extent. Businesses are affected to differing extents; the extent is dependent on the stage of the bad faith trade mark application. If they uncover the bad faith trade mark application after it has been successfully registered they are unable to continue with their business operations in China under that trade mark (unless it is successfully declared invalid).

Furthermore half of businesses were deterred from entering the market at the time as a direct result of the bad faith trade mark application.

*“Our trade mark agent says that he has had other people who have moved out of China as a result of the trademark issues - so longer term, they [China] are the losers.”*

Manufacturing & retail; Medium size company

Over a third of businesses indicated that the bad faith trade mark application affected their ability to secure funding for their business. This can impact both their Chinese operation and the wider business.

*"I would like to sell some shares in the company to an investor but the investors won't look at it, because the first thing they say is who owns the brand in China, and it's not me."*

Manufacturing; Small size company

Bad faith trade mark applications have an adverse impact on the brand; two thirds have had their reputation damaged in China and two in five say there has been damage in other markets. In the instances where the infringing party proceeds with manufacturing, the customer experience is also affected as they may be unable to distinguish between authentic products and those produced under the bad faith trade mark.

*"It has a tremendous impact. It has an impact on the brand in as much that the product they're making is actually substandard."*

Manufacturing; Small size company

Some businesses have opted to come out of the Chinese market as they were unable to regain their trade mark. The option to rebrand was perceived as detrimental to the overall image of the brand.

*"China is a no-go because of the lack of trade mark, and we are not going to rebrand."*

Manufacturing & retail; Medium size company

Many businesses believe there is a need for greater penalties for the individuals who deliberately file for trade marks in bad faith. There is a perception that in the absence of tough penalties some businesses in China will continue to file bad faith trade mark applications as there are limited repercussions.

Trade bodies believe that the Chinese authorities realise the impact of bad faith trade mark applications and are putting measures in place to protect the IP of both local and foreign businesses

*"I think at the rate of what the Chinese authorities are doing now and the things that I've evidenced, I think they're fast tracking to a really protective system."*

Trade Body

## Costs to business

Twenty five out of thirty six businesses experiencing a bad faith trade mark application incurred a cost as a direct result of the bad faith trade mark applications.

Most paid legal costs in order to resolve the bad faith trade mark application. The costs are dependent on the complexity of each case, with businesses paying anything from £2,000 to over £40,000.

**Table 6: Costs incurred**

Incurring a cost	25 out of 36
Legal costs	24 out of 25
Staff costs	13 out of 25
Lost revenue	9 out of 25
Costs for buying back the trade mark	6 out of 25
Rebranding costs	5 out of 25
Other	1 out of 25

Q27. What costs did you incur?

Base: All impacted by bad faith trade mark application and incurring costs

Half of businesses have paid out staff costs; with some employing new staff to specifically look after trade marks as a direct result of previous IP problems. It is also common for staff to be diverted from other business areas to focus on managing bad faith trade mark applications which can leave other areas of the business under-resourced.

Businesses also spend time building their portfolios of evidence to support their opposition of a bad faith trade mark application. However, once this evidence is gathered businesses are able to continuously update it and use it for subsequent oppositions.

*“We’ve had to produce this evidence in a number of cases, so it’s now a question of filing it in a sensible place so it can be called upon at a later date, rather than digging around for it.”*

Engineering; Large company

Bad faith trade mark applications adversely impact on businesses’ bottom line. A third of those incurring costs lost revenue as a direct result of the bad faith trade mark application. Lost revenue can be due to a business not being able to sell their product while they await the outcome of a bad faith trade mark application opposition or having to move their operation elsewhere at notable cost because of an unsuccessful opposition.

*“We’ve had to start again, finding someone else, doing all the due diligence, going up the learning curve etc. So the factory in China has lost business, and people have lost their jobs.”*

Manufacturing & retail; Medium size company



There are some instances when businesses make strategic decisions to buy back trade marks, for example, it may sometimes be more cost effective to buy it back rather than to fight the opposition. One business decided to buy back a trade mark that was very close to theirs because they were aware that that the infringing party was manufacturing the product and this was done to minimise exposure of the brand.

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*“We've actually bought one trademark; the name actually sounds like our brand name. We know that the guy was selling under that name.”*

Manufacturing; Medium size company

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Businesses usually rebrand after losing an opposition. This dilutes their brand, and prevents them from capitalising on their brand equity which may have been nurtured over several years.

## Future protection for UK businesses trading in China

The experiences of businesses exposed to bad faith trade mark applications are varied; with both those who have taken all the necessary precautions to protect their brand and those without the correct IP protection in place targeted.

Most businesses are in China for the long-term therefore are keen to avoid any further IP problems. Following a bad faith trade mark application, nearly all businesses reviewed and bolstered the management of their trade marks and other IP. Table 7 (column a), shows some of the measures that businesses have put in place following exposure to bad faith trade mark applications. However, column b of the table shows that businesses not affected by a bad faith trade mark application are still not prioritising important aspects of IP protection.

