Case Western Reserve Law Review

Volume 58 | Issue 3 Article 14

2008

The *Starbucks* Decision of the Shanghai No.2 Intermediate People's Court: A Victory Limited to Lattes

Mary K. Alexander

NOTES

THE *STARBUCKS* DECISION OF THE SHANGHAI NO. 2 INTERMEDIATE PEOPLE'S COURT: A VICTORY LIMITED TO LATTÉS?

INTRODUCTION

Fendi, Gucci, Louis Vuitton. Truck-loads of goods bearing luxurious brand names are available for purchase in Beijing's Silk Street mall, just a short distance away from the U.S. Embassy.[1] Better yet, the prices are negotiable and well below retail. There is only one catch: an astounding number are counterfeit goods. Still, for many a budget-conscious fashionista, this may sound like a dream come true. But could the dream be coming to an end?[2]

In December 2005, at the conclusion of Starbucks' trademark-infringement suit against a small Shanghai company, Xingbake Coffee Shop, Ltd. (Shanghai Xingbake), a local Chinese court found in favor of the famous American coffee powerhouse.[3] In what many have deemed a landmark ruling,[4] the court ordered Shanghai

[1] *See* Matthew Forney, *Faking It*, TIME, June 6, 2005, http://www.time.com/time/magazine/article/0,9171,1069142,00.html. The mall on Silk Street is the successor to Silk Alley—"probably the world's most infamous market for fake consumer goods." *Id.* Silk Alley was so infamous, in fact, that Lonely Planet's guidebook to Beijing lists it as a shopping destination where travelers may find expertly copied designer goods on the cheap. *Id.* Though the Chinese government tore the market down in January 2005, there now stands in its place "a five-floor department store packed with four times as many vendors selling fakes as there were in the old alley." *Id.*

[2] *See* discussion *infra* Part III.C.

[3] Yin Ping, *Judge Rules for Starbucks in Copyright Violation Case*, CHINA DAILY, Jan. 2, 2006, at 3, *available at* http://www.chinadaily.com.cn/english/doc/2006-01/02/content_508672.htm.

[4] *See, e.g.*, Jessica Wong, Note, *The Challenges Multinational Corporations Face in*

Xingbake to stop using the name "Xingbake," a Chinese version of the word "Starbucks," and its logo—a green and white design the court found confusingly similar to Starbucks' famous logo.[5] It also ordered Shanghai Xingbake to pay Starbucks approximately $62,500 in damages—the maximum under Chinese trademark law.[6] Many commentators have characterized this court's decision granting exclusive trademark rights to Starbucks as a very significant victory for multinational companies seeking protection for their famous marks in China.[7]

For years, foreign investors have looked longingly to China as "the last great commercial frontier."[8] With its vast population of over one billion, rapidly developing economy, and burgeoning middle class, China appears to offer a world of financial opportunity to multinational enterprises seeking to invest in a new market.[9] However, many such investors have been reluctant to invest and expand seriously in China because of the country's comparatively weak intellectual-property laws[10] and often laughable enforcement

---

Protecting Their Well-Known Marks, 31 BROOK. J. INT'L L. 937, 958 (2006) (describing the case as "an important victory for Starbucks and China"); *Starbucks Wins Chinese Logo Case*, BBC NEWS, Jan. 2, 2006, http://news.bbc.co.uk/1/hi/business/4574400.stm (dubbing the case "a landmark in China, where foreign firms have for years complained of piracy"); David Eimer, *China's Fake "Starbucks" is Banned from Using Name*, INDEP. (London), Jan. 3, 2006, http://www.independent.co.uk/news/world/asia/chinas-fake-starbucks-is-banned-from-using-name-521502.html (touting the "landmark judgment" as an indication that China may finally crack down on intellectual-property theft).

5 Ping, *supra* note 3.

6 *Id.*

7 *See* Wong, *supra* note 4, at 958 (characterizing the decision as "good news for potential investors" and evidence that "the tides may be turning" with regard to apparent favoritism in Chinese courts toward local parties in trademark-infringement actions); Mure Dickie, *Battle for Coffee Logo as Rivals Stir up Trouble*, AUSTRALIAN, Jan. 4, 2006, at 20, *available at* 2006 WLNR 95201 (predicting that the decision will "hearten the many other foreign companies in China that face competition from local companies imitating their brands, trademarks, logos or packaging"); *accord* Kathleen E. McLaughlin, *Starbucks Wins Trademark Cases in Two Chinese Cities*, PAT., TRADEMARK & COPYRIGHT L. DAILY, Jan. 6, 2006 (quoting the president of the Asia-Pacific Group in Starbucks Coffee International as saying that the Starbucks decision "demonstrates the importance of protecting the value and ownership of intellectual property rights in greater China, including well-known brands like Starbucks").

8 George O. White III, *Enter the Dragon: Foreign Direct Investment Laws and Policies in the P.R.C.*, 29 N.C. J. INT'L L. & COM. REG. 35, 35 (2003).

9 Jessica Jiong Zhou, *Trademark Law and Enforcement in China: A Transnational Perspective*, 20 WIS. INT'L L.J. 415, 415 (2002) (noting that the potential for great financial gain has not been lost on counterfeiters and that many multinational investors seeking to invest in China "have found much to their surprise, that their goods are already available in China—or at least, counterfeits of their goods").

10 As discussed in further detail below, China's intellectual-property laws are now basically in accordance with international requirements. However, the definition of what constitutes a well-known mark under the new intellectual-property laws is still somewhat ambiguous. A clear definition on this point is important to multinational investors seeking to

practices.[11] Since many multinational companies consider their intellectual property—especially their famous marks—to be their most valuable assets,[12] it is not surprising that they are wary of investing in a market where protection for these assets may be virtually nonexistent.

On its face, the *Starbucks* decision, as well as China's other recent intellectual-property-law amendments and attempts to improve enforcement,[13] may appear to demonstrate that China is moving toward greater overall protection of foreign intellectual property. Yet the decision will likely prove to be a bark with minimal bite. There are many reasons for this. For example, what constitutes a well-known mark in China is still ambiguous.[14] Chinese courts and administrative agencies have afforded some famous foreign marks protection in China by declaring that they are well-known but have denied recognition for many other seemingly famous marks without explaining the disparity. Moreover, in many cases, China appears to have a preference for granting "well-known mark" protection to domestic companies over foreign mark holders.[15] Without more guidance as to what kinds of foreign marks the Chinese courts will consider to be well-known, multinational investors will continue to demonstrate a reluctance to funnel money toward projects in China,

---

expand in China because it may determine whether or not their marks will be recognized at all under Chinese law. *See* discussion *infra* Parts I.C.–D.

[11] *See* Daniel C.K. Chow, *Why China Does Not Take Commercial Piracy Seriously*, 32 OHIO N.U. L. REV. 203, 212–13 (2006).

[12] For instance, analysts value the word "Nike" alone at seven billion dollars. James Glieck, *Get Out of My Namespace*, N.Y. TIMES, Mar. 21, 2004, (Magazine), at 44. Most multinational companies value their intellectual-property rights even more highly than the products they sell. A top lawyer at Wm. Wrigley Jr. Co., the world's largest chewing gum manufacturer, noted that Wrigley's most important asset "is not chewing gum, but intellectual property—world famous marks like Juicy Fruit, Doublemint, Big Red and Spearmint." William C. Smith, *Battling Piracy*, 24 NAT'L L. J., July 8, 2002, at A15.

[13] As discussed below, China has revamped its trademark laws several times over the past twenty-five years in an effort to comply with its international obligations. *See* discussion *infra* Part I.C.

[14] *See, e.g.*, Wong, *supra* note 4, at 961 (while "the 2001 [Trademark Law] provides a number of factors to consider in determining if a mark is well known. . . . [T]he definition and the factors remain broad and subjective, allowing for interpretation by the courts and administrative agencies"). Examples of this vagueness and its effects are given below. *See infra* Parts II.C.–D.

[15] For instance, in 2004, China's State Trademark Office granted forty-three domestic and international trademarks well-known protection under the new implementing regulations of the 2001 Trademark Law. Alisa Cahan, Note, *China's Protection of Famous and Well-Known Marks: The Impact of China's Latest Trademark Law Reform on Infringement and Remedies*, 12 CARDOZO J. INT'L & COMP. L. 219, 231–32 (2004). Out of these, forty were owned by Chinese companies, one was owned by a Taiwanese company, and only two—Coca-Cola and Gillette—were owned by American companies. *Id.* at 232.

since such activity could result in these companies' losing millions of dollars.[16]

Further, China's trademark infringement problem is widespread and deeply entrenched.[17] Some local Chinese economies depend upon the manufacture or sale of counterfeit goods.[18] Both they and China as a whole benefit from the export of these goods and the revenues they generate when sold domestically.[19] As a result, China has limited incentive to find and implement truly effective solutions to the trademark infringement occurring within its borders.[20]

Granting Starbucks trademark rights, moreover, allows China to convey the impression to foreign multinational investors that it is tightening intellectual-property protection without really having to crack down on the larger underlying problem. This is thanks largely to the uniqueness of Starbucks. Starbucks thrives in urban areas with busy street corners[21] where the local economies are not dependent upon one particular market—namely, a market dependent on counterfeit goods.[22] China may find it much easier to grant trademark rights to a company such as Starbucks whose exclusive trademark rights are not likely to wipe out the livelihood of an entire community.

Additionally, while many counterfeit goods in China are easily exportable, small consumer items such as cell phones, handbags, and

---

16 Daniel C.K. Chow, *Enforcement Against Counterfeiting in the People's Republic of China*, 20 NW. J. INT'L L. & BUS. 447, 448 (2000). Professor Chow writes:

> "[t]here is no scientific method to measure the size of the counterfeiting problem in China. Counterfeiters operate their illegal trade in underground factories and through criminal organizations. As a result, only partial information is available and some extrapolations must be made, but based on available information, the size of China's consumer economy ($352.7 billion in annual sales), the percentage of total sales reported to be lost from counterfeiting from industry groups (15–20% for some brands), total losses suffered to counterfeiting by US companies worldwide ($200 billion), and China's role as a leading source of counterfeit products—it is reasonable to assume that the total value of counterfeit products that are available in or originating from China are in the billions or even tens of billions per year."

Id. at 448 n.3.

17 *See* Chow, *supra* note 11, at 203–204.

18 *Id.* at 218–220; *see also* Sandy Meng-Shan Liu, *After WTO Accession: China's Dilemma with the Trafficking of Fakes*, 93 TRADEMARK REP. 1153, 1154–55 (2003).

19 Chow, *supra* note 11, at 203–204.

20 *Id.*

21 Geoffrey A. Fowler, *Converting the Masses: Starbucks in China*, FAR E. ECON. REV., July 17, 2003, *available at* http://www.globalpolicy.org/globaliz/cultural/2003/0710starbucks.htm.

22 *See* Chow, *supra* note 11, at 218–220 (describing the dependence of Yiwu's economy upon trade in counterfeit goods and noting the existence of at least one hundred other towns like it involved in counterfeiting).

cosmetics,[23] Starbucks' dominant product—freshly prepared coffee—is meant to be consumed on the spot as part of a larger aesthetic experience.[24] Though virtually all modern consumer goods are meant to communicate a certain lifestyle, many Chinese counterfeit goods are indistinguishable from the real thing.[25] These identical goods make it possible for consumers to demonstrate brand loyalty without having to pay a higher price for the authentic good. Once Starbucks establishes itself in the Chinese market, however, it will be difficult for copycats to duplicate convincingly Starbucks' particular brand of aesthetic and appeal.[26] In short, China had a lot to gain—and very little to lose—by finding in favor of Starbucks; the same does not hold true for all other foreign multinational entities. Given these differences, as well as several other problems peculiar to China, time will likely show that the *Starbucks* decision did not produce quite the splash, with regard to foreign trademark rights, that many foreign investors hoped it would.

