98 MILLION REASONS TO THINK ABOUT HOW YOU USE YOUR BRAND IN CHINA – THE RISKS OF NOT OBTAINING PROPER IP PROTECTION FOR YOUR BUSINESS IN CHINA

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A recent decision in China involving multinational sports brand New Balance is the latest case which demonstrates how important it is for brands to obtain adequate intellectual property protection in China before entering the market. This case also highlights the need to register your brand in Chinese characters to ensure that your brand has adequate protection in China.

BACKGROUND

Last year, Chinese businessman Zhou Yuelen successfully sued New Balance Shoe Inc and its Chinese subsidiary, Xinbailun Co, (collectively, New Balance) for infringement of his registered Chinese trade mark "新百伦" (Xin Bai Lun Mark). The Guangzhou Immediate People's Court ordered that New Balance stop using the Xin Bai Lun Mark and that it pay Zhou half of its profits during the period of infringement. As a result, Zhou was awarded approximately 98 million yuan (AUD15 million) in damages and costs.

The brand name "Xin Bai Lun" is a combination of the Chinese direct translation of the word "New" and the Chinese phonetic transliteration of the word "Balance". Zhou had owned the Xin Bai Lun Mark for clothing, footwear and headgear goods since 2008 as well as owning a registered trade mark over "百伦" or "Bai Lun" since 1996. While New Balance had registered the English name "New Balance" as a trade mark in China, it had not obtained trade mark protection over the Xin Bai Lun Mark that it regularly used. In practice, Chinese customers and New Balance referred to the brand in China as Xin Bai Lun.

THE DECISION

The Court found that New Balance knew about Zhou's registered trade marks as it had previously unsuccessfully opposed Zhou's application for Xin Bai Lun Mark. Despite this knowledge, New Balance used the Xin Bai Lun Mark on its marketing and on receipts for purchases at its Chinese stores. By continuing to trade using the name Xin Bai Lun, the Court found that New Balance had acted in bad faith.

The Court did not accept New Balance's argument that use of the name was necessary as it was a direct

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transliteration of "New Balance". While the Xin Bai Lun Mark was found to be widely accepted by Chinese consumers as being associated with New Balance and had been used by New Balance in China since 2003, Xin Bai Lun was not a direct translation or transliteration of "New Balance". The Court held that a more appropriate translation would have been "Xin Pin Heng" and further noted that New Balance had sometimes used the Chinese phonetic transliteration "Niu Ba Lun".

Importantly, China has a first-to-file trade mark system and as a result does not recognise a trade mark unless it is registered with the trade mark office, regardless of how long the mark has been used prior in China. Further, Zhou was able to demonstrate actual confusion between his products and New Balance's products. When Xin Bai Lun was typed into a search engine, New Balance's products would show up as the first results rather than the products promoted by Zhou. This meant that reverse confusion was occurring, preventing Zhou from building and expanding his business and reputation due to a more well known brand infringing his trade mark. The Court found that New Balance had made a profit as a result of this infringing conduct.

This case is currently in appeal. The appeal was heard by the Guangdong High People's Court on 5 November 2015. The Court has not yet delivered its judgement. Watch this space!

KEY LESSONS

- Before entering the Chinese market, brands should develop a comprehensive strategy as to how they will use their brand in China and ensure that they adequately protect the brand as it will be used in the market. Brands should consider obtaining registration over the English and Chinese versions of their brand name. Careful consideration should be given to developing a Chinese version of your name, which could either be a direct translation of your brand name, a phonetic transliteration of your brand name or a mix of both.
- Consult a proficient Mandarin/English speaker to ensure that any translation of the Chinese name you choose accurately reflects the branding of your business. Depending on which Chinese characters you use, the translation can sometimes turn out to be quite undesirable. For marketing purposes, you should consider whether consumers will be able to build an association between your English brand name and the Chinese name you choose.
- Obtain suitable intellectual property protection in China as early as possible and ideally before you launch your business in China as China operates a first-to-file trade mark system. Brands should also ensure that they are free to use the brand names that they adopt by engaging legal professionals to undertake trade mark searches prior to filing and launch.
- Try the best to oppose an identical/similar trademark application in the opposition proceedings or cancel an identical/similar trademark registration in the invalidation proceedings. If you find these are identical/similar marks which are filed by any third party and will block the registration/use of your famous marks, you need to entrust the top Chinese IP law firms to oppose/cancel the said mark. The evidence proving the use and fame of your mark in China as well as bad faith of the applicant is very helpful to

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success of opposition and cancellation proceedings. If the online searches or onsite investigation reveal any evidence proving bad faith of the applicant, you should make the notarisation to fix the evidence.

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