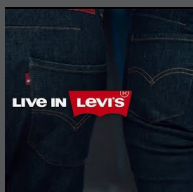


Goss iP

November 2019

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Dear readers,

The weather in Shanghai is still warm during November, but in the night it's nice to relax on the sofa with a cup of tea (or – better – a beer) and read the latest news from GossIP!

We explain how the arcuate design of the Levi's jeans, used on pockets, is part of the trademark and cannot be copied. Read the article to better understand what happened!

The second article is a very interesting analysis of the new Social Credit System, which rates companies and individuals: learn how the system works, what are the chances and threats for companies, the consequences for individuals and how companies can prepare themselves to use the new system to do successful business in China!

You can understand from the third article why it is always better for western and global traders and companies to translate and protect their trademarks not only in English but also in Chinese, to avoid uneasy and expensive legal procedures to retrieve their rights.

Then learn what you can do in case of rejection of your trademark, when and why you can apply a longer deadline to the appeal (and understand some incredible numbers of trademark application in recent years in China!).

Food passionate foreigners are very common in China (missing homeland food?) and we often see a wide variety of home-made food products sold on WeChat accounts, website or just telephone numbers. Is that legal? Can you sell your home-made hummus (cheese, yoghurt, cake...) without a proper license?

As you see, very interesting and useful topics this month.

Enjoy your reading and... your beer!

Fabio Giacomello

HFG

**LAW &
INTELLECTUAL
PROPERTY**



NEWS

LEVI'S JEANS. A decision.... to put in pocket!



On September 2019, Guangzhou Intellectual Property Court (GIPC) issued an important judgment on the case involving a dispute between LEVI STRAUSS & CO., and Guangzhou Lifeng Textile Company, Ltd. over the infringement of Levi's trademark consisting of double arcs.

Started in 2017, when the American Company found the LEVI STRAUSS arcuate design on two pockets at the back of jeans sold by an online store on the TMALL, in 2019 the Levi's case finally received its happy conclusion.

Clearly, the defendant did not convince the Court that he had not intended to infringe the registered trademark of LEVI STRAUSS as it didn't know that the arcuate design has been registered.

Hard to believe, let's say!

Indeed, the said defense was not the best claim to take, considering that arcuate design is certainly the most important feature of the Levi's Jeans, which has been used in the back pockets since the production of its very first jeans in 1873.

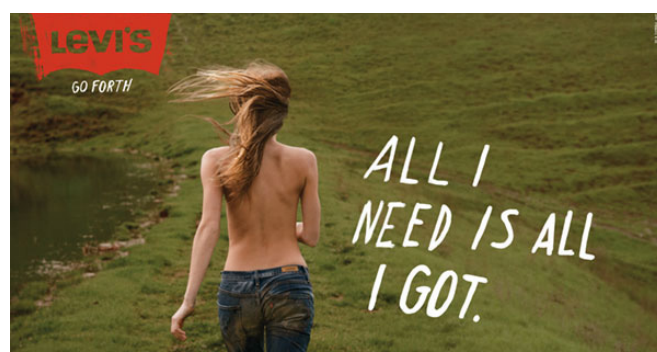
Without any doubts, Levi's is an American clothing brand known worldwide for its jeans, founded more than 150 years ago by a German immigrant which rapidly became one of the pioneers as it comes to denim.

In the 1943 Levi's Jeans registered for the first time the arcuate trademark, in order to properly protect it against copy by other denim brands.

The Court held the reasons of the famous Brand, arguing that – after a comparison between Parties' products, it was clear that the line-shaped figure used on the back pockets of goods by the Chinese company was essentially identical to LEVI STRAUSS's Arcuate Design constituting a clear IP rights violation.

As consequence, the Court ordered to the defendant to stop infringing the Plaintiff's trademark rights and recognized to the Chinese Company that runs the brand in China, a compensation of CNY 130,000 as economic losses suffered for the infringing conduct.

