

Managing Trademark Investigations for Nonuse in China

A Comparison with U.S. Practice

By Peter S. Sloane and Yijun Ge

Investigations have long been an important part of trademark practice in the United States. Because China has rapidly become one of the most important trademark jurisdictions in the world, by virtue of the size of its economy and the number of trademark filings,¹ this is a good time to compare investigation techniques in the United States and China. There are several important differences, which U.S. practitioners should know before instructing trademark investigations in China, especially in connection with nonuse investigations.

Determining Whether to Initiate a Nonuse Investigation

In the United States, one of the most common reasons for ordering an investigation is to determine whether a mark is currently in use. A mark is considered abandoned when its use has been discontinued with intent not to resume such use.² So if a registration is cited as a blocking mark against an application in the U.S. Patent and Trademark Office, and if use of the cited mark cannot be found in Internet searching, the applicant may wish to order an outside investigation to try to determine whether the mark has been abandoned.

China has a corollary provision on abandonment. Article 44(4) of the Chinese Trademark Law provides that a trademark registration that has ceased to be used for three consecutive years is subject to cancellation. Article 3 of the Implementation Regulations of the Chinese Trademark Law defines “use” as including use of the mark on goods, packaging, containers, or transactional documents, or in advertising, exhibition, or any other commercial activities. Importantly, in a nonuse cancellation proceeding, the owner of the challenged mark bears the burden to prove use. As a result, when encountering blocking marks in China, which are seemingly more common and harder to argue around than in the United States, the applicant may wish to order a nonuse investigation.

According to Anthony Tong of Robin Bridge & John Liu in Hong Kong, when faced with a refusal on relative grounds in China, it is prudent to search popular Web portals such as sina.com.cn and baidu.com.cn to look for references to the cited mark. Unless the searching turns up many references, a nonuse application is often recommended because it is an inexpensive approach. Indeed, Tong posits that investigations are not even particularly necessary because the burden of proof is on the trademark owner, exhaustive searching is near impossible given the size of China, and it is not uncommon to find trademark owners submitting dubious evidence of use even where investigation proves nonuse.

That said, nonuse investigation in China may become even

more important in the years to come. According to the latest draft of the Trademark Amendment Laws, nonuse for a three-year period will serve to disqualify a trademark owner from entitlement to damages in infringement proceedings. Any findings of nonuse should thus deter a trademark squatter from demanding an exorbitant fee for a transfer.

Who Conducts Investigation

In the United States, trademark investigations are usually handled by outside investigators. There are many investigation firms in the United States specializing in trademark matters, such as Marksmen, Kessler International, National Trademark Investigations, and Robert Jackson & Associates. Some of the searching companies also include investigations as a feature of their full searching capabilities. For example, CT Corsearch has in-use investigations available as part of its comprehensive search with full investigative tools.

Trademark investigations in China are also typically handled by outside investigators. In the past, investigation firms were usually run by people having working experience in public security bureaus³ and primarily targeted the collection of debts, family matters, and other private investigations. These days, given the amount of filings, trademark investigations have become more popular and the quality of investigations has improved. Some firms now even employ English-speaking investigators and are able to supply investigation reports in English (although more plausibly the firms may merely hire someone who can translate reports into English).

Methods of Investigation

Even though trademark investigations in the United States and China are both routinely handled by outside professional investigators, the means of investigation differ. In the United States, investigations are usually handled remotely while investigations in China often involve in-person site inspection visits.

In the United States, trademark investigators initially cull news databases, business directories, fictitious business name filings, and corporate records as well as the Internet for information on the target. For example, the Dun & Bradstreet commercial database has over 200 million records with data collected from thousands of sources and put through a rigorous quality control process. There are also various brand directories to search.

In China, there are far fewer public and private databases to search. There is also no such thing as a brand directory in China yet. As far as the Internet, information found on the Web about Chinese entities and individuals is usually far less

reliable than in the United States. According to Hui Zhang of ZY Partners in Beijing, the lack of organizations in China specializing in providing online databases means the source of information found online is often outdated and unverifiable.

Indeed, the online and offline worlds are less merged in China compared to the United States. Many Chinese companies thrive on centralized e-commerce platforms like Taobao as opposed to operating independent online stores like companies in the United States. Most local and small businesses do not have the need to connect with customers over the Internet. For companies that do maintain an online presence, their websites tend to be simple and do not provide sufficient business information for investigation purposes.

