

Rules of Engagement

Trademark Strategies, Protection
and Enforcement in China

PAOLO BECONCINI



Wolters Kluwer

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Preface

No matter how the Chinese economy performs in the next five years, it has become a country that no one can ignore. Intellectual property protection is one of the hottest topics. Any foreign company needs to study this book for survival, prosperity and to hold competitive advantage. China is a ruthless and tough market where IP control can mean the difference between a fortune made and a fortune lost. This book is the ultimate playbook for success.

Western legal and business professionals are often frustrated and resigned when dealing with intellectual property, and specifically trademark protection in China. The 2015 American Business in China and Business Climate Survey of the American Chamber of Commerce reports that most foreign business operators believe that the Chinese intellectual property system is inefficient and ineffective. Consequently, the apparently unstoppable rise of trademark theft and counterfeiting in China has always been blamed on the ruthless and aggressive Chinese. The China blame game has been then amplified by western media. The result is that, with few exceptions, foreign businesses and professionals could not see that some of their trademark problems were due to failure to prepare, failure to understand and lack of proper preparation. Most publications on trademark law in China are traditional law textbooks reaching out to a very limited number of practitioners. Also, these law books tend to be compartmentalized to the legal sphere and the analysis and practical tips can at most help lawyers to solve a specific legal issue, but will not help them and their clients to conceive and implement wider and effective trademark strategies in China. At the same time, business books on brand management in China treat the legal aspects of the brand protection very marginally, so that trademark protection and enforcement occupy a very marginal position in the planning of business strategies. This book bridges this gap.

Foreign legal practitioners, businessmen and IP managers need support in formulating concrete and effective strategies based on a more comprehensive source of knowledge about trademark protection and enforcement in China. The relevant market needs access to knowledge that is not compartmentalized and scattered, but comprehensively treated and presented in a practical manner. This book presents comprehensive strategic approaches to dealing with trademark protection and enforcement in

China, challenge common legal thinking, and propose new and deliver creative strategic solutions to old unresolved problems.

This book is the result of 15 years of field experience in trademark protection and enforcement in China and offers a comprehensive, interdisciplinary and strategic guide to deal with trademark challenges in China. The book also details state of the legal and business strategies adopted by foreign companies when dealing with trademark theft and counterfeiting in China.

The book offers a unique strategic perspective on Chinese trademark law and practice for a number of reasons; the author is not only a lawyer specialized in Chinese trademark protection and enforcement but also an anticounterfeiting investigator and manager of investigative teams. He has also worked as part of the enlarged in-house teams of major foreign companies running their trademark enforcement coordination programs in China, thus gaining insight into various companies' IP management processes. These different positions have given to the author the insight and perspective needed to elaborate and produce comprehensive and interdisciplinary trademark protection and enforcement strategies in China. The author is a businessman, developing software solutions for the management of anticounterfeiting cases in China, thus gaining direct and personal understanding of the challenges of doing business in this country.

Ultimately, it is this broad perspective and the specific professional experience of the author that allows the book to challenge consolidated legal thinking on certain aspects of trademark protection and enforcement in China, while proposing new and more creative solutions to what appear to be unsolvable problems.

The book's aim is to provide professionals with one reliable, practical and insightful source of knowledge that will help them succeed in China's trademark business and challenge the legal interpretations and use of Chinese law from the point of view of the business and through the lenses of consolidated IP management theories and processes.

2016, Beijing, People's Republic of China and Irvine, California, USA.

List of Abbreviations

AIC	Administration for Industry and Commerce
AQSIQ	Administration of Quality, Supervision, Inspection and Quarantine
C2C	Consumer-to-Consumer
CEO	Chief Executive Officer
CTMO	China Trademark Office
EU	European Union
GAC	General Administration of Customs
HQ	Head Quarter
IACC	International AntiCounterfeiting Coalition
IP	Intellectual Property
IPR	Intellectual Property Rights
MNC	Multi-National Company
MOFCOM	Ministry of Commerce of the People's Republic of China
OECD	Organization for the Economic Cooperation and Development
OEM	Original Equipment Manufacturer
PRB	Patent Reexamination Board
PRC	People's Republic of China
PSB	Public Security Bureau