**Table 7: IP processes for Chinese operation**

	(a) Experiencing BFTMA	(b) Businesses not impacted
All businesses reviewing IP procedures or implementing processes to protect their IP assets	94%	77%
Reviewed our IP management strategy	47%	24%
Considered IP rights in other markets	44%	26%
Registered domain names	39%	28%
Identified/asserted our copyright(s)	39%	24%
Reconsidered trade mark/branding in the light of possible infringement of someone else's trade mark	28%	5%
Trained our staff on intellectual property	25%	32%
Filed an application for a patent(s)	22%	15%
Filed an application for a registered design	19%	12%
Identified confidential information such as trade secrets or other commercial information and introduced Non Disclosure Agreements	14%	20%
Identified unregistered design rights	11%	9%
Reviewed our employee contracts	11%	36%
Reviewed our business terms and conditions	11%	27%
No actions required	6%	7%

Q35 – Column a - Which if any of the following actions have you taken or revised as a result of the bad faith application? Base: All impacted by bad faith trade mark application (36)

Q35 – Column b - Which, if any of the following have you implemented for your Chinese operation? All not experiencing a bad faith trade mark application (97)

Survey participants had the option to provide multiple answers to this question

Three quarters of businesses participating in the research indicate that they have a good understanding of IP (score 7, 8, 9 or 10 out of 10). Just a third say they have a comprehensive understanding and give a score of 9 or 10 out of 10.

88% of businesses say their IP assets are important to them (score 7, 8, 9 or 10 out of 10). However, just half say such assets are extremely important (score 9 or 10 out of 10).

There is an acceptance that in the absence of more rigid IP laws in China and tough penalties for infringing parties there will always be individuals who deliberately target UK businesses. Encouragingly, businesses experiencing a bad faith trade mark application are now highly engaged with IP and are keen for other UK businesses to avoid the same problems they encountered.

Businesses highlight some measures that can be put in place to minimise bad faith trade mark applications and allow UK businesses wishing to start operating in China to effectively protect their trade marks. Advice includes:

#### Registering trade marks in China:

- Ensure that your name and trade marks are registered in English and Chinese characters
- Ensure trade marks cover similar spellings, in both English and Chinese
- Consider registering in other classes or sub classes that are close to your core product
- Ensure China is included in your business trade mark and IP filing strategy
- Register as soon as possible; China should be a priority market for registration

#### Look after your IP:

- Prioritise IP in your business
- Register with a trade mark watch service
- Work closely with Chinese partners so they can help to monitor your IP
- Ensure you have the clear agreements with Chinese partners about use of the trade mark
- Obtain good legal representation; including advice from a professional experienced in the local market

#### Build evidence of your brand:

- Keep an audit trail of evidence that may help prove authenticity of your brand
- Ensure the evidence is ready packaged and up to date to allow for rapid submission (in case of future bad faith trade mark applications)

#### Engage with authorities:

- Register your trade mark with Chinese customs to enable seizures of any counterfeit products
- Monitor Chinese ecommerce sites and report any illegal sale of your branded products

- Use the IPO, UK Trade & Investment and the IP attaché in China as an information resource
- Consult trade bodies like China-Britain Business Council and other trade bodies

## Recommendations from businesses

Many of the businesses surveyed believe that the UK government needs to do more to engage with Chinese authorities to try and eradicate bad faith trade mark applications. There is a belief that trade mark laws in China need to be consistent with other key global markets; with some businesses calling for more aligned rules across markets to protect IP for all businesses.

Some businesses believe that as China continues to modernise and become even more important on the world stage, it will be crucial for their IP laws to be more stringent so that their businesses are well protected and inevitably foreign businesses will benefit from this. The recent changes to the Chinese IP laws are perceived as positive steps towards improving China's IP regulations; however most believe there is still some way to go.

Businesses suggest that the UK government should lobby China to update their trade mark laws so that those filing a trade mark are required to declare an intention to use with their application.

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*"It's interesting, we live in a global world in terms of trade etc... we haven't caught up it in terms of making sure we've got IP systems in place that protect people."*

Trade Body

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There is also a belief among some businesses that the Chinese IP system is weighted in favour of local businesses which seem to negotiate the system better than their foreign counterparts. Some identify cases where they have been able to provide solid evidence demonstrating that they are the rightful owners of a trade mark and have still been unable to regain their trade marks in China. While this is perceived as evidence of corruption by some UK businesses, it also suggests that an in depth understanding of the local Chinese IP System can positively influence IP outcomes, for example understanding that China operates on a 'first to file' basis. The UK Government could therefore do more to support businesses' understanding of the IP system, particularly small or new businesses without professional IP support.

Businesses also highlight the fact that trade mark oppositions are generally more successful at the appeal stage. While success at any stage is welcome, the time it takes for the business to regain the rightful use of their trade mark has an adverse impact on their ability to operate in China. There is a view that staff who work with appeals are generally more experienced in IP matters and therefore look at cases more objectively and hence the higher number of cases won at appeal. This concern is likely to be rectified as businesses start to be exposed to the reformed trade mark laws.

Currently businesses are unable to directly deal with the China Trade Mark Office, with all oppositions going through their Chinese lawyers or trade mark representatives. Some feel that if they were able to engage with the authorities they would be able to personally put their cases across rather than depend on a system that does not always take all facts and evidence about a case into consideration.

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*"If I give you an example with the UK, if I filed a trademark and the Trade Mark Office raised an objection they give you the opportunity to file arguments and submissions, to show why they should waive the objection or they give you the opportunity to have a hearing with a senior hearing officer about your argument] whereas in China you don't get that option, it's a straightforward refusal and then you have to pay to then go to the next stage of appeal."*

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## *IP Firm*

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Businesses welcome the opportunity to work with the IPO and other trade bodies to try and minimise the impact of bad faith trade mark applications in China. Many are already actively involved and sit on various committees and steering groups that focus on IP issues.