This judgement constitutes an important achieve for the US company and is definitely worth attention as well.



This judgment is actually an example of how the use and the promotion of the product led the relevant public to associate the product with the Brand.

Indeed, it is clear that Levi's highly promoted and sell their iconic jeans over the years becoming a well-known product in China.

Furthermore, even while speaking of minor details like a back pocket, a mark can acquired distinctiveness in China enabling the identification of the origin of the goods.

Last but not least, this constitutes a good deterrent. We highly believe that – from now on – the possible infringers will be effectively deterred unless they want to take the risk of being left only with the clothes they are standing in!

Silvia Capraro
HFG Law&Intellectual Property

HIGHLIGHT

China's social credit system: what companies need to know



New technology offers new opportunities. Also for the Chinese government, which uses technology to analyse data to make sure that companies and individuals abide by the Chinese laws and regulations.

This through the Chinese social credit system, which rates companies and individuals. The outcome of the rating will decide whether or not successful business in China is possible. Companies that perform well, will be rewarded. Companies that rate below par, will be punished.

This social credit system is already in use, and the prediction is that a more advanced system that the government is working on will be online as early as 2020.

Therefore, it is essential that companies and employees operating in China are aware of the system and on how to get a good rating, in order to be successful in China.

This article will outline a plan of action for companies to deal with this system.

How does the system work?

It is important to realise that the social credit system is a system that will be constantly improved and updated. The goal seems to be to create a platform that constantly rates companies and gives an up to date overview of their ratings, including rewards and punishments.

Currently there are various Chinese databases that are rating companies on their market behaviour regarding compliance with laws and regulations in China.

The government is working on a **National Internet Plus Monitoring System** which will encompass both governmental data and data from private databases.

The current system works in the following ways:

1. The government uses physical and technological ways to obtain data regarding whether or not companies are compliant with current Chinese laws and regulations, and digitalises this information.
2. Data is being analysed by a technological system and, as a result, a rating comes out.
3. Based upon the rating, the company will be rewarded or punished.

The necessary information is obtained through audits, information requests and public available data.

What are the chances and threats for companies?

The system seems to be made under the idea that if you have nothing to hide you have no reason not to disclose information, and you will not be punished. To most Western companies, this is a different concept from their privacy protective countries.

Underestimating the social credit system in China, will turn out to be an immense mistake for companies.

The reason for this is that companies that rate low can be blacklisted and can be stopped from doing successful business in China.

Examples of punishments can include:

- not being able to obtain necessary permits from government, not being able to bid for public tenders,
- having to pay a higher tax, public naming and shaming,
- more governmental audits.

Moreover, it might be difficult to switch a low rating into a high rating, and this might well take a long time.

On the other hand, obtaining a high rating, might result in lower taxes, less government audits etc.

When faced with an unfair low rating, it is important to contact the government to start discussion regarding the rating or to contact a lawyer to start an administrative action in order to have the unfair rating adjusted.

Continue reading



What are the consequences for employees?

Negative ratings of companies can affect employees of a company.

For example, the legal representative can be limited in his/her travels. Also, the purchase of real estate and insurances can be blocked.

It could well be expected that in the future, the rating of an employee and the rating of a company could affect each other further and vice versa.

Furthermore, it is important to note that the social credit system also looks at media, including social media.

The individual actions of managers in a company, could lead to punishments and bad ratings for the company.

Recently, the Houston Rockets (the most popular NBA team in China as Yao Ming has played there) find themselves in a position where their games are no longer broadcasted in China, and the company seems to be limited in doing business in China.

This after an individual tweet of the GM of the company regarding the situation in Hong Kong.

Therefore, a clear China strategy is necessary for your company and employees regarding China.

How can companies prepare themselves?