This Note illustrates the limited importance of the *Starbucks* decision to the greater overall climate of foreign trademark protection in China, in light of the nature of Starbucks' goods and the other problems China faces regarding the protection of foreign well-known marks. Part I of this Note provides a brief history of trademark protection in China, the various attempts China has made in recent years to strengthen protection for foreign brands, in order to better comply with its international obligations, and the trademark infringement problems China continues to face despite implementation of new protection laws. Part II outlines the details of the *Starbucks* decision. Finally, Part III discusses the likely impotence of the *Starbucks* decision, given the uniqueness of Starbucks' goods, the rampant problems of enforcement in China, and the benefits China receives from continued trademark infringement.

I. BACKGROUND

A. Cultural Origins of Chinese Intellectual-Property Rights

Until recently, China has done little to protect intellectual property. Though the reasons for this are many, China's historic paucity of

---

[23] *Id.*

[24] *See generally* Susan Dominus, *The Starbucks Aesthetic*, N.Y. TIMES, Oct. 22, 2006.

[25] *See, e.g.*, Forney, *supra* note 1 (observing that while few of the goods at Beijing's Silk Alley are authentic, most are "so meticulously duplicated by Chinese manufacturers that no one could tell the difference.").

[26] Fowler, *supra* note 21.

intellectual-property protections may be attributed in part to the fact that Confucian principles dominated social thought in China for much of its long history.[27] These ideas emphasized the importance of community well-being over the pursuit of individual reward[28] and encouraged borrowing from classic works of literature and art without giving them formal credit.[29] According to traditional Confucian ideals, copying was sacred and considered to be the ultimate act of praise for the original work's creator.[30] It was also thought to be a scholarly enterprise, capable of instilling wisdom in and commanding tremendous respect for both the copyist and his community.[31]

In spite of the fact that these widely accepted principles in Chinese culture ran largely counter to Western concepts of intellectual property, China managed to implement some legal protection for creative advancement. The general concept of trademarks appeared as early as the Northern Zhou Dynasty (556–580 A.D.) in China, and the first Chinese law regarding intellectual property was adopted during the Tang Dynasty (618–906 A.D.).[32] China's first formal trademark law protecting the economic goodwill companies developed in their business marks was enacted in 1904 under the Qing Dynasty (1644–1912 A.D.).[33] However, when the Chinese Communist Party (CCP) came to power in 1949, existing intellectual property laws were abrogated or substantially amended,[34] and all property came to be state-owned.[35] This phenomenon, coupled with the CCP's

---

27 Andrew Evans, *Taming the Counterfeit Dragon: The WTO, TRIPS and Chinese Amendments to Intellectual Property Laws*, 31 GA. J. INT'L & COMP. L. 587, 589 (2003) (noting that Confucian thought permeated Chinese culture from about 100 B.C. to 1911 A.D.).

28 *Id.*

29 Amanda S. Reid, *Enforcement of Intellectual Property Rights in Developing Countries: China as a Case Study*, 13 DEPAUL-LCA J. ART & ENT. L. & POL'Y 63, 90 (2003).

30 Liu, *supra* note 18, at 1156.

31 *Id.*

32 Wong, *supra* note 4, at 940.

33 Michael N. Schlesinger, Note, *A Sleeping Giant Awakens: The Development of Intellectual Property Law in China*, 9 J. CHINESE L. 93, 99–100 (1995) (citing Mark Sidel, *Copyright, Trademark, and Patent Law in the PRC*, 21 TEX. INT'L L.J. 259, 269 (1986), who notes that Western officials had a role in drafting China's first modern trademark law in 1904). The term "economic goodwill" refers to a company's intangible assets—such as brand recognition, good reputation, and business connections—that help it to compete with other companies in the business market.

34 The new Communist government considered trademarks principally to be a measure of a product's quality, rather than a form of property meriting protection under the law. *See id.* (describing the replacement of existing trademark laws following the establishment of the People's Republic of China in 1950 "with rules designed to protect consumers by making the right of trademark contingent upon the trademark owner maintaining strict control of product quality"). One such trademark law provided that trademark registrations could be canceled if goods bearing the marks did not meet a prescribed quality standard or if "masses of people" demanded the marks' cancellation. *Id.* (citing Measures for the Control of Trade Marks (adopted Apr. 10, 1963), art. 11, *translated in* 62 PAT. & TRADEMARK REV. 249 (1964)).

35 *See* Kristie M. Kachuriak, *Chinese Copyright Piracy: Analysis of the Problem and*

incorporation of many Confucian ideas into its ideology, greatly disserved those seeking protection for the fruits of their intellect.

B. An Apparent Shift Toward Recognition of Intellectual Property Rights in China

Driven largely by pressures from the international community to strengthen its intellectual property protection and by its own desire to attract foreign investment in order to eventually dominate the global marketplace,[36] China has revamped vastly its treatment of intellectual property over the past twenty-five years. In 1982, China adopted the Trademark Law of the People's Republic of China (PRC),[37] in order "to improve management of trademarks, to protect exclusive rights of trademark owners and to encourage manufacturers to guarantee the quality of their goods and maintain the reputation of their trademarks."[38] The 1982 Trademark Law protected a trademark owner's exclusive right to use its registered mark and provided a private right of action for infringement.[39] It was also based on a "first-to-file" system, meaning that the first applicant to register a trademark with the local Administration of Industry and Commerce (AIC) is held to be the valid owner of the mark.[40] This system differs from the basic system of trademark ownership in the United States, where valid ownership generally inheres in the first to *use* the trademark,

---

Suggestions for Protection of U.S. Copyrights, 13 DICK. J. INT'L L. 599, 603 (1995) ("Chinese Communists believed that property should be collectively owned by the state to eliminate class inequities.").

36 *See* Chow, *supra* note 11, at 208 (arguing that "China's ambitions [in the global economy] are vast: China seeks to maintain its dominance in labor-intensive sectors, to gain and maintain dominance in low-technology sectors, and to eventually dominate trade in high-technology sectors. In other words, China's national goal is to become a dominant economic power in all sectors as quickly as possible.").

37 *See* Evans, *supra* note 27, at 589–90 (citing Julia Cheng, *China's Copyright System: Rising to the Spirit of TRIPS Requires an Internal Focus and WTO Membership*, 21 FORDHAM INT'L L.J. 1941, 1952 (1998)) (noting that China's adoption of an "open door" policy with regard to international trade in 1979—which subsequently caused it to promulgate new intellectual-property laws—may have initially attracted to China counterfeiters who were eager to take advantage of China's new cheap-labor market).

38 Cahan, *supra* note 15, at 224 (quoting Rory J. Radding, *Enforcement of the Trademark Law in China*, INT'L L. PRACTICUM, Spring 1998, at 5, 7).

39 Paul B. Birden, Jr., *Trademark Protection in China: Trends and Directions*, 18 LOY. L.A. INT'L & COMP. L.J. 431, 458 (1996) (citing Trademark Law, art. 3, CHINA L. FOREIGN BUS. (CCH) ¶ 11-500 (Aug. 22, 1982)). The 1982 PRC Trademark Law provided no definition for what constitutes a trademark and failed to mention both service marks and "collective marks," marks that groups or associations used. *Id.* Also, although it provided for a private right of action for infringement, at the time that the 1982 PRC Trademark Law was adopted, most Chinese companies were government-owned, with the result that competition and infringement among them were low. *Id.*

40 Cahan, *supra* note 15, at 225.

rather than in the first to register it.[41] This fundamental difference has been of great concern to many multinational companies whose marks are not yet registered in China, but who desire to expand there without fear that their trademarks might be freely infringed.[42] Though China amended its trademark law in both 1993 and 2001, the basic "first-to-file" system is still in place.[43]

One commentator has suggested that the 1982 Trademark Law was "more . . . an instrument of government control and quality assurance than an application of proprietary rights to intellectual property."[44] In any case, the 1982 Law and its accompanying implemental regulations have proven to be ineffective and have failed to meet international standards.[45] As noted above, one of China's principal concerns in implementing intellectual-property laws is compliance with the intellectual-property-protection norms mandated by international law.[46] In order to better accomplish this goal, China adopted the Paris Convention for the Protection of Industrial Property

---

[41] This system derived from the common law. *See* Columbia Mill Co. v. Alcorn, 150 U.S. 460, 463–64 (1893) (declaring that "the exclusive right to the use of the mark or device claimed as a trade-mark is founded on priority of appropriation; that is to say, the claimant of the trademark must have been the first to use or employ the same on like articles of production."). "Use" as a prerequisite to trademark ownership is now codified throughout the Lanham Act as well. *See, e.g.*, Lanham Act § 1(a)(1), 15 U.S.C. § 1051(a)(1) (2002) (providing that "[t]he owner of a trademark *used* in commerce may request registration of its trademark") (emphasis added); *see also* Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a) (2005) (limiting trademark-infringement causes of action to unauthorized uses in commerce); Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1) (2006) (same). However, there are some exceptions to this general American rule. For instance, a federal registration provides "constructive notice of the registrant's claim of ownership" and gives the registrant the "exclusive right to use the . . . mark in commerce." *See* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 362 (2d Cir. 1959). As such, a federal registration "affords nationwide protection to registered marks, regardless of the areas in which the registrant actually uses the mark." *Id.* This means that the owner of a federal registrant may be entitled to enjoin any concurrent uses of its mark anywhere in the United States, even if the owner is not yet using its mark in a particular market area, simply upon a "proper showing of an intent to use the mark . . . in [that] market area." *Id.* at 365.

[42] Cahan, *supra* note 15, at 224.

[43] *See* Trademark Law, ch. 3, art. 29, *translated at* http://www.chinaiprlaw.com/english/laws/laws11.htm [hereinafter 2001 Trademark Law]; *see also* EMBASSY OF THE UNITED STATES: BEIJING, CHINA, IPR REPORT: TRADEMARK: LEGISLATION, http://beijing.usembassy-china.org.cn/iprtrade.html (last visited Feb. 14, 2008) ("China has a 'first-to-file' system that requires no evidence of prior use or ownership, leaving registration of popular foreign marks open to third parties.").

[44] Liu, *supra* note 18, at 1166.

[45] This was due largely to lax enforcement on the part of Chinese officials, who may have believed that they were acting in the national interest. One commentator explains that allowing "trademark infringement provided cheap access to goods and expensive technology[,] . . . enhanced the nation's foreign exchange posture by lessening the drain of foreign intellectual property royalties and repatriation of profits, promoted domestic employment in the piracy industry and enhanced export revenues via pirated goods." Radding, *supra* note 38, at 7. As discussed below, many of these problems regarding enforcement still exist today, and, in some cases, may be at an all-time high. *See* discussion *infra* Part III.

[46] *See, e.g.*, Zhou, *supra* note 9, at 430.

in 1985.[47] Under Article 6bis of the Paris Convention, member nations must afford protection to the owners of famous marks.[48] This includes a requirement that member nations refuse to register or cancel the registration and prohibit the use "of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion" with a well-known mark afforded protection under the Convention.[49] As such, all famous marks must be protected under the Convention in every member-country even if they are not registered in each country, and any registered marks that conflict with famous marks must be canceled.[50] For China, this would mean a big change in its treatment of trademarks.