Trade bodies are actively providing support for businesses and while they are an invaluable source of support, they too can be overwhelmed by the number of IP problems businesses experience. Both businesses and trade bodies highlight the following as areas the UK Government could lobby the Chinese authorities for:

- Shorter time to process oppositions to bad faith trade mark applications
- More objective examinations of oppositions at the initial stages
- More training for IP staff dealing with initial oppositions to reduce cases going to appeal
- Services that allow UK businesses to deal directly with the Chinese IP office

Many businesses surveyed were not aware of the close working relationship between the UK and the various Chinese IP agencies. The IPO highlights that the UK government maintains strong dialogue with China in all areas of IP and has had very in-depth discussions in relation to trade marks specifically in the past few years. The points mentioned above are included in this dialogue and bad faith trade mark applications will remain a priority.

While the IPO and other trade bodies already provide support, the research also highlights that many businesses are not aware of the resources provided by the UK Government on IP, such as the factsheets online or the UK's IP attaché who can provide 1-2-1 IP support for UK businesses. Businesses suggested the following as measures that the UK government could put in place to better support businesses:

- Better signposting to websites that address how businesses can protect themselves from bad faith trade mark applications
- Signposting to a list of reputable IP law firms in China

## Conclusions

Bad faith trade mark applications are widely experienced and businesses are exposed in many markets including the UK, the USA and India. However, applications made in bad faith are perceived as particularly prevalent in China with many businesses currently opposing multiple bad faith trade mark applications.

Businesses acknowledged that Chinese IP laws and systems are relatively new and still evolving; however the high number and types of IP problems they are experiencing lead them to believe that the system needs to be better defined to minimise violations. UK businesses are yet to see benefits from the recent changes to the IP system and trade mark laws in China.

The research shows that there are a number of different circumstances which can lead to a company facing a bad faith trade mark application. Some businesses start operating in China without registering their trade mark which leaves them exposed. A number of factors might influence this decision;

- Businesses are sometimes unaware of the importance of IP to the future success of their organisation
- Some do not understand that IP is territorial and that a trade mark in the UK will not protect them in China
- Others may have chosen not to register their trade mark because of concerns about the cost of the process.

These issues often particularly affect small and micro businesses without dedicated IP resources. Other businesses diligently register their trade marks but still find that they experience bad faith trade mark applications. This phenomenon is sometimes caused by UK businesses not having a sufficient understanding of the Chinese trade mark class and sub-class system as well as Chinese applicants having the knowledge to manipulate the system to their advantage.

This research also illustrates that bad faith trade mark applications have a significant impact on UK businesses. A high number of bad faith trade mark applications are made with the intention to manufacture and distribute rather than just as an opportunity to sell back to the rightful owner at a profit. This may be due to the cachet attached to some UK brands which will allow the bad faith trade mark applicant to make significant profits. This results in the UK businesses' reputations being weakened by potentially sub-standard goods being produced with their trade mark meaning that the long term profits attached to using the brand is much more profitable than the short term gains.

Some businesses have decided not to enter the Chinese market as a result of the bad faith trade mark application. For such businesses, entry would have required them to rebrand which would have ultimately diluted their brand equity. Others have withdrawn from manufacturing in the market as their trade mark had already been registered by a Chinese company.

There are opportunities for the UK Government to help businesses impacted by bad faith trade mark applications; particularly around facilitating a resolution and providing practical advice to help businesses through this often distressing experience. The circumstances that lead to bad faith trade mark applications suggest that there would be significant value in additional educational resources, informing UK businesses about how to adequately protect IP in China and in other markets and the value of investing in a trade mark watch service once you have a trade

mark. Many businesses find subscribing to a trade mark watch service invaluable because it alerts them to attempts by others to register their trade marks and provides them with an early opportunity to oppose applications before they are successfully registered.

Businesses would also welcome greater dialogue between the UK Government and the Chinese authorities; with many suggesting further reform of the Chinese IP and trade mark laws. Though many businesses surveyed were not aware of the close cooperation between the UK and China already. Some businesses would also like to see tougher penalties for those registering other businesses' trade marks in bad faith.

The time it takes to obtain a resolution is perceived as too lengthy by businesses impacted by bad faith trade mark applications and many believe businesses would benefit from a shorter resolution time.

Many businesses are in the Chinese market for the long-term and believe that changes to the rules would not only be beneficial for foreign investors but also for Chinese companies. Additionally a fairer system would benefit the wider Chinese economy as foreign businesses would be able to invest knowing that there are laws in place to sufficiently protect their investment.





## Background

**A WELL-ESTABLISHED, HIGHLY INNOVATIVE AND SUCCESSFUL GLOBAL ENGINEERING COMPANY**

### COMPANY IP STRATEGY

Protection of all IP is extremely important. The brand name and marks are sufficiently protected across all operational markets including China. The business' IP department includes a team solely focused on trade mark protection. As part of safeguarding IP, all new employees are given IP awareness training as part of their induction into the company. They have recently employed an IP lawyer in China whose role includes advising on bad faith trade mark applications. They also work closely with IP law firms in China.

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

Over the last few years, the organisation has had approximately 400 trade mark infringements coming directly from China, with around 50 in the last 2 years.

*"It's a constant flow, because it's not just trademark infringements, we get domain name infringements too so it's a mix of both; it's never-ending."*

There was no readily available information for the exact number of bad faith trade mark applications. However, over a three year period a total of 302 invoices directly relating to bad faith trade mark applications have been processed (with some cases generating several invoices).

### APPROACH TO BFTMA IN CHINA

The organisation learns about trade mark infringements through:

- Subscription to trade mark watch services
- Employees
- Brand enthusiasts

Each case brought to their attention is investigated and appropriate action is taken. As a way of lessening the burden on the company, only cases deemed as having a 35% or higher probability of success are pursued through the Chinese IP office (SIPO). They have a policy to appeal any unfavourable outcomes and have done so with a good success rate.