A first plan of action would at least need to contain the following steps:

1. Name a person/persons within or outside of the company that is tasked with compliance of the company with Chinese laws and regulations and the rules regarding the Chinese social credit system.
2. Check which laws and regulations your company needs to be in compliance with.

3. Make sure that there is communication between the person/persons under 1 and the rest of the company. **After all, the behaviour of individual employees can result in punishments to the company and a low rating.**
4. Check with which laws and regulations your company is not in compliance with.
5. Adjust the company processes so that the company acts in accordance with Chinese laws and regulations.
6. In case the government asks for data, check if the data contains trade secrets. Trade secrets are no longer protected in accordance with Chinese laws if they are published. Therefore, check and see whether or not trade secrets can be legally let out of the data transfer.
7. Check the companies with which you cooperate. **If a business partner has a bad rating this could affect the rating of your company.**
8. In case your company obtains an unfair low rating, start immediate communication with government, or ask a lawyer to start an administrative action.



Conclusion

The Chinese social credit system is the administrative hand of the government. Comply with Chinese laws and regulations and your company can do successful business in China.

Do not comply with this and the Chinese government can make your business difficult to impossible in China.

The social credit system is a system that will constantly be updated, and which will arguable become more overarching. Seriously taking this system into account is a must for doing successful business in China.

Reinout van Malenstein
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USEFUL

The importance of having foreign trademark registered in Chinese



When westerns and global traders and companies think about international trade, English is of course perceived as the global tool to jump language barriers over the world and ease international relations and commerce enabling access to new markets.

However, is that assumption really applicable to China and the Chinese market? Is it really that simple?

According to the *"World Population Prospects: The 2017 Revision"* work published by United Nations, the People's Republic of China (PRC) population reached 1,404 million people in 2017.

Moreover, China has not-so-long turned into the second world's economy and its international influence is undeniable, especially in continents such as Asia or Africa.

However, while over 1,000 million people in China speak Mandarin, it seems that no more than 30-40 million actually speak English. Even though figures of English learners in China rise up to 300 million, most statistics about English actual speakers in the country point out that figure of 30-40 million, which is less than 3% of the population.

In spite of these numbers, many foreign companies are still too used to the *"global language"* that do not realize English language is not the best approach to target most of Chinese consumers and often wonders whether it is really necessary or useful from a marketing perspective to use their trademarks in Chinese language.

Well, considering what said above, brand owners should be reminded of the importance of having a Chinese language trade mark in China.

Having the trademark translated in Chinese can be helpful not only for those Chinese consumers that do not speak and read the Latin alphabet fluently, but for any consumer.

And at the same time it will help to protect and reinforce the strength of the trademark and brand awareness in the market.

So taking that into account, what usually happens to those who decide not to translate and protect their trademarks in Chinese?

In many cases, when a foreign trademark is not translated into Chinese and is publicly used by the owner, Chinese consumers make their own translation of the trademark and refer to it in Chinese.

If the foreign company does not have an *"official"* translation and does not make a certain promotion of the trademark in Chinese, consumers will develop their own Chinese trademark and will use this to make reference to the company and products.

Moreover, when a brand owner does not develop a Chinese trademark and the translation is done by consumers on their own, it might be the case that different Chinese trademarks are developed by different groups of consumers.

Indeed, there is not just one way to translate the trademark in Chinese, but several possible translations. In lacking clear indication from the trademark owner, there will be natural uncertainty, and each consumer might choose a different set of characters to refer to the brand.

For all these reasons, brand owners in general and foreign companies in particular need to carefully assess the relevancy of having their trademark translated into Chinese, and the impact of not doing so can have on their own brands and commercialization of their products.

Thus, in order to prevent those situations from happening they must protect such names used to identify their brands as a trademark as soon as possible. Otherwise, they will face the risk that a third party will do so first, which is also a quite common situation in China.

If that happens it may be necessary to put in motion uneasy legal procedures to retrieve the rights to exclusively use such specific trademark from that third party.