As Wang Yan Fsng, an officer of the Intellectual Property Trial Chamber of the Supreme People's Court of P. R. China,[51] has noted, "in [a] country where the prerequisite for protection is registration, the protection of the well-known trademark constitutes an exception to the principle of registration."[52] Significantly, however, Article 6bis does not provide criteria for determining when a trademark is famous.[53] This lack of specificity has provided local AICs, or Administrations of Industry and Commerce, seeking to protect registered domestic marks in China some room for interpretation. Prior to China's adoption of the 2001 trademark law, some courts and AICs attempted to skirt application of the Convention's requirement that famous marks be protected by mandating that a mark be well-known *in China* before it may be considered a famous mark.[54] Though some unregistered foreign marks won protection during this

---

47 Birden, *supra* note 39, at 433–34 n.16 (citing Paris Convention for the Protection of Industrial Property, July 14, 1967, 828 U.N.T.S. 307 [hereinafter Paris Convention]).

48 Paris Convention, *supra* note 47, at art. 6.

49 *Id.*

50 *Id.*

51 This is the only court whose authority is binding on lower courts. China has a civil law system. *See* discussion *infra* Part III.A.

52 Wang Yan Fsng, *The Protection of the Well-Known Trademark*, JUDICIAL PROTECTION OF IPR IN CHINA, http://www.chinaiprlaw.com/english/forum/forum21.htm (last visited Feb. 14, 2008).

53 Birden, *supra* note 39, at 452 (noting that although the Paris Convention does not define what constitutes a well-known mark, Chinese authorities defined well-known marks prior to the adoption of the 2001 Trademark Law as marks enjoying "(1) a leading market position in the country of original manufacture; (2) high name-recognition in the international market; and (3) a certain level of fame in China"). As discussed below, these factors did not often provide great protection for foreign marks. *See infra* Part I.C.

54 Cahan, *supra* note 15, at 229. Requiring that marks attain "a certain level of fame in China" before they are entitled to receive protection as well-known reflects this desire to avoid application of Article 6bis for potentially infringing domestic marks, since marks that might be considered well-known under the Paris Convention might not enjoy the same degree of fame in China at the time of infringement. *See* Birden, *supra* note 39, at 452.

time,[55] Chinese treatment of foreign well-known marks on the whole was inconsistent and unpredictable, left mainly to the discretion of local Chinese courts and AICs, which made such determinations on an ad-hoc basis.[56] As one commentator notes, "obviously, this lackadaisical approach to international trademark protection did not pacify the United States and various European nations, and China received further pressure to amend its practice."[57]

In an effort to appease these international concerns, China amended its trademark law and implementing regulations in 1993.[58] However, both the law and the regulations still failed to meet the criteria international law mandated for the protection of well-known marks,[59] and various types of infringement remained a rampant

---

[55] For example, in 1987, the Chinese Trademark Office (CTMO) conferred well-known status on Pizza Hut's mark. *See* Edward Eugene Lehman et al., *Well-Known Trademark Protection in the People's Republic of China—Evolution of the System*, 26 FORDHAM INT'L L.J. 257, 259 (2003). In this case, an Australian company attempted to register the trademark "Pizza Hut" for cake and powder products in China. *Id.* After learning this, the Pizza Hut Company objected and asked that the mark be registered in its own name instead. *Id.* The CTMO determined that the Pizza Hut Company originally created the mark and that its logo should be given "well-known" status—based in part on the Pizza Hut Company's registration of the mark in over forty countries, including Australia. *Id.* As such, the Australian company's application was denied and the Pizza Hut Company registered its mark in China. *Id.* Though the CTMO determined Pizza Hut's mark to be well-known, Pizza Hut received no formal certification of its mark's new status in China, "which would provide continued protection without the need to resort to *ad hoc* means," until two years later. *Id.*

In another example of the type of ad-hoc, well-known-mark designation Chinese courts and AICs used prior to China's accession to the WTO, the Intellectual Property Chamber of Beijing's Second Intermediate People's Court found IKEA to be a well-known mark in 1999. *See* Wong, *supra* note 4, at 957. The court made this determination even though IKEA had not yet been used in China. Lehman et al., *supra* note 55, at 261. Though some of the judges in this case argued that since IKEA had not opened any stores or done any advertising in China, its mark could not possibly be defined as well known. *Id.* Clearly, this position was contrary to China's obligation under the Paris Convention. In the court's final judgment, IKEA's mark was found to be well-known based on its reputation and the extent of its advertising worldwide. *See* Wong, *supra* note 4, at 957. As one commentator notes, IKEA's well-known mark "classification was not changed by the fact that at the time of the infringing act, the public in China did not know the brand name to the same extent as in other countries, or that the knowledge of the brand name was limited to an urban population of a specific income class." Lehman et al., *supra* note 55, at 272. However, the reasoning the IKEA court employed was far from widely used. *See id.* at 261. Rather, China's "pre-WTO system" for determining which marks would be considered well-known was, in fact, quite unsystematic, especially for foreign brands, which—unlike Chinese trademarks—generally had to show use of their marks both abroad and in China. *Id.* at 262.

[56] *See* Lehman et al., *supra* note 55.

[57] Cahan, *supra* note 15, at 229.

[58] Nine amendments were made to the 1982 PRC Trademark Law. These amendments included, *inter alia*, a provision for the protection of service marks and a provision that made it a criminal offense to pass off, forge, or copy valid trademarks without authorization, to sell forged or unauthorized copies, or to knowingly sell goods bearing counterfeit trademarks. Birden, *supra* note 39, at 475 (citing Quanguoren da changwei huiguan yu xiugai shangbiaofa de jueding [Amendment of the Trademark Law Decision] (promulgated by the Standing Comm. Nat'l People's Cong., 1993), *translated in* CHINA L. & PRAC., Apr. 29, 1993).

[59] Wong, *supra* note 4, at 944.

problem. In 1988, for example, the International Intellectual Property Alliance, a U.S. trade organization, determined that American companies lost at least $415 million in China from the sale of counterfeit and pirated goods.[60] In 1999, that number likely reached the billions,[61] with individual companies like Proctor & Gamble and Nike estimating total annual losses in China of up to $150 million and $70 million, respectively.[62] In response to China's continuing failure to address intellectual property abuses, the U.S. Trade Representative threatened to impose trade sanctions on China in 1991, 1995, and, again, in 1996, if it did not improve its intellectual-property climate, particularly with regard to counterfeiting.[63]

Failure to deal effectively with its counterfeiting problem also impeded China's admission to the World Trade Organization (WTO).[64] However, with promises to again reform its intellectual property laws, China was able to become the 143rd member of the WTO in 2001.[65] Since joining, China has adopted and amended over 140 intellectual property laws in an effort to conform its laws to its obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), mandated by the WTO.[66] As part of this vast overhaul, China amended its trademark law in 2001.[67]

C. The 2001 Trademark Law Amendments

The 2001 Trademark Law purports to make several improvements upon China's previous trademark laws. One purported improvement is the new law's attempt to amend the prior laws' vague definition and treatment of well-known marks in order to comply with international intellectual property laws. For instance, before the 2001 Trademark Law redefined well-known marks, the Interim Provisions

---

60 Birden, *supra* note 39, at 436.

61 Chow, *supra* note 11, at 205.

62 *Id.* at n.11 (citing David Murphy, *Fake Goods at Critical Levels in China*, BUS. TIMES, June 21, 1999, at 5).

63 James J. Holloway, *Canadian Anti-Counterfeiting Laws and Practice: A Case for Change* 96 TRADEMARK REP. 724, 731–32 (2006) (continuing that, "[e]ach time the threats were made, sanctions were averted by China's promise to address the problem. However, the situation did not appreciably improve.").

64 *Id. See also* Zhou, *supra* note 9, at 416 (noting that "China's long-time inability to join the World Trade Organization . . . had been largely attributable to political oppositions from the U.S. and Europe claiming, among other things, that China could not provide adequate protection for intellectual property rights").

65 Information about China's accession to the WTO can be found on the WTO website. *See* World Trade Organization, Member Information: China and the WTO, http://www.wto.org/english/thewto_e/countries_e/china_e.htm (last visited Mar. 5, 2008).

66 Cahan, *supra* note 15, at 223 (citing Michael E. Burke et al., *China Law*, 36 INT'L LAW. 815 (2001)).

67 Wong, *supra* note 4, at 944.

for the Establishment and Administration of Well-Known Marks,[68] which the State AIC issued in 1996, described famous marks as "*registered* trademarks which are of high repute and well-known among the relevant sector of the public."[69] Article 5 of these Provisions also set rigid requirements and procedures for the recognition of well-known marks.[70] This definition clearly was at odds with China's obligation under Article 6bis of the Paris Conventions, which does not require that marks be registered in order to receive protection.[71] That no foreign marks gained registration protection under these rules between 1996 and 1999 also speaks to the Provisions' non-compliance with international intellectual property commitments.[72] By contrast, the 2001 Trademark Law omits the wholesale registration requirement.[73]

On paper at least, this change moves China closer in line with its obligations under the Paris Convention and TRIPS.[74] It also reflects a desire to quell concern among foreign investors over China's "first-to-file" system.[75] As noted above, absent any leeway under such a system, the first to file a trademark registration with an AIC in China is considered definitively to own the mark. Prior to the amendment removing the requirement that well-known marks be registered, the "first-to-file" system put many foreign multinational companies at a great disadvantage in attempting to assert their trademark rights in China.[76] This was, and still is, due to a common practice among

---

[68] This was the first Chinese legal document specifically to protect well-known marks in China. An Qinghu, *Well-Known Marks and China's System of Well-Known Mark Protection*, 95 TRADEMARK REP. 705, 712 (2005).

[69] Provisional Regulations on the Verification and Control of Well-Known Trademarks (promulgated by the State Admin. for Indus. & Commerce, Aug. 14, 1996), art. 2, *translation available at* http://www.wanhuida.com/english_ver/Law/Index.asp?InfoTypeID=9# (emphasis added).

[70] Wong, *supra* note 4, at 947.

[71] Paris Convention for the Protection of Industrial Property, July 14, 1967, 21 U.S.T. 1583.

[72] Cahan, *supra* note 15, at 226. During the period these rules were in place, between 1996 and 1999, the SAIC, or State Administration of Industry and Commerce, conferred well-known status upon eighty-seven marks, but none of these belonged to a foreign company. *Id.* This may be due in part to the method of interpretation courts used during this period, which made it difficult for any marks presented in English to receive protection as well-known, due to the fact that most of the Chinese public is unable to read English. *Id.*

[73] 2001 Trademark Law, *supra* note 43, art. 13–14.

[74] Both agreements require member states to afford protection to well-known marks. *See supra* Part II.B. (discussing the requirements of Article 6bis of the Paris Conventions) and *infra* Part I.D.2. (discussing the requirements of TRIPS in light of the *Toyota* case). However, as one author notes, "there is legitimate concern that these laws and judicial interpretations look good on paper yet do not make a large difference in trade activities." Cahan, *supra* note 15, at 223.

[75] *See id.* at 231 (writing that "[t]he Amended Trademark Law is meant to extend well-known trademark status and its accompanying protection to Chinese and non-Chinese brands alike as required by international treaties").