*"If we file an opposition and we lose, we always appeal it because generally we find on appeal we generally win which is really strange; we don't know why. It just seems to be what happens in China."*

They have recently compiled a comprehensive dossier of their company's information to use as evidence for bad faith trade mark applications at a cost of £25,000. This provides a cost effective and ready to use resource for any oppositions or cancellations as they do not have to reinvent the wheel for each case. Additionally, by working with IP law firms and specifically appointing an IP lawyer based in China, they have more of a local focus to assist with minimising infringements.

### COSTS TO THE BUSINESS

Over a three year period, the business has paid just under £130,000 in fees relating to bad faith trade mark applications in China. In addition, senior IP lawyers spend about a day each week dealing with work directly related to bad faith trade mark applications coming from China. The company also spent £25,000 on compiling the dossier of evidence, so total costs are just under £155,000 over 3 years and this figure would be even higher if staff time was accounted for.

### VIEWS OF THE CHINESE IP SYSTEM

With the majority of oppositions and requests for cancellations still pending an outcome, there is a perception that contested bad faith trade mark applications take too long to complete. Decisions can take 2 to 3 years and with an appeal up to 5 years. There is frustration with the Chinese IP system as outcomes are not always consistent even for very similar cases.

*"China is the most difficult country to work with and yet it's the one we have to work with the most."*

The business calls for Chinese Authorities to do more to minimise bad faith trade mark applications. They suggest penalties for individuals who set out to deliberately infringe other businesses' trade marks. More stringent requirements like demonstrating proof of use before getting a registration could help to minimise bad faith trade mark applications and also provide infringed parties with some visibility of what the trade mark would be used for.

*"The UK government needs to make the Chinese authorities aware that if they don't do something, more companies will choose not to manufacture or even sell in China."*

### FUTURE PLANS FOR CHINA

Although the business continues to experience bad faith trade mark applications, they intend to continue operating in this key market for the long-term.

*I think we're a rare case because we're such a big company and China is one of our main markets so we're going to be over there and we're going to be selling."*



### IP STRATEGY

- > Core brand name fully protected globally
- > Brand name fully trade marked in China
- > IP Department in UK headquarters
- > UK based trade mark specialists
- > China based IP lawyer

### EXPOSURE TO IP INFRINGEMENTS

- > Domain name infringements
- > Trade mark infringements
- > 400 in last few years

### EXPOSURE TO BFTMA

- > 2014 – 133 unique invoices relating to BFTMA
- > 2013 – 81 unique invoices relating to BFTMA
- > 2012 – 88 unique invoices relating to BFTMA

### APPROACH TO BFTMA

- > Follow up all cases
- > Pursue cases deemed as having 35%+ chance of success
- > Appropriate decision made – case by case basis

### ACTION TAKEN

Commission - Chinese IP law firms to take appropriate action

- > Cease and desist letters
- > Opposition (high associated costs)
- > Cancellation (high associated costs)

### Cost to business

- > 2014 - £48,343
- > 2014 (£25,000 to prepare dossier of evidence)
- > 2013 - £39,626
- > 2012- £40,640
- > 1 day of a senior IP lawyer per week

**Three year total = £153,609**



### INFRINGEMENT ALERT

- > Subscription to trade mark watch service
- > Brand enthusiasts
- > Staff notifications

### ACTION

Opposition/  
cancellation via  
Chinese IP Office (SIPO)

Lose

Win

ALWAYS  
APPEAL  
OPPOSITIONS  
LOST

NO FURTHER  
ACTION

BRAND  
EXPOSURE

# CASE STUDY ONE

## INFORMATION



## Background

A MICRO COMPANY MANUFACTURING SAFETY PRODUCTS FOR CHILDREN

### COMPANY IP STRATEGY

Protection of IP is a priority. The business has a series of trade marks and registered designs in most territories they operate in and have copyright on words and images. All IP registrations are reviewed annually and updated as necessary. The business has had to be adaptable to cope with the high level of IP infringements they experience and the founder has become very knowledgeable about IP protection and takes responsibility for the management of IP assets. They also utilise the services of IP law firms in the UK and in China.

*"We are absolutely passionate about IP and we've always prioritised it within the business. We take it much more seriously other business of our size."*

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

They filed for a trade mark in 2011 just before they started to manufacture in China. However, the application was rejected as another company had also applied for the trade mark although it was not yet granted. The business is still in the process of opposing the bad faith trade mark application.

*"We filed it and it was rejected. We've appealed but it's still not been granted, we're still appealing, it's been going on for 3 years."*

The business is still manufacturing in China and selling its products in China via a Hong Kong based distributor while they await the opposition outcome.

### APPROACH TO BFTMA IN CHINA

As a very small company they have no documented IP strategy; however they pursue every infringement that comes to their attention. They have registered to a trade mark watch service and have also developed proprietary multi-lingual software to detect online use of their trade mark, designs and counterfeit products.

The software has been very successful at helping them to detect counterfeit products and other inappropriate use of their IP.

The company has collated evidence of their trading activity, trade marks and registered designs going back 10 years to use as evidence to contest bad faith trade mark applications.

*"I can prove the use of my trade mark for 10 years; I bet you anything they [the infringing party] can't."*

Following the rejection of their initial trade mark application, the business has appealed to the Chinese IP office on the advice of their Chinese attorney. The business thinks it could take another 1 or 2 years before they obtain an outcome for the appeal. They used their other trade marks around the world as evidence to support their opposition.

*"I was hoping that as we have a number of trademarks filed around the world that we could prove that this was quite clearly infringing ours, had been copied and had actually been filed upside down."*

### COSTS TO THE BUSINESS

Out of pocket costs are £10,000 in legal fees and the time and energy put into exploring and fighting the case. Funds were diverted from new product development and expanding the business which has had a negative impact as the business is small with limited resources.