In addition to database and Internet searching, trademark investigators in the United States routinely call and e-mail the target using a "suitable pretext." Pretexting occurs when an investigator poses as a consumer or someone else to learn about use of a mark. This is a legal and well-established technique.⁴ Through pretexting, information obtained through databases and online can be corroborated with internal sources. Additionally, the investigator will often communicate with others in the channels of trade and distribution.

Remote investigation by telephone or e-mail does not work in China like it does in the United States. Mail or telephone ordering in China is not especially popular. Chinese companies are usually cautious about disclosing business information to strangers over the phone or electronically. Particularly because trademark investigations in China are often intended to identify sham registrations and associated evidence of bad faith, the targets are often weary and reluctant to disclose business intelligence. Consequently, trademark investigations in China are usually conducted through on-site visits.

In carrying out a trademark investigation, local investigators usually go on the site of the target business, chat with the business owner and its employees, and then convey the findings in a written investigation report. Those reports are often drafted with great details, covering the background of the business and its owner and including photographs of the site and the goods.

Cost of Investigation

The need for on-site visits necessarily raises the cost of trademark investigations in China. As a result, one of the first things U.S. practitioners should be cognizant of in ordering nonuse investigations in China is the additional expense when compared with U.S. trademark investigations. A trademark investigation in the United States may cost only about \$500, but a modest onsite investigation in China may cost about \$2,000, exclusive of disbursements such as travel expenses.

Additionally, unlike U.S. investigators, Chinese investigators do not bill by the hour. They usually prefer a fixed-fee arrangement. The cost of a certain investigation project varies in accordance with the level of complexity. A U.S. company or law firm instructing an investigation in China may be tempted to negotiate the price with the investigator. However, while investigation fees in China may be negotiable, negotiating a lower price may in turn affect the quality of the investigation.

American companies or firms may also be inclined to ask the investigator to dispense with the written report as a means of

reducing cost. Indeed, for some straightforward cases, no detailed report is needed, and pictures and samples obtained through the investigation may be sufficient. However, the cost of the report is usually only a small part of the investigation fee, so any savings in dispensing with the report are likely to be minimal. Furthermore, like in the United States, the investigation report may be used later as evidence in administrative proceedings before the Chinese Trademark Office, so it is usually worth the cost.

The best way to save money on trademark investigations in China is to utilize an investigator in the same geographic region as the target. China is an extremely large and geographically diverse country with many different regions. It is important to utilize local investigators where possible to maximize local knowledge and to minimize travel costs.

It is also important to know the investigator. According to Tony Yarborough of Robert Jackson & Associates in New York, there have been stories about Chinese investigators working in "cahoots" with the people they are investigating and taking a cut of the sale price. Yarborough states, "I think it is very important in these matters that the client know the investigator well and be confident that the investigator will put the client's best interest first."

It should be noted that nonuse investigations are different from counterfeiting investigations, which require more experienced investigators and good connections with local authorities to arrange for raid actions. The cost of a counterfeiting investigation including coordination for a raid action may cost roughly twice as much as a nonuse investigation.

What to Expect

In sum, one should currently expect to pay more but get less in terms of quality from trademark investigations in China when compared with their U.S. counterparts. As trademark practice improves in China, and as competition among investigation firms increases, we can expect quality to improve and prices to drop. In particular, if the Trademark Amendment Laws are enacted with three years of nonuse disqualifying the trademark owner from claiming damages for infringement, investigations should become even more routine. In the meantime, by employing investigators in the same region as the target, the cost of investigations can be reduced somewhat. Indeed, given the burden on the trademark owner to prove use under the Chinese Trademark Law, it may even be reasonable at times to forego outside investigations altogether before initiating nonuse cancellation proceedings. ■

Endnotes

1. According to *World Trademark Review*, China led the way in designations under the Madrid system with 6.1 percent in 2012. Trevor Little, *International—Novartis Leads List of Trademark*

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Applicants as Counsel Look to Build Long-Term Value, WORLD TRADEMARK REV. (Mar. 20, 2013), <http://www.worldtrademarkreview.com/daily/detail.aspx?g=fcc40ffd-7b6e-4646-a709-07684a656774>.

2. *See* 15 U.S.C. § 1127.

3. A public security bureau refers to a government office essentially acting as a police station or a local or provincial police force. *Public Security Bureau*, WIKIPEDIA, http://en.wikipedia.org/wiki/Public_security_bureau (last modified Feb. 28, 2013).

4. *See* *Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 119 (S.D.N.Y. 1999); *Apple Corps Ltd. v. Int'l Collectors Soc'y*, 15 F. Supp. 2d 456, 475 (D.N.J. 1998).