List of Abbreviations

R&D	Research and Development
SAIC	State Administration for Industry and Commerce
SCNPC	Standing Committee of the National People's Congress
SIPO	State Intellectual Property Office
SME	Small-Middle Enterprises
SPC	Supreme People's Court
STMA	State Tobacco Monopoly Administration
TRAB	Trademark Reexamination and Adjudication Board
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TSB	Technical Supervision Bureau
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
VIN	Vehicle Identification Number
PoA	Power of Attorney

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CHAPTER 1

An Introduction to Trademark Protection and Enforcement in China

Western culture and approach to business issues and challenges is different from that of the Chinese. Western companies have shown a certain degree of understanding when making “local customization” one of the driving forces behind their penetration of the Chinese markets.¹ At the same time, a less open-minded attitude has characterized the strategic approach to intellectual property (IP) and in particular, trademark challenges in China. Foreign investors seem in most cases to assume that Chinese laws and legal/business culture are similar to those in the West. Little efforts have been made to explain that this is not the case. The result is that most foreign brands trademark strategies in China were based on inaccurate, if not utterly wrong, legal and business premises. This has resulted in most, if not all western companies of all sizes, committing and often repeating legal mistakes. What is most interesting though, is that in spite of the emergence of clear “blunder patterns” repeating no matter the size and type of the foreign companies, their reactions do not appear to have changed, thus making the repetition of such mistakes look like the work of the devil. In practice, though, it seems that foreign rights holders may not have wanted to accept that in many instances they were the primary cause of a trademark theft or a counterfeiting action, and rather preferred loading the blame onto the Chinese legal system. This erroneous, post-colonial approach to China IP and business challenges continues to the date this book is being written.

Western companies have come to play the IP game in China without knowing or understanding the rules, and once they started losing the game, they began complaining that the rules were wrong! If that happened to kids playing some board or role games, it would likely end up in a quarrel! It is not the task of this book to find an explanation for such a strange contradiction in the Westerners approach to doing

1. Michael Silverstein, *The \$10 Trillion Prize, Captivating the Newly Affluent in China and India* (Harvard Business Review Press 2015).

business in and with China. However, this uncontested fact is one of the reasons why we are still having severe IP problems in China. In practice, the contradiction is there and continues to produce mistakes, which in turn continue repeating themselves in almost identical patterns. So, who is wrong here? It cannot only be China's fault. In defense of western investors, it can be stated that part of the problem has been caused by the legal profession. Why were we attorneys not able to convey the right message to our western clients? It could be objected here that lawyers, especially foreign lawyers specialized in China IP laws have been writing and communicating a lot about the Chinese legal differences. They have surely learned to loudly repeat some mantras, such as "file your IP rights in China timely" to avoid theft or be tough and enforce your IP rights in China because "courts are not as bad as they say." However, such messages are really slogans without a real body if taken outside a more strategic analysis of what China IP really looks like, when you put away the "western lenses."

In sum, either we have decided to ignore the rules and expect China to apply our own from the west, or the legal knowledge we got was not contextualized in a business approach to trademark challenges, which deprived us the opportunity to correctly exploit such law in our clients' favor.

It is time that trademark issues and challenges in China are treated within a comprehensive strategic approach, i.e., similar to the IP management approach most large companies have adopted for patents. More systematic approaches, where the legal is but one of the components of a complex solution, will be the best way for companies to overcome the current deadlocks, thus improving their business in China overall. This book wants to make two things clear: One is that there are rules in China. They may not be perfect and certainly they may be applied somewhat inconsistently, but there are rules nonetheless. It is every western company's duty to learn these rules before playing the game! Second, once the rules are learned, as well as the methods for their effective legal interpretation and application, it is important to place them in a strategic context, where these rules become functional to the realization of concrete business strategies.