Continue reading

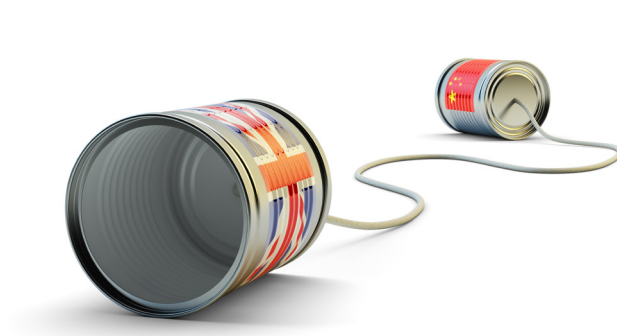
On the other hand, where no Chinese name exists, the brand owner should devise and file one, and should ensure that it is consistently used by all local partners.

There are a variety of different options for devising Chinese character marks, such as:

- meaning-based translation,
- sound-based translation (transliteration),
- combination of both,
- or even something entirely unrelated to the English.

Understanding the basic concepts of Chinese language can help to develop an effective translation of foreign trademarks.

Nevertheless, local advice is highly recommended to avoid risks, such as selecting Chinese characters with an unsuitable or inappropriate meaning for the brand, which can be a source of embarrassment or diminish market perception.



By considering the perception of their brand in the Chinese market via an adequate Chinese translation, brand owners will ensure that they retain control over their brand narrative and prevent damage or dilution of their brands.

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WATCH OUT

Short deadline,
high pressure.
Appeal against
rejection



In recent years Chinese Trademark system is being under extreme stress due to tremendous number of filings that no country has ever seen before[i]. In 2017 were filed 5.7 million of application and in 2018 7.3 million.

All these new applications have been added up to those already filed and registered in the previous years. As a natural consequence in the beginning of 2019 the examiners going to make evaluation of similarity among signs must climb a mountain of over 18 million trademarks.

Well the result is that rejections are quite common, probably (data are not official) something around 70-80% of the new applications are rejected[ii].

In this scenario rejections are quite common and must not be taken as final. They are just a provisional result of an administrative procedure that can be overturned to good result in favor of the applicant. According to CNIPA a total of 322,000 cases of trademark review were received in 2018 and 265,000 cases were closed.

What to do in case of rejection? Two possibilities: abandon the application or appeal to trademark Review and Adjudication Board. And here it comes another interesting point. **In case you wish to appeal there is a notoriously short deadline.**

The good news? Recent practice extended this deadline from 15dd to 30dd, but this only comes out as result of legal dungeons. Herein a few clarifications to understand when and why the deadline to file review against preliminary rejection is 30 days (instead of 15dd).

How to calculate the deadline for appeals against provisional refusal in China?

- For International Trademark applications rejected by CTMO:

On the WIPO notice that notifies that the trademark application has been preliminary rejected by the CTMO it is indicated that: any request of review shall be filed to trademark Review and Adjudication Board, through a qualified Chinese agent or attorney, within 15 days from the receipt of this notification.

According to art.10 Impl. Reg. to Trademark Law and the CTMO's recent practice, in case a notice is sent via email, the same notice shall be regarded as duly communicated to the interested party

upon the expiration of the 15th day from the sending out of the notice. Therefore, being the WIPO notices sent out via email, the deadline for filing the appeal against an IR mark is 15 days (communication of the notice) + 15 days (appeal term), therefore 30 days from the date that the WIPO sent out the notification.

- For the National application preliminary rejected:

According to ar. 34 TML, if dissatisfied with the refusal, the applicant may file a rejection appeal with the Trademark Review and Adjudication Board ("TRAB") within 15 days from the receipt date of the decision.

In the practice the CTMO has two ways to send out the official documents to the Chinese agents. One is the traditional post office and then there is a "new" way dedicated only to the appointed agents who can now receive some official documents, such as refusal notification, filing receipt & etc. by electronic way.