[76] One example of such difficulty arose for the Walt Disney Corporation when a local

Chinese infringers of registering famous foreign marks that their true owners have not yet registered with the local Chinese authorities in order to capitalize wrongfully on those companies' goodwill.[77]

Well-known-mark owners hope that the 2001 law will help abrogate this practice by affording protection to famous marks in China, whether or not they have yet been registered; and, in fact, the 2001 Trademark Law includes a provision banning bad-faith preemptive registration.[78] Under this provision, a well-known-mark owner may receive protection if the preemptive registration is a "reproduction, imitation or translation" of the legitimate well-known-mark owner's unregistered trademark, is for identical or similar goods or services, and is likely to cause confusion among the consuming public.[79] Thus, if a mark is found to be well-known, AICs must reject applications to register marks that conflict with it, and the well-known-mark owner may move to cancel the registration of any such marks.

Though the 2001 definition of well-known marks is largely the same as the previous definition, the 2001 law is somewhat more illuminating because it includes a set of factors meant to aid in determining which marks are well known. These factors, included in Article 14 of the 2001 Trademark Law, are as follows:

(1) reputation of the mark to the relevant public;

(2) time for continued use of the mark;

---

candy manufacturer in Guangdong registered the marks "Mickey Mouse" and "Donald Duck" in 1994. Stanton J. Lovenworth & Kurt P. Dittrich, *Protection of Well Known Trademarks in China*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 181, 183 (1996) (citing China Patent Agency, *Trademark Fees*, CHINA HAND, Jan. 1, 1994). Since Disney had not yet registered its marks in China, it could not seek administrative or judicial remedies under the first-to-file system in place at that time. *Id.* Though Disney eventually prevailed by pressuring Chinese authorities, in turn, to pressure the candy manufacturer, the local company might well have retained rights in the two marks under different circumstances, due simply to Disney's failure to register the marks first in China. *Id.*

[77] *See* Cahan, *supra* note 15, at 220 (indicating two reasons to protect famous marks: (1) because "it allows the owners of famous marks to stop users who desire to capitalize on the famous mark's name and reputation in a country where the famous product is not yet sold," and (2) "it aims to prevent trademark piracy in which a pirate registers a famous mark and extorts the legitimate trademark owner into paying the pirate for the registration").

[78] *See* 2001 Trademark Law, *supra* note 43, at ch. 1, art. 13 ("Where a trademark in respect of which the application for registration is filed for use for identical or similar goods is a reproduction, imitation or translation of another person's trademark not registered in China and likely to cause confusion, it shall be rejected for registration and prohibited from use.").

[79] *Id.*

(3) consecutive time, extent and geographical area of advertisement of the mark;

(4) records of protection of the mark as a well-known mark; and

(5) any other factors relevant to the reputation of the mark.[80]

Additionally, the new Provisions on the Determination and Protection on Well-Known Trade Marks (2003 Provisions)—which replaced the 1996 Interim Provisions described above—illustrate the meaning of these factors in greater detail and describe what types of documentation a trademark owner may submit to show that its mark is well known.[81] Despite these refinements, however, there is still considerable concern about the precise meaning and scope of the factors listed in the 2001 Trademark Law.

One reason for concern is that the factors do not include specific definitions for each of their individual terms. Though the 2003 Provisions define a "well-known mark" as one "that is widely known to the relevant sectors of the public and enjoys a relatively high reputation in China," they do not define, for example, what constitutes a "relatively high reputation."[82] Such lack of specificity

---

[80] *Id.*, art. 14.

[81] *See* Provisions on the Determination and Protection of Well-Known Marks (promulgated by the State Admin. for Indus. & Commerce, Apr. 17, 2003), *translation available at* http://sbj.saic.gov.cn/english/show.asp?id=57&bm=flfg. For instance, Article 3 of the 2003 Provisions indicates that the following types of evidence may be used to show that a mark is well known:

> (1) documents concerning the degree of knowledge or recognition of the mark in the relevant sector of the public;
>
> (2) documents concerning the duration of the use of the mark, including those related to the history and scope of the use and the registration of the mark;
>
> (3) documents concerning the duration, extent and geographical area of any promotion of the mark, including the approach to, geographic area of, the type of media for and the amount of advertisements for the promotion of the mark;
>
> (4) documents concerning the record of successful enforcement of rights in the mark, including the relevant documents certifying the mark in question was once protected as a well-known mark in China or any other country/region;
>
> (5) other evidences certifying that the mark is well-known, including, in the past 3 years, the outputs, sales volumes, sales incomes, profits and taxes and sales regions etc. of the principal goods to which the mark applies.

Id., art. 3.

[82] *Id.*, art. 2.

could create a great deal of room for interpretation. Further, while the 2003 Provisions do define "relevant sector of the public" as including "consumers of the type of goods and/or services to which the mark applies,"[83] it is unclear what the term "consumers" encompasses. A court interpreting these definitions may determine that "consumers" means only *actual* purchasers, not potential purchasers or consumers in general. Such an interpretation would erect a huge evidentiary barrier for foreign well-known-mark holders, especially for those whose goods have not yet been sold in China or are not available for practical purposes to the greater Chinese population, due to cost or other reasons. A second concern with the 2003 Provisions is that these provisions, like others before them, were implemented more for the protection of Chinese marks than for foreign marks. If that is the case, the 2003 Provisions likely will fail to provide owners of famous foreign marks that have not yet been registered in China with any added protection.[84]

D. Continuing Problems: Local Application of the 2001 Trademark Law

There is support for concern about the scope of the 2001 Trademark Law in the cases involving Viagra and Toyota detailed below.

1. The Viagra *Case*

Viagra's case illustrates a peculiarly Chinese problem that foreign companies face with regard to their well-known marks—that of Chinese transliteration, or the practice of changing words written in Roman text into corresponding Chinese characters. In December 2000, the Beijing Intermediate People's Court No. 2 decided a suit that Pfizer brought against a Chinese company that registered a domain name containing the word "Viagra."[85] As any junk-email folder might suggest, "Viagra" is one of the most famous brand names globally and a huge revenue generator; the product earned an estimated $1.5 billion in sales worldwide for Pfizer in 2001.[86] The

---

83 *Id.*

84 Thomas T. Moga & Jonathan Raiti, *The TRIPS Agreement and China*, 29 CHINA BUS. REV. 12 (2002), *available at* 2002 WLNR 5595244.

85 Maria C.H. Lin, *China After the WTO: What You Need to Know Now*, *in* 817 PRACTICING LAW INSTITUTE: COMMERCIAL LAW AND PRACTICE COURSE HANDBOOK SERIES 179, 187 (2001).

86 David Tuller, *Competitors to Viagra Get Ready to Rumble*, N.Y. TIMES, Sept. 23, 2002, at 7.

court, however, dismissed the case on grounds that only "Wei ge"[87]—the Chinese transliteration of "Viagra"—is a famous mark in China, not the word "Viagra" itself.[88] Though this ruling was made prior to China's accession to the WTO (and, accordingly, before its agreement to TRIPS), it demonstrates both a lack of understanding of Article 6bis of the Paris Convention, which requires that foreign well-known marks be protected in member countries even if they are not registered there, and a deeper unwillingness on the part of China to afford foreign marks protection as "well-known."[89]

2. *The* Toyota *Case*

(a) A Synopsis of the Toyota *Case*

Toyota's case not only illustrates the problems of interpretation surrounding China's 2001 Trademark Law but also indicates potential inconsistencies within the law itself. Indeed, multinational well-known-mark holders may be doubly concerned by the No. 5 Civil Division of the Beijing No. 2 Intermediate People's Court's 2003 ruling that Toyota's trademark is not protected in China.[90] In the case, Toyota Motor Corporation accused Zhejinag Geely Automobile Company of trademark infringement, claiming that the logo on Geely's economy model, the Merrie, was strikingly similar to Toyota's.[91] Though Toyota has been operating in China only since 1998, it registered its mark there in 1990, and, since 1998, Toyota has invested at least $1.3 billion in the country.[92] It now owns five plants in China, with a combined total output of 443,000 vehicles annually.[93] Moreover, according to Toyota's survey of 317 Chinese consumers, almost sixty-seven percent believed Geely's Merrie logo was in fact Toyota's logo; not even seven percent associated the logo with Geely itself.[94]

---

[87] Interestingly, "Wei ge" is a Chinese phrase that literally means "strong brother" in English. *Viagra Proves Effective for Chinese Patients*, PEOPLE'S DAILY ONLINE, Sept. 7, 2000, http://english.people.com.cn/english/200009/07/eng20000907_49981.html.

[88] Lin, *supra* note 85, at 187–88.

[89] *Id.* at 188.

[90] Liu Li, *Logo Likeness Doesn't Hold in Court*, CHINA DAILY, June 9, 2004, http://www.chinadaily.com.cn/english/doc/2004-09/06/content_371807.htm.

[91] *Id.*

[92] Chester Dawson, *Toyota Roars into China*, BUS. WK., Apr. 7, 2003, *available at* http://www.businessweek.com/magazine/content/03_14/b3827116_mz033.htm.

[93] *Toyota Targeting China, India Markets*, CHINA DAILY, Nov. 13, 2006, http://www.chinadaily.com.cn/china/2006-11/13/content_731483.htm.

[94] Li, *supra* note 90.

Despite these facts, the court found there was no infringement.[95] It reasoned that the "[a]utomobile products behind the two logos have great differences in price and consumers, so buyers will [be] unlikely [to] believe the logo of Geely's Merrie car is related to Toyota . . . . The two brands are different in many aspects, especially in price."[96] The court also rejected Toyota's claim that Geely engaged in unfair competition by using a character of Toyota in its advertisement of Merrie cars.[97] But perhaps most significantly, the court declined to rule on Toyota's claim that its mark be recognized as well-known in China.[98] It reasoned that, under the 2003 Provisions, trademark owners may request that their marks be treated as "well-known" only when there is a special dispute concerning the status of their trademarks.[99] The court decided that Toyota did not need to invoke this special exception in order to prove its case.[100] Though it is unclear what precisely the court meant here, it is possible that the court declined to rule on the status of Toyota's mark because Toyota and Geely produce similar goods,[101] or because Toyota waited nearly four years to challenge Geely's mark,[102] or simply because the court deemed a well-known-mark determination as irrelevant to its infringement analysis.[103] Whatever the court's reasoning, its ruling left Toyota's mark unprotected as not-well-known in China.[104]

For comparison, each company's logo is shown:

---

[95] *Id.*

[96] *Id.*

[97] *Id.*

[98] Hong Xue, *Between the Hammer and the Block: China's Intellectual Property Rights in the Network Age*, 2 U. OTTAWA L. & TECH. J. 291, 308 n.62 (2005).

[99] *Id.*

[100] *Id.*

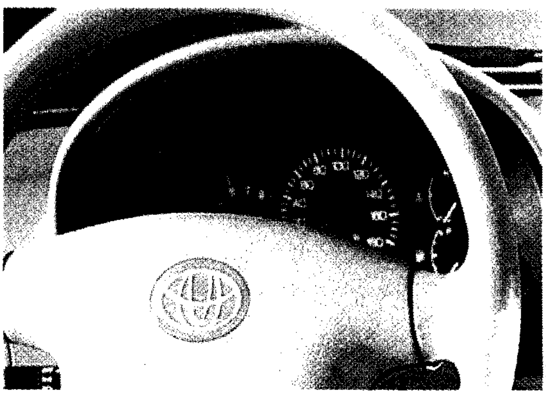
[101] CCPIT Patent and Trademark Law Office, Toyota Lost a Lawsuit Against a Chinese Car Manufacturer, http://www.ccpit-patent.com.cn/News/2003123006.htm (last visited Feb. 15, 2008).