*"It's expensive, and incredibly stressful...they probably think we are a big business who will offer them lots of money."*

The business believes that the individual who has made a bad faith trade mark application is not currently manufacturing the product. However, they have no clarity on whether the infringing party intends to manufacture or would be willing to sell back the trade mark in the eventuality of the infringer being granted the trade mark. This uncertainty is of concern to the business.

### VIEWS OF THE CHINESE IP SYSTEM

Their views of the Chinese IP system are not favourable due to their experiences; there is a belief that the authorities are not fully aware of the extent and impact of bad faith trade mark applications.

*"It's incredibly common. There are some people who think 'I'll just file that trade mark and then if there's an issue, I own the trade mark and I can maybe sell it back [to rightful owner] at great expense."*

### OUTCOME

As well as legal costs, which are significant for a small business, the business has diverted their limited resource from other important areas to oppose the infringement which has been on-going for over 3 years. All these factors have a significant impact on a small business and ultimately stunt their growth.

*"It's incredibly stressful and it's very expensive but it's incredibly stressful."*



IP STRATEGY

- > Trade mark registered in operational markets
- > Protection for designs, marks & words associated with brand
- > All IP reviewed and updated annually



INFRINGEMENT ALERT

- > In-house proprietary software to detect inappropriate use of brand IP
- > Trade mark watch service

TRADE MARK PROTECTION FOR CHINA

- > Application originally filed in 2011
- > Application rejected



ACTION

ACTION TAKEN

- > Opposing a bad faith trade mark application

Cost to business

- > £10,000
- > Staff costs
- > Diversion of resource from New Product Development



OUTCOME

- > Outcome pending

EXPOSURE TO IP INFRINGEMENTS

- > High number of counterfeit products (including China)
- > Counterfeit good mainly sold via e commerce channels
- > One bad faith trade mark application still pending

APPROACH TO BFTMA

- > All IP infringement investigated
- > Evidence of trade mark ownership compiled

OTHER TRADE MARK ACTIVITY

- > Counterfeiting surveillance

# CASE STUDY TWO

INFORMATION





## Background

A MEDIUM SIZED COMPANY WITH A STRONG MANUFACTURING HERITAGE WHICH SELLS ITS PRODUCTS IN 148 COUNTRIES

### COMPANY IP STRATEGY

The protection of IP is an important element of the organisation's business strategy. They have diverted resource from sales into IP, with a senior manager now looking after IP. They utilise the services of a UK IP law firm, a Chinese IP law firm and their distributor for China who has local knowledge also carries out some surveillance on their behalf.

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

To date the company has filed 12 bad faith trade mark application oppositions with the China Trade Mark Office and of these, 7 that are still pending. The infringing parties applied for the marks in Latin, English and Chinese characters in different classes to the business. However, although the registrations are filed in different classes, the infringing parties are actually selling a similar product to the UK business.

*"Why would a business in China, totally different language, Chinese characters and everything want to use our company name in Latin. Why?"*

The business has had two bad faith applications revoked.

The business is waiting for appeals to be granted (which can take 1-2 years), in some cases the infringing party is able to continue trading. This puts the business at a great disadvantage.

### APPROACH TO BFTMA IN CHINA

The business utilises trade mark watch services and receives alerts when infringements occur.

*"It's worth it, because we get loads of applications, and they just come to us and say this has been flagged up, do you want to oppose the applications or not?"*

The business takes advice from their distributor and their lawyers in the UK and in China on whether or not to pursue a case. Their Chinese

distributor has employed staff to search the web for infringements and counterfeits within the Chinese market. The distributor receives help from the Chinese customs authorities when dealing with counterfeits and they have generally been successful at deterring infringers.

China is by far the business's most important market therefore trade mark infringements are taken very seriously. To aid oppositions or cancellations of trade marks they have compiled evidence supporting their rightful ownership of the brand name and other trade marks. Although collating the evidence is very time consuming they believe it is a worthwhile exercise. The business also seeks advice from the China Britain Business Council and is currently receiving support for a specific case involving a Chinese eCommerce business.

### COSTS TO THE BUSINESS

The business has bought back one trademark for a name that was very close to theirs for £30,000. The company believe the individual had acquired it from a previous employee of their Chinese agent. This was a one off and not a strategy for future infringements.

They estimate lost revenue as a direct result of bad faith trade mark applications and other trade mark infringements is approximately £20 million a year.

The business believes that the cost of dealing with trade mark infringements is at least £100,000 per year. This includes surveillance, oppositions and other associated costs. However, they feel this is money well spent because if they successfully oppose their trade mark infringements they will be able to recoup costs over the year.

### VIEWS OF THE CHINESE IP SYSTEM

The business believes the IP system in China is slow and ponderous. However, they acknowledge that the Chinese authorities are making efforts to improve the system because of the extent of bad faith trade mark applications.

*"I know it's a massive country with thousands of applications going through, and I have heard that they are trying to catch up. However, I think if they want a reputation in the world they need to play by the rules."*

### OUTCOMES

The business has had some successes, one partly and one totally in their favour. They are however still waiting for the outcomes for the majority of oppositions. They think the Chinese authorities need to be more active in putting measures in place to speed the process up and make it more equitable for foreign businesses.