It is in fact important to understand that trademark challenges are fore and foremost business rather than legal issues. If a supplier or distributor has appropriated himself of the principal's trademark, that is fore and foremost a business problem. It is first an issue of whether the right holder has chosen the right business model for the distribution of his products in China, and it concerns the relation between two companies and how they have set up their distribution business, before becoming as well a legal issue regarding the violation of the trademark law. If the foreign company in the examples gets a legal solution, this alone may not solve the underlying business problem. Therefore, the legal solution can only be part of a bigger strategic approach to the business challenge. Seen under a broader strategic point of view, a legal solution that could make sense legally may not be viable from a business point of view.

This is what this book is about. It helps foreign practitioners in China get it right when approaching business challenges involving trademark rights. To do this, the book will look at typical trademark challenges, how they have been traditionally approached, why they failed, and how they can be tackled today by using a strategic comprehensive approach in which business and law come together as integral part of

the solution. It is hoped that certain “metropolitan legends” about China and its IP system will be partly refuted and effective knowledge channeled to the readers as well as the awareness to be better prepared when facing China trademark challenges.

The result of this multidisciplinary approach to trademark challenges like trademark grabbing and trademark counterfeiting, produces a set of rules of conducts to be observed by foreign right holders when dealing with trademarks in China. These rules are not just the rules of law. Knowledge of the rules of law is but one of the rules of engagement to succeed over trademark infringers. Rules of engagement are more generally strategic rules of conduct that provide guidance as to how to learn, understand and approach trademark challenges in China in an objective and more correct manner. They will help obtaining a correct knowledge of facts, assess the dangers and risks, and help design the legal and business reaction strategies that will reduce or eliminate the risks connected to trademark theft and counterfeiting in China. Knowledge and mastery of these rules of engagement will help foreign investors to be better prepared when doing business in China, thus preventing or reducing the risk of trademark theft, while tackling more efficiently and with longer lasting effects the issues of trademark infringement and trademark counterfeiting. /

§1.01 A BRIEF HISTORY OF IPR INFRINGEMENT IN CHINA

The mention of protection of IP in China evokes in most foreign practitioners a feeling of frustration and resignation. It is like talking of breathable air on the moon, it just does not exist. The 2015 American Business in China White Paper and the related 2014 Business Climate Survey of the American Chamber of Commerce in China seem to support the assumption that most foreign business operators believe that the Chinese Intellectual Property Rights (IPR) system is inefficient and ineffective.² The cited reports list IP protection as seventh out of the nine greatest risks facing United States (US) businesses in China. IP ranks ahead in importance of deterioration of bilateral relations and behind the global economic slowdown. The people taking the survey saw IPR protection not as much as a macroeconomic or political problem, but rather as a pure legal concern. However, the author believes that other nonlegal factors, such as corruption are viewed also as a negative factor affecting IPR protection inefficacy in China. The fact that this is not reflected directly by the survey is because corruption is normally treated as a business topic of its own, rather than a practice affecting businesses horizontally, all other concerns being legal, economic or political. Another interesting set of data emerging from the survey are those reporting that 54% of respondents rated China’s IP enforcement “ineffective” in 2014 and 14% rated it “totally ineffective.” Also, there were fewer respondents answering “don’t know” compared to 2009. This means that the perception and negative direct experience have become more widespread among the American business operators.³ European Union

2. AmCham China, 2015 American Business in China White Paper (16th ed., AmCham China 2015); see also AmCham China, 2014 China Business Climate Survey Report (AmCham China 2014).
3. Mark Cohen, Going Sideways on China IP...?, <http://chinaipr.com/2014/05/11/going-sideways-on-chinese-ip/> (accessed May 30, 2016). For more information on this point, see also U.S.

(EU) surveys mirror those of the Amcham and confirm that most westerners doing business in China have negative views of its IPR system.⁴ By reflection, the information about China IPR conveyed to the general public in the west, including all those businesses that have not as yet started to move to China but are in the process or are planning to do so, will also receive mostly negative views and reports.