[102] Intellectual Property Protection in China, IPR Disputes in China's Automobile Industry, (Oct. 23, 2006), http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=22827&col_no=927&dir=200610.

[103] *Id.*

[104] Cahan, *supra* note 15, at 222 ("[T]he Beijing Municipal No. 2 Intermediate People's Court rejected the claim that the trademark *Toyota* was a well-known trademark in China.").

[105]



[106]

(b) Registration Under the 2001 Trademark Law and TRIPS

Toyota registered its marks in China in 1990, six years before Geely applied for registration of its mark.[107] Thus, this ruling arguably ran contrary to China's own trademark law and to China's obligation under TRIPS. TRIPS provides protection for both registered and unregistered famous marks.[108] However, under Article 16, owners must register their famous trademarks in order to receive protection against their unauthorized use on *dissimilar* goods and

---

[105] Photo courtesy of Brands and Branding: Toyota, http://www.brandsandbranding.co.za/ViewPublishedBrands.aspx?BrandID=de89e803-9e24-4fcd-ab8c-97dfabf30e61 (last visited Feb. 15, 2008).

[106] Photo courtesy of The Trademark Blog: Toyota v. Geely in China and the U.S., http://www.schwimmerlegal.com/2003/08/toyota_v_geely.html (last visited Feb. 15, 2008).

[107] Intellectual Property Protection in China, *supra* note 102.

[108] *See* Agreement on Trade-Related Aspects of Intellectual Property Rights art. 16.2 & 16.3, Apr. 15, 1994, 1869 U.N.T.S. 299, *available at* http://www.wto.org/english/docs_e/legal_e/27-trips.pdf [hereinafter TRIPS].

services.[109] This provision also requires that in order for the owner to obtain protection, the unauthorized use of a registered famous mark must be likely (1) to suggest a connection between the dissimilar goods or services and the owner of the famous mark, and (2) to damage the famous-mark owner.[110] As noted above, China's 2001 Trademark Law likewise provides protection for well-known marks, whether or not they are registered.[111] Also, similarly to TRIPS, the 2001 Trademark Law requires that well-known-mark owners register their marks in order to receive protection against the unauthorized use of similar or identical marks by other parties on dissimilar goods or services.[112] Under both of these laws, registration should provide more protection—not less—for foreign well-known-mark holders, since registration affords protection against virtually *any* unauthorized use, even on dissimilar goods and services.

(c) Dilution Under the 2001 Trademark Law, TRIPS, and the FTDA

The type of protection both TRIPS and the 2001 Trademark Law provide is very similar to that afforded well-known marks in the United States by way of the Federal Trademark Dilution Protection Act (FTDA).[113] In a traditional trademark-infringement analysis, a party may only receive protection for its trademark against another's use if there is a likelihood of confusion among potential customers regarding the two uses.[114] When a party unlawfully uses a trademark on articles that are *unlike* those produced by the legitimate trademark owner, confusion is less likely among the purchasing public, since potential consumers will be less likely to think that the two types of articles in question came from the same brand owner.[115] However,

---

[109] *Id.*, art. 16.3.

[110] *Id.*

[111] *See, e.g.*, INTERNATIONAL TRADEMARK ASSOCIATION, THE PROTECTION OF WELL-KNOWN MARKS IN ASIA-PACIFIC, LATIN AMERICA AND AFRICA 12 (2004), *available at* http://www.inta.org/membersonly/downloads/ref_Asian.pdf.

[112] *See* 2001 Trademark Law, *supra* note 43, art. 14.

[113] *See* Lanham Act § 43(c), 15 U.S.C. § 1125(c) (2000).

[114] This standard grew out of the common law and is also explicitly adopted for both registered and unregistered marks in the Lanham Act, the United States' basic trademark statute. *See* Lanham Act § 32, 15 U.S.C. § 1114 (2000) (providing that "any person who shall, without the consent of the registrant . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark . . . in connection with which such use is likely to cause confusion . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided"); Lanham Act § 43, 15 U.S.C. § 1125 (2000) (providing a similar remedy upon a determination of likelihood-of-confusion for unregistered marks).

[115] *See, e.g.*, Toys "R" Us, Inc., v. Feinberg, 26 F. Supp. 2d 639 (S.D.N.Y. 1998), *vacated on procedural grounds*, 201 F.3d 432 (2d Cir. 1999) (finding no likelihood of confusion between the mark "'R' Us," when used on toys and other children's commodities, and "We Are Guns," when used for a firearms store, particularly in light of the plaintiff's widely publicized

under the FTDA, marks considered to be famous may receive protection even when used by other parties on *dissimilar* goods, simply because their use by another party *dilutes* the uniqueness and fame of the mark.[116] If protection for registered well-known marks under TRIPS may be likened to that provided for under the FTDA—and the two are quite similar in substance[117]—then a likelihood of confusion analysis would be largely irrelevant in deciding whether well-known marks should be protected. Rather, such marks should be protected simply because their fame could be diluted through another party's use, even on dissimilar goods or services.[118]

---

refusal to carry or sell toy guns); Ritz Hotel, Ltd. v. Ritz Closet Seat Corp., 17 U.S.P.Q.2d 1466 (T.T.A.B. 1990) (holding that consumers were not likely to be confused between the mark, RITZ, for hotels and the mark, RIT-Z, for toilet seats); Anheuser-Busch, Inc. v. Major Mud & Chem. Co., 221 U.S.P.Q.2d 1191 (T.T.A.B. 1984) (determining that there was no likelihood of confusion between "Budweiser" used on beer and "Bitwiser" used for a drilling lubricant); *see also* Lacoste Alligator S.A. v. Everlast World's Boxing Headquarters, 204 U.S.P.Q. 945 (T.T.A.B. 1979) (finding no likelihood of confusion between a flying dragon logo when used on judo uniforms and an alligator logo when used on casual, everyday clothing). *But see* McDonald's Corp. v. Druck & Gerner, DDS., P.C., 814 F. Supp. 1127 (N.D.N.Y. 1993) (determining that a balance of the likelihood-of-confusion factors weighed in favor of the owner of "McDonald's," the familiar mark used for fast-food goods and services, and against the owner of "McDental," used for dental services).

[116] This cause of action was adopted from Professor Schechter's influential law review article. *See* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927). Schechter proposed to abandon the consumer confusion model completely, advocating instead that trademarks be protected from *dilution* of their uniqueness, as "the preservation of the uniqueness of a trademark constitute the only rational basis for its protection." *Id.* at 831–32. Under this model, any junior use of a similar or identical trademark that causes destruction of the absolute uniqueness of the senior mark as a product identifier constitutes dilution—regardless of whether it has any other harmful effect. *See id.* at 825. This is because consumer confusion is not the "real injury" caused by the concurrent use of two similar or identical trademarks, according to Schechter; rather, the true injury is "the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods." *Id.*

[117] *Compare* Lanham Act § 43(c), 15 U.S.C. § 1125(c) (2000) *with* TRIPS, *supra* note 108, art. 16.2 & 16.3.

[118] *See* Lanham Act § 45, 15 U.S.C. § 1127 (2006) (defining "dilution" as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of— (1) competition between the owner of the famous mark and other parties, or (2) *likelihood of confusion*, mistake, or deception") (emphasis added). *See also* H.R. REP. NO. 104-374, at 2–3 (1995), *reprinted in* 1995 U.S.C.C.A.N. 1029, 1029–30. According to the House Judiciary Committee, "[t]he purpose of H.R. 1295 [later enacted as the FTDA] is to protect famous trademarks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion." *Id.* at 2, 1995 U.S.C.C.A.N. at 1029. Thus, "the use of DUPONT shoes, BUICK aspirin, and KODAK pianos would be actionable under this legislation." *Id.* at 3, 1995 U.S.C.C.A.N. at 1030; *accord* Star Markets, Ltd. v. Texaco, Inc., 950 F. Supp. 1030, 1033 (D. Haw. 1996) (noting that "[a] mark must be especially famous and distinctive to merit protection under the [FTDA] because a violation of the Act triggers extensive relief—preventing all others from using the mark, regardless of whether the marks are in related fields").

(d) Did the Toyota *Court Confuse a Likelihood of Confusion Analysis with a Dilution Analysis?*

When the *Toyota* court reasoned that automobile purchasers would not be confused by similar trademarks between cars, it employed a likelihood-of-confusion analysis.[119] If China's obligation under the 2001 Trademark Law and TRIPS to protect famous registered marks is analogous to the protection provided famous marks under the FTDA, then the Chinese court's likelihood-of-confusion analysis was misguided here since Toyota's mark is famous and registered. Instead, the court should have protected the Toyota mark simply because of its global fame and the likelihood that it would be diluted; any contrary ruling arguably would be a direct violation of TRIPS and China's own trademark laws.[120] Moreover, even if the likelihood-of-confusion analysis were not out of place, the fact that both Geely and Toyota produce cars—*i.e.*, very similar goods—and the fact that a customer survey revealed that some consumers *actually* were confused about the ownership of the two marks suggests that a likelihood of confusion between the two would be quite high, at least in the United States.[121]

Of course, China is under no obligation to conform to American trademark-infringement standards, and the protection that FTDA affords may not in fact be analogous to that mandated by Chinese law or TRIPS, especially considering the fair amount of leeway each

---

[119] *See* discussion *supra* Part II.D.2.a. The court reasoned that automobile consumers will "recognize the difference between the two logos and will not confuse them." Li, *supra* note 90. Here, the court was concerned only with whether a customer can "tell" the Geely logo from Toyota's logo, and not with whether the uniqueness of Toyota's mark would be damaged by Geely's use of a similar mark. Clearly, this analysis is about customer confusion, not brand dilution.

[120] *See* TRIPS, *supra* note 108, art. 16.2 & 16.3. Toyota would also have to show that Geely's use would likely damage Toyota. *See id.*

[121] In the United States, actual confusion is the best evidence of a likelihood of confusion. Roto-Rooter Corp. v. O'Neal, 513 F.2d 44, 45–46 (5th Cir. 1975). American courts have considered surveys indicating relatively low levels of customer confusion to be strongly indicative of actual confusion. *See, e.g.*, Exxon Corp. v. Texas Motor Exch. of Houston, Inc., 628 F.2d 500, 507 (5th Cir. 1980). In that case, approximately fifteen percent of the individuals surveyed believed the defendant's sign belonged to Exxon, whereas seven percent were able to associate the sign with the defendant's corporation. *Id.* In the Toyota case, moreover, nearly sixty-seven percent of those surveyed believed the Merrie logo belonged to Toyota and only about seven percent associated the logo with Geely itself. Li, *supra* note 90. However, where customer surveys are used to show actual confusion, the evidentiary strength of the survey may also be at issue. *See Exxon*, 628 F.2d at 507. Here, the court determined that any survey used to show actual confusion among consumers should illustrate the beliefs of actual or potential customers, rather than those of people who may be inexperienced with purchasing automobiles. Li, *supra* note 90. Again, however, whether a mark is well-known or not should not depend upon a likelihood-of-confusion analysis. *See* discussion *supra* Part II.D.2(c) If followed by other Chinese courts, the requirement that survey participants be sophisticated consumers would add yet another evidentiary burden for foreign well-known-mark-holders.

member-nation has in formulating its own intellectual-property laws in accordance with TRIPS. However—given the enormous fame of Toyota's mark, its striking similarity to Geely's Merrie mark, the presence of actual confusion among survey participants, and the similarity of the goods in question—the court's decision seems unwise, especially if China is serious about conveying a favorable impression to multinational investors.