### IP STRATEGY

- > Trade marks registered in key operational markets
- > Brand name fully protected in China
- > Employee responsible for IP
- > IP Law firm in the UK
- > IP law firm in China



### INFRINGEMENT ALERT

- > Trade mark watch service
- > Through Chinese distributor

### EXPOSURE TO IP INFRINGEMENTS

- > High level of counterfeit products
- > 12 BFTMA oppositions
- > 7 BFTMA pending a review

### APPROACH TO BFTMA

- > All IP infringement investigated
- > Distributor works with Chinese customs authorities to deter counterfeiters

### COUNTERFEIT PRODUCT SEIZURES

### ACTION

### ACTION TAKEN

- > Commissioned Chinese IP lawyer to oppose all bad faith trade mark application

### Cost to business

- > £100,000 per year in BFTMA and counterfeiting surveillance
- > Staff costs

### OUTCOME

- > Two BFTMA oppositions won, one of which cost £30,000 to pursue
- > One BFTMA case partially won
- > Majority of BFTMA awaiting outcome

# CASE STUDY THREE

## INFORMATION



## Background

**A FAMILY BUSINESS THAT HAS GROWN INTO A RESPECTED AND ETHICAL FASHION BRAND**

### COMPANY IP STRATEGY

As a fledgling brand, the firm's initial focus was on sales rather than IP. They have since grown significantly and now realise the importance of IP, especially after experiencing significant problems as a result of not registering their trade mark in China. They now invest heavily in protecting their brand and utilise the services of a trade mark agent and have employed a staff member whose role is solely managing IP.

*"We have now engaged an IP expert and trademark agent, and are trade marking proactively in lots of countries. We are also registering other elements of our brand portfolio including logos and marks."*

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

The company was manufacturing in China for five years but had not registered any trade marks as they were not selling there. When they decided to start selling in China they attempted to register their trade mark but were unable to as it was already registered by another manufacturer.

The brand has an unusual name not found in the dictionary and they use a bespoke font for their logo. They believed that the identical trade mark had been applied for in bad faith.

*"It was blatant plagiarism of our logo - they had even applied for our exact design in our unique font."*

They filed an opposition through their Chinese trade mark agent, however the opposition was unsuccessful. The Chinese company offered to sell the trade mark back to the business at a cost of £70,000; however the business elected to appeal the opposition outcome. The business consulted and obtained support for their appeal their local MP, as well as the British Embassy in Beijing. The appeal was also unsuccessful. The opposition and appeal process took four years. The Chinese company has since decided to manufacture under the trade mark.

### BAD FAITH TRADE MARK APPLICATIONS STRATEGY

The business acknowledges that not registering their trade mark in China was naïve and feel they have learnt a harsh lesson on the importance of IP protection.

*"It was down to our lack of knowledge. We had no in-house lawyers, and were quite a small embryonic brand, so we underestimated the importance of registering - it was a low priority at the time as our focus was on making and selling."*

The business has learnt from their experience in China and now prioritises the protection of their IP. They now subscribe to a trade mark watch service. They have also successfully registered trade marks similar to their core brand and designs which have been accepted. This was done as a precautionary measure to allow them to manufacture in China again should a business need arise. This is not a favoured route as it dilutes the brand as products would have to be manufactured under the brand name registered for China.

### COSTS TO THE BUSINESS

The cost to the business extends far beyond the legal fees of over £80,000. They have diverted management time from other core elements of the business to setting up new manufacturers of their clothing range. The business estimates the true cost of the infringement at between £300,000-400,000. The bad faith trade mark application also resulted in the Chinese employees who were manufacturing their clothing range losing their livelihoods.

*"It's been such a distraction - all that management time wasted in having to start again, finding someone else, doing the due diligence and going up the learning curve. The factory in China has lost business, and people have lost their jobs."*

### VIEWS OF THE CHINESE IP SYSTEM

There is a perception that the Chinese system leaves businesses open to 'trade mark pirates' who do not have genuine business intentions. There is frustration that the Chinese authorities are not acting swiftly to stop this practice, especially in what seem to be clear infringement cases.

### FUTURE PLANS FOR CHINA

The business feels very wary about operating in China, and is unlikely to manufacture or sell there in the future. However, they have taken precautionary measures to allow them to do so should the need ever arise.

*"Maybe long term we might want to expand into Asia, but China is a no-go because of the lack of trade mark, and we are not going to rebrand."*



### IP STRATEGY

- > Trade mark registered in UK & Europe
- > Registration of several logos & other brand IP
- > Employee responsible for IP
- > IP law firm in China
- > Trade mark agent

### EXPOSURE TO BFTMA

- > BFTMA in China in 2009/2010
- > Brand not trade marked in China
- > Business' core brand successfully trade marked by a Chinese firm

### APPROACH TO BFTMA

- > Oppose any infringement
- > Appointed Chinese IP law firm



### INFRINGEMENT ALERT

- > Subscription to trade mark watch service



### ACTION

#### ACTION TAKEN (1)

- > Opposition filed with portfolio of evidence
- > Opposition unsuccessful

#### Cost to business

- > £80,000 in legal fees
- > New staff member to manage IP
- > Indirect costs, finding, setting up & upskilling new suppliers, quality control, loss of jobs in China

Process took 4 years to complete

#### ACTION TAKEN (2)

- > Appealed decision through Chinese IP office
- > Appeal unsuccessful

#### OUTCOME

- > Successfully registered a similar trade mark and other associated IP

# CASE STUDY FOUR

## INFORMATION





## Background

**A LONG ESTABLISHED MEDIA BRAND WITH A GLOBAL PRESENCE**

### COMPANY IP STRATEGY

The business takes IP very seriously and has protected their core and sub brands in many markets. Due to the prohibitive costs of protecting their IP in every market, they prioritise protecting in key markets and those with the highest risk of IP infringement like India, China, Pakistan and some countries in South America. The business is very mindful of ensuring that they also do not infringe other companies; they take legal advice to ensure new sub-brand trade mark applications are not already registered in local markets.