In the last decades, Western countries have been reacting against these perceptions by initiating government led pressure activities (political pressure,⁵ threat of trade sanctions⁶) or by starting institutionally sponsored cooperation programs with the main aim of changing the China IP system to comply with their own standards.⁷ Institutions have been created to increase external pressure on China to change the system to a more western format.⁸ These approaches may have brought about critical legislative improvements in China.⁹ However, they have not had any major influence on the enforcement of the laws and their application and have not brought about much concrete benefits to foreign investors so far. This explains why industrial groups of interests and Multi-National Companies (MNCs) have since long started parallel lobbying efforts to obtain better trademark protection in China on a one-to-one basis. This lateral kind of pressure has also mostly focused on enforcement and has indeed succeeded in pushing Chinese authorities to double their enforcement efforts in these past years. However, in both cases, the result has been the same. Higher volumes of enforcement have not brought about the end of counterfeiting, as sovereign pressure has not been able to prevent trademark theft and counterfeiting. In practice, and in

Department of State Bureau of Economic and Business Affairs, 2015 Investment Climate Statement, <http://www.state.gov/e/eb/rls/othr/ics/2015/241518.htm> (May 2015). See also The Office of the United States Trade Representative, 2015 Special 301 Report, <https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf> (April 2015).

4. European Commission Staff Working Document, *Report on the protection and enforcement of intellectual property rights in third countries*, SWD (2015) 132, <https://euipo.europa.eu/ohim-portal/documents/11370/0/Report+on+the+protection+and+enforcement+of+intellectual+property+rights+in+third+countries> (July 1, 2015).
5. The US have used negotiating pressure with China in relation to the US support to China's becoming part of the WTO. For an overview of the intergovernmental relations concerning China's access to WTO and the TRIPS agreement, see Mikahelle Schiappacasse, *Intellectual Property Rights in China: Technology Transfers and Economic Development*, Vol. 2, Buffalo Intellectual Property Law Journal, 164, 176 (2004). For an overview of the WTO dispute between the US and China on the latter's failed implementation of the TRIPS agreement, see Donald P. Harris, *The Honeymoon Is Over: Evaluating The U.S.-China WTO Intellectual Property Complaint*, Vol. 32, No. 1, Fordham International Law Journal, 96 (2008).
6. Ellen Nakashima, U.S. Developing Trade Sanctions against China for Cyberthefts, Washington Post https://www.washingtonpost.com/world/national-security/administration-developing-sanctions-against-china-over-cyberespionage/2015/08/30/9b2910aa-480b-11e5-8ab4-c73967a143d3_story.html (August 30, 2015). See also Charles Baum, *Trade Sanctions and the Rule of Law: Lessons from China*, Vol. 1, Stanford Journal of East Asian Affairs, 46, 54 (2001).
7. Reference can be made to the recently established "IP Key," a joint IPR cooperation effort between the EU Commission, the Office for Harmonization (OHIM) and the Chinese Ministry of Commerce. IP Key is the continuation of an older cooperation project between the EU and China known as IPR2 project. For more information, see www.ipkey.org, www.ipr2.org.
8. *Ibid.*
9. The effect of external sovereign pressure on China has been disputed. Most Chinese will deny that legislative changes were imposed by foreign governments, and rather sustain that they were the natural consequence of the changes of China's economic policies and structures.

spite of such external forms of pressure on China, foreign companies have continued to suffer from trademark theft, trolls and counterfeiting. Actually, as we shall see below, the phenomena of trademark theft and counterfeiting have more and more extended from larger foreign companies and reputed brands to businesses of any form and size.

The typified reaction from the West starts with the assumption that there is something wrong with China. China IP has to be changed to look like and work as the IP systems in the west. The first problem with such an approach is that it ignores the fact that IP is not just a legal issue. IP rights are first and foremost a business issue. The abstraction of the IPR dialogue from its natural business context may just result in sterile discussions. There is in fact no doubt that in practical terms, years of IPR unilateral threats and dialogue initiated from the West have brought little to fruition.¹⁰

More serious, and with negative consequences for foreign businesses, is the fact that such an approach will prevent them from learning more about how business is done in China and how its legal system works. This governmental or MNC pressure on China's authorities has rather encouraged scapegoating China as a way to justify the failure of such lobbying attempts or their enforcement strategies. The legal profession is also to be blamed. The messages we have given to foreign companies were political, rather than business oriented. We have been often carried along by the blame game, thus failing to inform and guide businesses through China's legal and business peculiarities. When it comes to protecting trademark rights and more in general all IP rights in China, we should abandon the political lenses, learn the rules and play the game according to the laws and practice we have in place here, rather than those we would like to have.