(e) The Toyota *Case and Potential Inconsistencies in the 2001 Trademark Law*

This case also demonstrates potential inconsistencies in China's 2001 Trademark Law. Under the *Toyota* court's ruling, to be recognized by a Chinese court, foreign well-known mark holders must prove not only that their marks are famous, but also that competing marks will be likely to cause confusion among the public with their well-known marks.[122] If other courts follow this ruling, then it may prove extremely difficult for even registered mark-holders to receive protection against the use of their marks—at least on *dissimilar* goods—since such uses rarely will be likely to cause confusion among potential consumers. Particularly troubling, moreover, is the possibility that the *Toyota* court refused to rule on Toyota's well-known-mark status because it believed it unnecessary to do so when the types of goods in question are similar.[123] If this were the court's reasoning, other courts following the Toyota ruling may never grant well-known status to famous foreign marks, at least in cases where the goods in question are similar or identical. Rather, such courts could simply dismiss such claims as irrelevant without further discussion. Ironically, it is these uses—unauthorized uses of well-known marks on *similar* goods—against which foreign well-known-mark-holders generally require the most protection, since they include the most egregious trademark-usurping practices such as counterfeiting.

In any case, the *Toyota* court's vague reasoning and quick dismissal of Toyota's claim that its mark is well-known in China provide useful precedent for any Chinese court wanting to withhold well-known status from foreign mark-holders. For the time being, it seems that inconsistency and unpredictability abound for foreign well-known-mark-owners in Chinese courts; only time will tell how much weight the *Toyota* decision will carry and what level of

---

[122] *See* 2001 Trademark Law, *supra* note 43.
[123] *See* CCPIT Patent & Trademark Law Office, *supra* note 101.

protection foreign mark-holders can expect to receive from the various arms of the Chinese government in the future.

II. THE STARBUCKS DECISION

A. A Brief Description of the Case

Like many foreign multinational companies dazzled by the potential for great fortune in China, Starbucks sought to enter the Chinese market in the late 1990s. Starbucks first introduced its chain in Taiwan in 1998 and thereafter licensed a Taiwanese company to begin operating its coffee business in China.[124] Together with its licensed Taiwanese company, the President Group, Starbucks opened coffeehouses in Taiwan and Hong Kong, registering "Xingbake" as its name in both of those locations.[125] "Xingbake" is the Chinese pinyin version of the word "Starbucks"—"xing" means "star" in Chinese, and the two Chinese syllables "ba" and "ke" together sound like "bucks."[126]

Starbucks first registered its trademark in mainland China in December 1999,[127] and the first Chinese Starbucks opened that year in Beijing.[128] After establishing the joint venture, named Shanghai President Starbucks Shareholding Company, in May 2000 for purposes of expanding into Shanghai, Starbucks and the President Group learned that Shanghai Xingbake had pre-registered the name "Xingbake" in October 1999 and had opened in Shanghai in March 2000.[129]

---

[124] Wong, *supra* note 4, at 953.

[125] *Id.*

[126] *Starbucks Sues over Trademark Infringement*, CHINA DAILY, Feb. 6, 2004, http://www.chinadaily.com.cn/english/doc/2004-02/16/content_306335. In addition to registering their original trademarks, many foreign trademark-owners choose to register Chinese characters to better "identify their products and services to Chinese consumers." Samir B. Dahman, Note, *Protecting Your IP Rights in China: An Overview of the Process*, 1 ENTREPRENEURIAL BUS. L.J. 63, 73 (2006). This practice "removes a language barrier, improves recognition of a trademark and enables the products to reach a wider market. . . . Otherwise, if a foreign product is sold without a Chinese trademark, Chinese consumers will adopt their own name for the product." *Id.* Foreign trademark-owners can translate their Roman-character trademarks into Chinese characters either by (1) translating literally the Roman-character trademark's concept, or by (2) translating the Roman-character trademark's phonetic sound. *Id.*

[127] Jing Li & Shaobin Zu, *Starbucks Corporation Wins in a Trademark Infringement and Unfair Competition Case in Shanghai, China*, 14 C.A.S.R.I.P. NEWSL. 2, Spring 2007, http://www.law.washington.edu/Casrip/Newsletter/Vol14/newsv14i2LiandZhu.

[128] Lu Haoting, *Starbucks Still Brewing up a Storm*, CHINA DAILY, June 13, 2006, http://www.chinadaily.com.cn/bizchina/2006-06/13/content_616003.htm.

[129] *Id.*; *see also* Li & Zu, *supra* note 127.

Fearing that Shanghai Xingbake's use of "Xingbake" would cause customer confusion and allow the small Shanghai Company to profit unfairly from its goodwill, Starbucks attempted to stop Shanghai Xingbake from using the name.[130] After first attempting to settle the matter, Starbucks brought an administrative action through the Shanghai AIC, the local branch of China's greater administrative trademark authority.[131] Though the Shanghai AIC ordered Shanghai Xingbake to stop using any identifying marks similar to those of Starbucks, the Shanghai company refused, responding instead in September 2003 by opening another branch of its local chain in a high-profile location.[132]

In December 2003, Starbucks filed suit in the Shanghai No. 2 Intermediate People's Court against Shanghai Xingbake alleging trademark infringement and unfair competition.[133] Under China's 2001 Trademark Law, unlawful use of a mark that is phonetically similar to the trademark owner's mark on similar goods constitutes grounds for a trademark infringement claim.[134] In this case, the parties were both coffeehouses and shared the mark "Xingbake" in China.[135] The two companies also had similar logos. Thus, Starbucks' claim against Shanghai Xingbake was clearly within the scope of the new law.

Starbucks argued that because of the similarity of the two names and logos, not only was the probability of customer confusion high,[136] but also the circumstances pointed to a finding of bad faith on the part of the Shanghai company.[137] Starbucks also emphasized the fact that "big brand owners like Starbucks have invested heavily into building their brands . . . . In this case the integrity of the brand is at stake."[138] For various reasons, Shanghai Xingbake's manager did not believe the company had infringed Starbucks' trademark.[139] He argued that,

---

[130] *Starbucks Sues over Trademark Infringement*, *supra* note 126.

[131] Toh Han Shih, *Starbucks Sues in Shanghai Café Sign Spat*, S. CHINA MORNING POST, Jan. 31, 2004, at 1, *available at* 2004 WLNR 6018187.

[132] *Id.* Indeed, before the decision granting Starbucks trademark rights, Shanghai Xingbake planned to open between thirty and fifty new franchise locations in Shanghai. Wong, *supra* note 4, at 955 n.136. Interestingly, Shanghai Xingbake's reaction to the Shanghai AIC's order also clearly demonstrates the Chinese trademark administration's total lack of authority or effective ability to curb Chinese companies' efforts to capitalize unfairly on the goodwill of famous foreign marks. See discussion *infra*, Part III.B.

[133] *Starbucks Sues over Trademark Infringement*, *supra* note 126.

[134] Wong, *supra* note 4, at 953.

[135] *Starbucks Sues over Trademark Infringement*, *supra* note 126.

[136] Shih, *supra* note 131.

[137] *China Industry: Coffeecat*, ECONOMIST INTEL. UNIT, VIEWSWIRE CHINA, Mar. 17, 2004, *available at* 2004 WLNR 13988794.

[138] Shih, *supra* note 131.

[139] *Starbucks Sues over Trademark Infringement*, *supra* note 126.

since he was first to register the name, "Xingbake"—he did so in October 1999, two months before Starbucks registered its trademark in mainland China[140]—his company was the rightful owner and that, in any case, he had not used "Xingbake" as a trademark but only as a "legitimate company title."[141] He also argued that Shanghai Xingbake's green and white logo was designed by one of his staff members and that any similarity between his company's and Starbucks' logos was mere coincidence, since he had not heard of Starbucks until it began warning his company not to use its marks.[142]

Here are the two logos for comparison:

143


144

---

140 Li & Zu, *supra* note 127.

141 Wong, *supra* note 4, at 954. This argument is based on a Chinese law under which trademark registrations and enterprise-name registrations are treated separately. *Id.* at 954 n.140 (citing Interview by Emma Barraclough with An Qinghu, Director General, China Trademark Office, *Inside World's Busiest Trade Mark Registry: Trademark Applications in China have Risen by 80,000 in Each of the Past Two Years and the Rapid Growth Looks Set to Continue*, MANAGING INTELL. PROP., Nov. 1, 2004, at 25). *See also China Industry: Coffeecat*, *supra* note 137. Enterprise names are registered with the local AICs. Wong, *supra* note 4, at 954 n.140. Thus, in this case, Shanghai Xingbake registered its "enterprise name" with the Shanghai AIC. By contrast, trademarks are registered with the CTMO. *Id.* Though, typically, there is no conflict between trademarks and enterprise names, conflict may arise in the context of well-known trademarks and enterprise names—as it did in this case between Starbucks and Shanghai Xingbake. Starbucks argued that, in this situation under Chinese Law, a trademark is more important than an enterprise name. *China Industry: Coffeecat*, *supra* note 137.

142 Thomas Moore, *Landmark Judgment in Chinese IPR Case*, EAST MIDLANDS-CHINA BUS. BUREAU, http://www.eastmids-china.co.uk/starucksvxingbake.html (last visited Feb. 15, 2008). Apparently, Shanghai Xingbake also claimed that the word "Xingbake" was its own invention, inspired by the character, Simba, from Disney's *The Lion King*. Gordon Fairclough, *From Hongda to Wumart, Brand Names In China Have Familiar, if Off-Key, Ring*, WALL ST. J., Oct. 19, 2006, at B1.

143 Jefferson Graham, *Starbucks to Put Digital Music on Its Menus*, USA TODAY, Mar. 15, 2004, http://www.usatoday.com/tech/news/2004-03-15-starbucks_x.htm (Photo by Justin Sullivan).

144 Photo courtesy of Fontblog, Starbucks Gewinnt Logo-Streit in China,

The court rejected the arguments of Shanghai Xingbake's manager and held, in December 2005, that Shanghai Xingbake had engaged in unfair competition and trademark infringement by operating under the phonetic equivalent of "Starbucks" in Chinese and by using a similar logo.[145] Though Shanghai Xingbake technically pre-registered its enterprise name before Starbucks registered its trademark—October 1999 for Shanghai Xingbake versus December 1999 for Starbucks—the trial court found that Starbucks acquired exclusive rights to its trademark at the date of registration, whereas preregistration would not afford Shanghai Xingbake such rights until the date of its formal establishment.[146] More importantly, the trial court found that Shanghai Xingbake had maliciously used "Xingbake"—Starbuck's well-known mark—in registering its enterprise name.[147] According to the court, both "Starbucks" and "Xingbake" had been widely publicized in China *before* Shanghai Xingbake registered its name.[148] Thus, Shanghai Xingbake either knew or should have known that these two marks were famous in the coffee industry and that it violated Starbucks' well-known marks by pre-registering the name "Xingbake."[149]

As part of its ruling, the trial court ordered Shanghai Xingbake to stop using the name and to pay Starbucks the maximum penalty under trademark law, 500,000 yuan, or, roughly, $62,500.[150] The trial court further required Shanghai Xingbake to issue an apology to Starbucks in a local newspaper.[151] While the case was pending, the court also froze Shanghai Xingbake's bank account and seized from it items related to the proceedings, such as name cards and menus.[152]

Following the trial court's judgment, Shanghai Xingbake appealed the decision to the Shanghai Higher People's Court.[153] Shanghai Xingbake advanced several arguments on appeal, including the following: (1) the trial court's finding that "Xingbake" is well-known in China was clearly erroneous, (2) Shanghai Xingbake validly

---

http://www.fontshop.de/newsfeed/C1130786794/E316938656/index.html (last visited Feb. 15, 2008).