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

The organisation has been exposed to a number of bad faith trade mark applications in China, where other companies have sought to trade off the goodwill associated with their brand. In some cases this has been in categories totally unrelated to media. For example, in China, they have been trying to oppose a bad faith application by a firm selling cosmetics using their name and logo.

*"They want to have the aura effect and pick up some kind of association with a trusted brand."*

The business highlights that its sector is particularly open to infringement; this is driven by the fact that much of their content is digitised and easily copied. Some of the business's programmes generate spin-offs for a range of products so they end up as brands in their own right. With increasing use of the internet this poses a real challenge.

### APPROACH TO BFTMA IN CHINA

In recent years the business has reinforced IP protection in China, registering their trade mark in multiple classes to stop others using their name. This approach is driven by the fact that the Chinese IP system is different to the UK and other key markets.

*"China is unlike the UK or EU, where you really need an intention to use the mark in order to file it. Whereas in China it's very much a 'first to file' jurisdiction, so unless you've filed a trademark, you can't really show your rights."*

The business is building a portfolio of their trade mark information so that they have a readily available evidence source for fighting infringements.

The business does not have a set policy on dealing with infringements; they decide on how to deal with each infringement on a case by case basis.

*"It depends on who is in breach, the flagrancy, the cost of pursuing it, the potential damage to the brand, etc - there can be several factors."*

They take a proactive stance to protecting their trade marks and have a subscription to a trade mark watching service. Last year a representative from the organisation met with the China Trade Mark Office to discuss infringements of their brand. While this had limited success at the time, the Chinese authorities now seem more willing to recognise that the brand is global and may require an extended scope of protection. The business generally appeals lost oppositions and are winning more cases than they used to.

### COSTS TO THE BUSINESS

The costs of dealing with IP infringements are substantial. They employ several full time staff looking after IP and pay a considerable amount in legal fees. Although costs affect the business, the greatest impact is when they lose the rights to their trade marks as this significantly dilutes the brand.

An additional repercussion of bad faith trade mark applications is that when they try to launch a new programme, it can be very difficult to bring licensees on board, as they will want to see a trademark certificate before they sign a licence contract.

*"If we find a trademark is already registered, it completely slows business down, because we can't get licensees on board until we have the trademark, and we can't get the trademark until we've got rid of the other one, which we can't always do. So our processes get really bogged down as it can take years."*

### VIEWS OF THE CHINESE IP SYSTEM

The organisation views the Chinese IP system as slow and generally in favour of Chinese businesses. However, their recent appeal successes have started to change this perception. Beyond acknowledging that their brand is widely known and should be afforded extra protection, the firm would also welcome the rules becoming more in line with UK regulations, i.e. the need to have an honest intention to use a mark, rather than the 'first to file' principle.

### FUTURE PLANS FOR CHINA

They currently await the outcome of several further cases. In the meantime they will continue to operate in China, hoping that the extra precautions they have taken to register in multiple classes will hold them in good stead.



### IP STRATEGY

- > Protection of brand name and sub-brands
- > Focus on core markets and where there is greater IP infringement risk (India, China and South America)
- > In process of applying for *well known* brand status in China
- > Full time team of 12 dedicated to IP, some of whom focus on trademarks
- > Global IP operations centralised in London, liaising with local IP lawyers where needed

### EXPOSURE TO BFTMA

- > Several BFTMA in China

### BFTMA - STRATEGY FOR CHINA

- > Review infringements on a case by case basis, acting where damage likely to be highest
- > Registration of the core brand in multiple trade mark classes
- > Non disclosure of new sub brands until trade mark registration in place

### INFRINGEMENT ALERT

- > Trade mark watch service notifications

### ACTION

### ACTION TAKEN

- > Commissioned Chinese IP Law firm to oppose all BFTMAS

### Cost to business

- > Substantial legal fees
- > Cost of staff members to manage IP
- > Cost of filing in many unrelated categories
- > Indirect costs: brand dilution, reputational loss, loss of potential sales

### APPEALS

- > Many appeals still pending

### OUTCOME

- > Some oppositions won
- > Several oppositions lost

# CASE STUDY FIVE

## INFORMATION



## Background

A RENOWNED FAMILY OWNED ENTERTAINMENT COMPANY WITH GLOBAL APPEAL

### COMPANY'S IP STRATEGY

The business is very protective of its well respected brand and takes measures to actively protect their reputation. They have IP protection in the UK and Europe and now have their trade mark registration for China. Although the business has a UK focus, they are well known globally and sell television rights in many markets.

They have retained a lawyer to aid the safeguarding of their brand. The company has faced infringements in the past; and has successfully settled them through direct negotiations with infringers (some of whom infringed the brand through ignorance of IP); any money agreed in settlements is then donated to charity.

*"We have done some settlements; we normally do it (a) if the infringing party stops what they're doing and (b) if they have already infringed, they make a donation to one of our charities. It's an unusual approach I know."*

### EXPOSURE TO BAD FAITH TRADE MARK APPLICATIONS

The business along with others in the entertainment industry (from various countries) was alerted to a bad faith trade mark application. The infringing party was a major Chinese company also within the entertainment industry and with strong links to most of the companies infringed.

*"...We are all major events, all [of our trade marks] were registered by a company who, again to our surprise didn't appear to be a sort of a squatter so to speak and was actually a legitimate Chinese business."*

The businesses decided to oppose the infringing party in collaboration with the other companies impacted. When challenged, the infringing party agreed to transfer back the trade marks to all businesses impacted without cost for commercial reasons.