If we narrow this discussion down to trademark protection in China, an overview of the recent history of trademark theft and infringement, read without biased lenses, shows that the first reason for the failure of western companies to secure proper trademark portfolios was due *in primis* to their lack of knowledge of Chinese trademark laws and practice, their naivety when doing business in China, the blind trust in local partners without understanding the Chinese ways and thus taking the needed precautions. If foreign companies deny they have made mistakes, then they will be bound to repeat them again, and this is what has often happened to our businesses here in China. Therefore, the fundamental lesson here is "knowledge-first." Chinese IP and civil laws are all well translated into English and are quite accessible in addition to the relevant case law. There are plenty of examples from which others could learn. Nonetheless, we still nowadays continue to repeat the same mistakes and to blame China for it. Phenomena such as trademark theft and trademark trolls have repeated themselves in the last decade with increasing frequency. However, in the West, instead of wondering whether we foreigners were maybe doing something not quite right, we have spent most of our energy blaming China. Such common negative experiences have indeed contributed to create a shared perception that all that was wrong was the Chinese legal

10. Andrew C. Mertha, *The Politics of Piracy, Intellectual Property in Contemporary China*, 4 (Cornell Paperbacks 2005). One of the reasons for such failure is that local economic interests in China tend to prevail over foreign trade pressure.

system. This has prevented companies from doing some critical work, consider mistakes and adjust their strategies to concrete business and legal parameters.

The author is not here to justify China at all costs. As the readers shall see through this book, there are plenty of examples of bad legislation and bad decisions, all attributable to a less than ideal legal system. The goal of this book is to concretely help foreign businesses get it right with IP in China, based on the legal system as it is. It is not the goal of this book to discuss the system in itself and how it can be improved, but rather to help others understand and use it more efficiently as it is, thus reducing such a critical risk factor of doing business in China. A brief history of trademark protection in China over the last 20 years shall be an introduction to the major topics of this book which are trademark theft, trademark infringement and counterfeiting. A historic perspective will also put such topics in context with the ever changing business environment in China.

[A] On the Origins of Trademark Theft

Trademark theft, also referred to as trademark squatting, grabbing and hijacking, occurs when a Chinese party files and registers a trademark identical to that of a foreign right holder who did not timely register or has completely neglected the registration in China of that trademark right. A review of a number of trademark theft cases involving famous foreign brands, starting at the end of the nineties and continuing to this very day, has brought this phenomenon to global attention. Outraged western media reports and popular reactions mostly blamed Chinese thieves and the Chinese legal system as solely responsible for such occurrences. Meanwhile, the spread of the internet in China allowed Chinese thieves to extend their reach to less famous brands, all the way down to completely unknown and new foreign brands not even yet present in China. Again, the critical reaction to this phenomenon has been political and directed towards the Chinese government for not taking measures to prevent it. The latest effects of such debate are reflected by some new provisions of the trademark law of 2014 which are aimed at reducing the economic incentives of stealing trademarks with the purpose of filing troll lawsuits as a move to pressure the legitimate right holder to buy back the stolen trademark at a very high price. Practically, the only reform that could stop this phenomenon, which requires the trademark system to switch the determination and award of trademark ownership and exclusivity from a first to file ownership to first to create/use model is not foreseeable anytime soon in the near future. Therefore, the protection of trademarks in China against theft is left to an array of legal tools actionable by the usurped right holder after the stolen trademark has been applied for registration or has been already registered. In this context, the same outraged reactions have accompanied many decisions of the Chinese trademark authorities denying, for example, recognition of well-known status to foreign trademarks, or to resort generously to presumptions of bad faith intent by the grabber as ground for oppositions and invalidations.

It is certainly true that the Chinese system, especially by adopting the first to file principle, exposes itself to the risk of grabbing. However, we cannot blame China for