145 Ping, *supra* note 3.

146 Li & Zu, *supra* note 127. The Implementing Measures for Administration of Enterprise Name Registration of the People's Republic of China provide that a pre-registrant owns its enterprise name at the date of its formal establishment. *Id.*

147 *Id.*

148 *Id.*

149 *Id.*

150 Ping, *supra* note 3.

151 Li & Zu, *supra* note 127.

152 Shih, *supra* note 131.

153 Li & Zu, *supra* note 127.

acquired exclusive rights to use "Xingbake" as a result of its pre-registration of the enterprise name, and (3) the trial court's finding that Shanghai Xingbake maliciously infringed Starbucks' trademarks lacked supporting evidence.[154] The appellate court rejected all of Shanghai Xingbake's arguments and upheld all of the trial court's rulings, including the trial court's award of 500,000 yuan to Starbucks and the requirement that Shanghai Xingbake stop using the name "Xingbake."[155]

B. One Small Step for Well-Known-Mark-Holders; One Giant Leap for Starbucks

Commentators have cited the *Starbucks* case as a significant victory in China for owners of well-known marks not only because it illustrates China's willingness to protect such marks, but also because the case "provides some guidance as to what constitutes a well-known mark" in China.[156] By further developing the law in this area, rulings such as this one may help pave the way for other multinational companies seeking to protect their marks in China in the future.

In addition, the case was the first to be decided under the 2001 Trademark Law's provision for well-known marks.[157] As noted earlier, part of the purported function of this new law is to give well-known-mark-holders special protection for their famous marks.[158] The 2001 Trademark Law's provision excepting well-known marks from registration is extremely important to multinational companies wanting to invest in China because trademark protection in China is still based on a "first-to-file" system.[159] Under this largely straightforward regime, the first to register its trademark in China is considered to be the trademark's rightful owner, regardless of use. In this case, however, the court granted trademark protection to Starbucks *in spite of the fact* that it technically had not registered its mark in China before Shanghai Xingbake.[160] The trial court so held based largely on findings that Starbucks' marks are well-known in China due "to their widespread use, publicity and reputation."[161] According to the court, Starbucks has invested a great deal of money

---

[154] *Id.*

[155] *Id.* The Shanghai Higher People's Court made its ruling December 20, 2006; it is the final decision in this case *Id.*

[156] Wong, *supra* note 4, at 956–57.

[157] *Starbucks Wins Trademark Dispute*, INT'L HERALD TRIB., Jan. 2, 2006, *available at* http://www.iht.com/articles/2006/01/02/business/web.0102starbucks.php.

[158] *See* 2001 Trademark Law, *supra* note 43.

[159] *See id.*

[160] Ping, *supra* note 3.

[161] *Id.*

promoting and using its marks worldwide—including "Xingbake" in Chinese-speaking regions.[162] As a result, not only have Starbucks' trademarks achieved fame on the international scale, but they have also become well-known in China, particularly.[163]

Whether or not the case proves to be a victory for other famous mark-holders, the case was undoubtedly a great success for Starbucks,[164] whose global-expansion plans center on investing selectively in countries where it feels it could eventually dominate the market.[165] The company views winning the domination of Shanghai's coffee market as particularly key in this quest.[166] Had the decision been unfavorable to Starbucks, the company's incentive to invest heavily in China might have been reduced substantially.[167] Now, however, Starbucks may continue to pour money into its expansion efforts in China without fear that another company will trade unfairly on the goodwill it has sought to develop on an international scale.[168]

To date, Starbucks' investment efforts have resulted in its opening 165 stores in China, and its stock prices continue to climb.[169] Although sales in China accounted for less than ten percent of Starbucks total worldwide sales of $6.4 billion in 2006, Starbucks' Chairman Howard Schultz believes China will soon become the company's largest market outside North America.[170] According to *China Daily*, "Starbucks has become one of the most popular brands

---

162 Li & Zu, *supra* note 127.

163 *Id.*

164 Wong, *supra* note 4, at 958 (touting the *Starbucks* decision as an "important victory for [both] Starbucks and China").

165 *See id.* at 958 (explaining that "Starbucks has decided to focus its efforts on a few countries where it sees great potential," as opposed to entering many new countries at once). In addition to China, Starbucks considers Russia, Brazil, and India to be good markets for potential expansion. *Id.* at 958 n.172. *See also* Keith Bradsher, *Starbucks Aims to Alter China's Taste in Caffeine*, N.Y. TIMES, May 21, 2005, at C3 (noting that Starbucks' long-term goal is to have thirty-thousand stores worldwide, with fifteen-thousand of them outside the United States and a large fraction of them in China).

166 *Legal Battle Brews Between Starbucks and Chinese Coffee Shop*, AGENCE FRANCE-PRESSE, Aug. 6, 2003, http://quickstart.clari.net/qs_se/webnews/wed/dp/Qchina-us-company.R__Z_Da6.html.

167 *See* Wong, *supra* note 4, at 958 (noting that "if Starbucks had received an unfavorable decision, Starbucks might have scaled back their [sic] plans for expansion in the country").

168 *See id.*

169 TDCTrade.com, China Industry News, Starbucks Sees Robust Growth, Focuses on China, Feb. 15, 2006, http://my.tdctrade.com/airnewse/index.asp?id=15756&w_sid=99&w_pid=196&w_nid=1757&w_cid=540144&w_idt=2006-02-21. Starbucks reported that its earnings rose over twenty percent to 174.2 million U.S. dollars in early 2006, effectively sending its share price to a record high of $35.50 per share. *Id.* Starbucks further claimed it could deliver annual earnings growth of at least twenty percent over the next three to five years, "as China becomes a focus for its global strategy." *Id.*

170 *China Central to Starbucks Growth*, BBC NEWS, http://news.bbc.co.uk/1/hi/business/4712012.stm (last visited Mar. 6, 2008).

among Chinese white collar workers."[171] Such rapid progress unquestionably is impressive for a country "steeped in 5,000 years of tea."[172] Even Chinese President Hu was recently photographed with Seattle politicians after a day of meeting Starbucks and Microsoft executives, each with a logo-emblazoned mug in hand, perhaps toasting Starbucks' plan for global domination.[173]


[174]

III. LIMITATIONS TO THE *STARBUCKS* DECISION

A. No Binding Authority; Toyota*'s Legacy*

One potential limitation on the future importance of the *Starbucks* decision is the fact that China has a civil law system, under which there is no principle of *stare decisis*. In civil law countries, prior court decisions may be persuasive authority, but they do not have binding effect either on the same court that issued them or on other courts.[175] Thus, Chinese courts need not follow the *Starbucks* decision at all

---

171 Haoting, *supra* note 128.

172 Fowler, *supra* note 21. Of course, Starbucks offers several varieties of tea, in addition to its menu of coffee beverages. But "[w]hat is striking about these efforts, by [multinational enterprises including] Starbucks, is that they have made few concessions to Chinese tastes, instead cultivating in China an appetite for Western favorites, like Big Macs and grandé lattés." *See* Bradsher, *supra* note 165. Indeed, "[t]he company's market research has found that customers in China tend to come in initially just to find a place to meet, and then begin buying coffee as they become repeat customers." *Id.*

173 *Hu Tastes Starbucks Coffee*, CHINA DAILY, Apr. 20, 2006, http://www.chinadaily.com.cn/china/2006-04/20/content_572181.htm (President Hu is pictured with Christine Gregoire, governor of Washington, and Gary Locke, former Washington governor).

174 *Id.* (Photo courtesy of CHINA DAILY).

175 *See, e.g.*, Michele Lee, Note, *Franchising in China: Legal Challenges when First Entering the Chinese Market*, 19 AM. U. INT'L L. REV. 949, 985–86 (2004) (discussing the ability of intellectual-property court decisions to shape later decisions).

should they want to withhold from foreign companies protection for their well-known marks.

Other Chinese courts also could easily distinguish the *Starbucks* case on its facts. Prior to suing Shanghai Xingbake, Starbucks brought an administrative action through the Shanghai AIC to protect its trademarks.[176] In response, the Shanghai AIC ordered Shanghai Xingbake to remove all signs, names and logos similar to Starbucks from its premises.[177] However, Shanghai Xingbake failed to obey the AIC's order, opting instead to violate it flagrantly by opening yet another outlet on its city's chic Nanjing Road.[178] Subsequent Chinese courts could argue that the Shanghai No. 2 Intermediate People's Court in this case "granted" trademark rights to Starbucks merely to *enforce* the existing order issued earlier by the Shanghai AIC—not based on any independent determination that Starbucks' marks are well known. Moreover, even if other Chinese courts determine that the *Starbucks* court's well-known-mark discussion *was* essential to its holding, they easily could decline to make their own well-known-mark determinations in the future—especially by pointing to the highly publicized *Toyota* case. As noted earlier, the court in that case refused to rule on Toyota's well-known-mark status based on its assertion that such a ruling was unnecessary to the disposition of the case.[179] Chinese courts making determinations such as these likely would do so in violation of TRIPS and the 2001 Trademark Law.[180] Despite this, many courts may be inclined to rule against foreign well-known-mark-holders for any of the reasons described below.

B. The Many Problems of Enforcement Against Counterfeiting in China

Though China has now brought the text of its trademark laws closely in line with its international obligations, China's overall enforcement of these laws is still sorely lacking.[181] One reason for this derives from China's widespread problem of counterfeiting. The incentive to counterfeit exists in every nation, since copying allows counterfeiters to trade on the goodwill a senior mark has established

---

[176] Wong, *supra* note 4, at 954.

[177] Shih, *supra* note 131.

[178] *Id.*

[179] Xue, *supra* note 98, at 308 n.62.

[180] *See* TRIPS, *supra* note 108, at arts. 16.2–16.3 (detailing rights conferred on trademark-holders); 2001 Trademark Law, *supra* note 43, art. 13 (providing that trademark applications for goods will be rejected if the marks are identical, similar, likely to mislead the public, or prejudice interests of another trademark or well-known-mark registrant).

[181] Chow, *supra* note 11, at 211–12 (comparing incentives to copy in the United States and China).

without having to incur any of the costs associated with product development and brand identity build-up.[182] Countries like the United States offset these benefits through the imposition of substantial penalties such as large civil damages awards.[183] In China, however, there are no serious costs associated with unauthorized copying or commercial piracy.[184]

1. The Impotence of Enforcement Measures

Though, in recent years, China has increased dramatically its use of enforcement tactics such as seizures and raids, the effectiveness of such measures has been minimal.[185] Indeed, such measures often appear to be merely for show.[186] Though AICs frequently impose fines upon the counterfeiters they catch in raids, those fines tend to be very small. For instance, the average fine counterfeiters paid in 2000 was $794, and the average award to brand owners that year was a mere $19.[187] According to a study conducted recently by the Motion Picture Association (MPA) on the raids and seizures that Chinese authorities have executed pursuant to the MPA's complaints, the average fine imposed per counterfeit unit seized was only slightly higher than the cost of a blank disc.[188] Low fines like these cannot act as serious deterrents,[189] especially considering the high rates of return

---

[182] *Id.* at 210–12.