### APPROACH TO BFTMA IN CHINA

The business subscribes to a trade mark watch service and receives alerts on global infringements. They had previously not

protected in China and other non-priority markets as costs were prohibitive. They have since registered their trade mark as a result of the bad faith application. At the point of registration, they discovered that another trade mark in a class that the business is involved in had been registered 7 years earlier. They opposed that infringement using the non-use argument. The negotiations with the infringing party to transfer the trade mark over to the business were fraught; and towards the end of the process they refused to notarise some documents. It took another year to resolve and involved significant input from the business' Chinese lawyers. They eventually managed to obtain the trade mark. The business is in the process of registering other trade marks in China.

### COSTS TO THE BUSINESS

Opposing the trade marks cost the business in the region of £40,000 over a three year period. Most of the costs were in legal fees. This is a significant sum for the business, but it was important that they retained use of the trade mark; they also spent a lot of time consolidating their business information to use as evidence to support their opposition. This diverted resource from other important aspects of the business.

*"We had to retain Chinese lawyers obviously we had to pay everybody in gross. We had to pay fees in China; they're the least of our problem."*

The business received support from the IP attaché in China and the trade minister.

*"The IP attaché was absolutely fantastic and very helpful."*

### VIEWS OF CHINESE IP SYSTEM

The business highlights the Chinese IP system as different to western based systems which have some commonalities. It is perceived as time consuming and difficult to deal with. Additionally, the fact that registrations made in bad faith are not recognised as infringements make it challenging for UK businesses.

*"But it is a different system again not having bad faith which is generally accepted, I think of Australia or New Zealand or America or mainland Europe you would have a bad faith and clearly normally it's a reason why you can challenge someone's trademark."*

The business believes that for the future it would be helpful if the Chinese system recognised bad faith by including it as a reason to challenge trade marks registered in China. A system similar to the UK and Europe which attempts to detect and prevent a trade marks registered in bad faith is perceived as desirable.

### FUTURE PLANS FOR CHINA

The business currently has their event aired on a Chinese TV channel; but has no immediate plans to actively operate in China.



## Background

**A FULL SERVICE LAW FIRM WITH AN ARM SPECIALISING IN IP, INCLUDING TRADE MARKS AND BRAND PROTECTION**

### COMPANY'S IP STRATEGY

The firm has a team dedicated to IP. Their Head of trade marks is a lawyer who previously spent several years in Shanghai with an international IP law firm, so has local knowledge. The firm perceives China as an important market and encourages clients to always try and protect in this market.

### EXPERIENCE OF DEALING WITH BAD FAITH TRADE MARK APPLICATIONS

The company has particular experience of handling BFTMAs and highlights infringements of this nature as especially prevalent in China. They acknowledge that trade mark laws in China have been tightened so there are some improvements; however, they believe there is still a way to go.

*"One of the biggest problems is 'trade mark squatters'. China has updated their trade mark law but I still don't think it goes far enough."*

The firm highlights several reasons why bad faith trade mark applications are a big problem for UK businesses:

- The Chinese IP legal system is relatively new and still evolving
- British brands are trusted and coveted by Chinese consumers; this therefore makes them particularly attractive to infringers
- Despite not initially intending to operate in China and therefore not protecting their brand, UK businesses are now more aware of the opportunities China presents. Therefore some businesses start operating in China without the necessary IP protection.

### THE RISKS AND COSTS OF LACK OF IP PROTECTION IN CHINA

The firm believes that fighting bad faith trade mark application cases can prove extremely costly: not only in terms of legal fees but due to other factors such as potential lost revenue. They cite a case in point where a fashion designer had not registered their trade mark in China due to costs, and when they wanted to start trading in the market it was already registered by someone else. The lack of a trade mark impacted the business adversely as they were unable to negotiate the desired royalties on their products due the lack of protection and

higher risk of copies. The UK firm eventually managed to buy the trade mark back at great cost.

The firm describes such practices as common, as some trade marks are applied for not with the aim of producing goods, but of making money by selling the trade mark back to their rightful owner at a later date. The firm thinks that oppositions are lengthy and can stop businesses trading in China, and as such they can miss out on sales in this important market. A lack of protection can also lead to reputational damage. If an inferior copy is bought in the mistaken belief that it is bona fide, this can reflect badly on the genuine brand, or in the worst case may cause harm to the customer (for example in the case of untested fake electrical goods.)

### ADVICE TO BUSINESSES

The firm gives the following advice for UK businesses considering operating in China (either selling or manufacturing):

- Firms should register their trade marks early; even when not thinking of operating imminently in China. This helps to avoid potential problems down the line

*"If you don't register, then want to enter the market 2 or 3 years later, you'll find somebody has hijacked your brand. Because the world has got smaller, the internet is there, and the Chinese are very interested in Western brands."*

- Businesses should have strong agreements in place with manufacturers regarding what they can do, how the brand can be used, etc (rather than just a 'handshake') This avoids issues such as the company switching supplier, yet the initial manufacturer still continuing to produce goods under their brand name.
- Engage with the right people locally to ensure a full understanding of the culture and language
- Register brands with customs, so that officials can monitor and seize counterfeit goods
- Budget allowing, consider registering in as many classes and sub-classifications as possible that are close to your product. It is better to make the application wide enough to cover off all eventualities and save costs down the line

*"It's always good to make sure you have a clear specification of what you want to do in China, so that the scope of what you want to get protection for is broad enough to stop others from adopting the same name for similar goods."*

- Finally, subscription to a trade mark watching service ensures firms have early warning of any breaches and can quickly stop them before registration

The firm believes that if companies take such precautions and follow official procedures, the Chinese IP system should work in their favour.