If the notice is sent via post office the agent has 15 days from its receipt to file the appeal. If the notice is sent via electronic via the agent has 30 days from the sending out day to file the appeal (for the same reasons above).

[i] According to last released WIPO IP Facts 2018 "The office of China's class count of 5.74 million ranked first followed by a count of 613,921 at the office of the U.S. (...) These two offices were followed by that of Japan (560,269), the European Union Intellectual Property Office (EUIPO; 371,508) and that of the Islamic Republic of Iran (358,353)".

In addition, trademark filing activity proceeded steadily in 2018. Data just released by CNIPA shows that in 2018, the number of trademark registration applications in China was 7.371 million. The number of domestic effective trademark registrations reached 18.049 million.

[ii] According to CNIPA a total of 322,000 cases of trademark review were received in 2018.

BUSINESS

Home-made food sale regulations



Sale of home-made food is becoming increasingly common in China - at least in first tier cities.

More and more we see WeChat accounts, websites or even just... telephone numbers that can be contacted to purchase the widest variety of home-made products. This is being done not only by Chinese persons, but also by a lot of foreigners living in China and with passion for food: home-made cheese, yoghurt, sauces, grounds, drinks, etc...

Usually the pattern is as follows: it all starts as a personal hobby of someone rather gifted in cooking, its friends start to appreciate and the cook starts to share with them and acquaintances its home-made delicacies.

A chat is created on WeChat and pictures are posted regularly on the new-cooked products.

Other times we have a chat whereby people can purchase imported products (cheese, meat, other delicacies), selected and scouted from the chat's administrator.

However, from the moment when it evolves into a (even simply structured) business and the cook actually charges a price for this and arranges deliveries, it all becomes - legally - much more complicated...

First of all, we have the rather complex e-commerce compliance: under the new 2018 E-Commerce Law, the administrator of the chat can be qualified as "e-commerce operator" (电子商务经营者) and – as such – it should comply with the registration obligations provided by the law (article 10) - only exception is for those who sell self-produced agricultural products, un-processed or with very basic processing (washing, slicing).

E-commerce law also requires from the e-commerce operator tax compliance as well as license compliance (i.e. the operator shall have all the licenses required to perform that activity).

This brings us to the second and even more sensitive issue: selling food and cooking to customers requires duly-issued food licenses, and no exceptions apply for informal/ simply structured sales through WeChat groups of friends/ acquaintances.

We have been enquired several times from home-based cooks on how their business can become legitimate. Very simple: the correct food license shall be obtained.

This requires a company, and this requires also the careful choice of license.

Example: online sales of steaks personally cut/sliced by the seller (usually the chat administrator) should and could be done under Food sales operator license/retailer (exclusively online)/bulk products (including bovine, swine, ovine); a person selling home-made-sauces should apply – for example– for a catering license/ restaurant (exclusively online)/cooked food or catering license/on site made-and-sold (including online)/hot food.



For other products with more sensitive making process (such as fermented foods, etc..) authorities sometimes require that a production license shall be used, as this would guarantee a better equipped facility to prevent any possible safety hazard.

Of course, this creates a cost issue, as getting any kind of food license involves securing a food processing location duly equipped and compliant with the specific provisions applicable to that kind of license.

Continue reading

It is not rare that – in order to reduce this issue – home-based cooks choose to cooperate with duly licensed companies by cooking in their facilities and thus enjoying coverage by their food license.

This may cause of course other issues: know-how sharing (both technical, as the food processing method and know-how will also be disclosed to the food licensed company, and commercial, as the cook will not be able to sell directly to its customers, and all sales will be done by the licensed company, which means that all its client database will be basically disclosed to the food-license company) as well as commitment on minimum volumes are the most typical ones.



Time would seem mature in cities like Shanghai for having platforms duly licensed and equipped to provide legal coverage/incubation to those “freelance” food business.

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