[183] *Id.* at 212 n.47.

[184] *See* Jayanthi Iyengar, *Intellectual Property Piracy Rocks China Boat*, ASIA TIMES ONLINE, Sept. 16, 2004, http://www.atimes.com/atimes/China/FI16Ad07.html. William H. Lash, III, U.S. Assistant Secretary of Commerce for Market Access and Compliance, gave three basic reasons for the abundance of commercial piracy in China: (1) a weak legal framework for the protection of intellectual property, (2) high rates of return for those who engage in infringement, and (3) insubstantial penalties for violations. *Id.* Emphasizing the relationship between points (2) and (3), Lash stated that since an investment of as little as one thousand dollars in counterfeit pharmaceuticals could yield five hundred thousand dollars in profits, the risk and magnitude of punishment must be substantially steeper in order to curb counterfeiters. *Id.* He continued, "[i]f you're facing a 5,000% return on your investment and no chance of being caught, and even in the unlikely chance that you're caught, you go home the same day—that fuels piracy." *Id.*

[185] *Id.*

[186] The exaggerated nature of some enforcement measures illustrates this point. For instance, in 2004, China launched an annual "IPR Protection Week," complete with billboards encouraging people to "Sternly Beat Down Counterfeits." Forney, *supra* note 1. During this time, a prime-time television broadcast featured steamrollers crushing thousands of CDs and DVDs that authorities had confiscated. *Id.* Perhaps this was an attempt to carry out literally the urgings of IPR Protection Week's billboards.

[187] Chow, *supra* note 11, at 212.

[188] *Piracy of Intellectual Property: Hearing Before the Subcomm. on Intellectual Property of the S. Judiciary Comm.*, 109th Cong. (2005) (statement of Eric Smith, President, International Intellectual Property Alliance), *available at* http://judiciary.senate.gov/testimony.cfm?id=1514&wit_id=4301.

[189] *Id.*

counterfeiters typically enjoy.[190] Furthermore, while the 2001 Trademark Law allows for cases to be sent to the national judicial authorities for criminal prosecution, just between two and two-and-one-half percent of all cases are prosecuted.[191] Criminal convictions are likely to be even rarer.[192] Most counterfeiters view these weak enforcement procedures as simply a cost of doing business.[193] As Professor Daniel C.K. Chow of the Ohio State University notes, "[i]t is no exaggeration to say that many in China believe that they can engage in the theft of intellectual property with impunity or at least escape without any serious adverse consequences. This creates a

---

[190] *See* Iyengar, *supra* note 184.

[191] *Hearing on Intellectual Property Rights Issues and Imported Counterfeit Goods Before the U.S.-China Economic and Security Review Commission* (2006) (statement of Andrew C. Mertha, Assistant Professor, Department of Political Science, Washington University in St. Louis), *available at* http://www.uscc.gov/hearings/2006hearings/transcripts/june7_8/mertha_footnote.pdf [hereinafter Mertha Testimony]. It is important to note the rate of improvement in this area. Though this number is quite small, it "represent[s] a five to ten-fold increase in five years." *Id.* In 2000, for instance, just forty-five out of the 22,001 total cases were referred to the Public Security Bureau for criminal prosecution. Chow, *supra* note 11, at 213 n.53. Apparently, up to ninety percent of these cases could have been prosecuted in a criminal court but were handled administratively instead. Mertha Testimony, *supra.*

[192] *See* Cahan, *supra* note 15, at 248 (noting the infrequency of criminal sanctions); *see also* OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, SPECIAL 301 REPORT SECTION 306: CHINA (2003), *available at* http://www.ustr.gov/Document_Library/Reports_Publications/2003/2003_Special_301_Report/Special_301_Report_Section_306.html?ht= (stating that "China remains one of the last countries in the world that fails to use . . . its criminal law to go after . . . trademark counterfeiters" and recommending that China remedy this problem by "ensur[ing] that China's officials take a serious and consistent approach to sentencing [and by] reduc[ing] the high thresholds for criminal prosecutions that, in practice, prevent effective application of China's criminal law to IPR violators"); *accord* Chow, *supra* note 11, at 212–213 n.53 (observing that, while there are no exact statistics available on how many of the few cases referred for criminal prosecution result in convictions or on how many convicted defendants end up serving time in prison, criminal defendants in some cases may avoid the possibility of prison altogether by paying off enforcement officials).

However, it should be noted that some *have* been penalized under the criminal law—and severely. Deming Luo, who counterfeited a well-known Chinese alcohol brand and obtained approximately two million Renminbi in profits from it, was found guilty and executed pursuant to a court-made rule mandating the death penalty for trademark-infringers who make "exceptional" profits from their exploits. Cahan, *supra* note 15, at 248 n.189 (citation omitted). However, the trademark infringement at issue in that case involved a Chinese brand, and, as noted above, the Chinese government historically has favored domestic marks over those belonging to foreign companies. *Id.* at 231–32. Criminal sanctions for trademark violations no longer include the death penalty. *See, e.g.*, Omario Kanji, Note, *Paper Dragon: Inadequate Protection of Intellectual Property Rights in China*, 27 MICH. J. INT'L L. 1261, 1273 (2006). Under Article 213 of the current Chinese criminal law, prison sentences not exceeding three years may be imposed for trademark-counterfeiting involving "serious circumstances." *Id.* A prison term of three to seven years may be imposed for crimes of "especially/extremely severe circumstances." *Id.* Under Article 214, the sale of counterfeit trademarks may invite a maximum of up to three years in prison for "relatively large sales." *Id.* "Huge sales" will bring a violator three to seven years in prison under this provision. *Id.*

[193] Chow, *supra* note 11, at 213.

widespread business culture that tolerates, or even encourages, unauthorized copying."[194]

2. How Greater China Benefits from Counterfeiting

China also substantially benefits from counterfeiting. There are several reasons for this, one of which stems from the fact that many counterfeiters find great incentive in exporting their goods.[195] Though the penalties associated with raids and seizures are mild, a counterfeiter seeking to avoid them entirely stands a better chance of doing so if he sends his goods overseas.[196] Counterfeit goods, once exported, travel all over the globe, sometimes through the added intermediary of a freight forwarder or a transportation and warehousing company.[197] This makes it difficult to trace the goods back to their infringing originators. Further, China greatly encourages exportation. Exports in general account for a substantial portion of China's gross domestic product—approximately forty percent.[198] China has depended upon the growth of its export market to drive the modernization of its economy and to improve domestic standards of living.[199] Exports also tend to bring in strong foreign currency and contribute to a more favorable trade balance for China.[200] Because of this, customs officers may be less willing to put effort into searching for counterfeit goods headed for export than they might be with regard to goods imported into China.[201] There is evidence for this in the U.S. Department of Homeland Security's estimate that counterfeits from China accounted for almost seventy percent of all infringing product seized at the U.S. border in 2005.[202] China's share of items seized at the U.S. border is "ten times greater than that of any other U.S. trading partner."[203]

---

[194] *Id.*

[195] *Id.*

[196] *Id.* at 214.

[197] *Id.*

[198] UNITED STATES TRADE REPRESENTATIVE, U.S.-CHINA TRADE RELATIONS: ENTERING A NEW PHASE OF GREATER ACCOUNTABILITY AND ENFORCEMENT: TOP-TO-BOTTOM REVIEW 3 (2006), *available at* http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file921_8938.pdf.

[199] *Id.*

[200] Chow, *supra* note 11, at 214.

[201] *Id.*

[202] *U.S. Chamber of Commerce Views on China's Enforcement of Intellectual Property Rights and the Dangers of the Movement of Counterfeited and Pirated Goods into the United States: Hearing Before the U.S.-China Economic and Security Review Commission*, 109th Cong. (2006) (statement of Myron Brilliant, Vice President, East Asia, United States Chamber of Commerce), *available at* http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_07wrts/06_06_7_8_brilliant_myron.pdf [hereinafter Brilliant Testimony].

[203] *Id.*

In 2004, China enacted a law designed specifically to combat the problem of counterfeit exports—the Regulation of the People's Republic of China on Customs Protection of Intellectual Property Rights.[204] Under this law, trademark owners can have Chinese Customs Officials detain goods at points of entry into and exit out of China for inspection and a determination on whether the detained goods violate Chinese Law.[205] However, not only must trademark owners cut through a fair amount of administrative red tape in order to take advantage of these procedures, but also Chinese customs officers must be educated adequately about what they looking for in order for the law to be effective.[206] Due to the large amount and highly specific nature of the information trademark owners must convey to customs officers before they may take action upon potentially infringing goods, Chinese Customs' capability of seizing large amounts of infringing goods might be greatly inhibited.[207] These factors could likely have a substantial stifling effect on the new law's effectiveness. Furthermore, the fact that the percentage of infringing product from China seized at the U.S. border actually *increased* from 2004 to 2005 may be evidence of problems with the new Customs law.[208]

3. How Counterfeiters Benefit: China's Lack of Political Will to Crack Down

There are also problems with China's political incentive to limit counterfeiting, since local economies are often dependent upon selling or manufacturing counterfeits. One prime example of this phenomenon is the city of Yiwu. Yiwu, once a small, impoverished farming community near Shanghai, is now a city of nearly 650,000 and home to a large wholesaling entity, the Zhejiang China Small Commodities City Group (ZCSCC),[209] touted as the "biggest small commodities export[er]" in the world.[210] According to Yiwu's website, the twenty markets that make up the city's larger ZCSCC

---

204 Cahan, *supra* note 15, at 247.

205 Regulation on Customs Protection of Intellectual Property Rights (effective July 1, 2004), ch. 3, art. 14, *translated at* http://www.lehmanlaw.com/resource-centre/laws-and-regulations/intellectual-property/measures-of-the-general-administration-of-customs-of-the-peoples-republic-of-china-for-the-implementation-of-the-regulation-of-the-peoples-republic-of-china-on-the-customs-protection-of-intellectual-property-rights-2004.html.

206 Cahan, *supra* note 15, at 247.

207 *Id.*

208 Brilliant Testimony, *supra* note 202, at 3.

209 Chow, *supra* note 11, at 218.

210 The Main Markets of Yiwu, http://www.yiwu-china.org/yiwu_markets.html (last visited Mar. 6, 2008).

cover over one million square meters and house over 320,000 varieties of goods.[211] Over two hundred-thousand people from all over the world visit Yiwu's markets[212] and leave with over one thousand "containers" each day.[213] The ZCSCC is also the largest employer in the area, accounts for over a quarter of the tax revenues generated from the municipality, and supports many other surrounding legitimate businesses. It has been estimated that Yiwu's total annual gross income has reached over three billion dollars per year—equaling, if not surpassing, the total yearly earnings of many multinational corporations.[214] Significantly, many of Yiwu's visitors are foreign business people who order products to be exported overseas.[215] Since about ninety percent of the goods Yiwu's markets purvey are infringing or counterfeits,[216] these facts illustrate Yiwu's contribution not only to the problem of counterfeit goods within the Chinese market, but also to that of exportation of such goods abroad.

Nevertheless, Yiwu's complete turnaround, from poor farming village to bustling city with a rapidly expanding economy, over the last twenty-five years, has earned the city national renown and the envy of many other small, struggling Chinese communities wishing to emulate Yiwu's success.[217] When millions of Chinese citizens depend for their livelihood on counterfeiting practices, China has limited incentive to really crack down. And in a country where many rural people still distrust foreigners,[218] there can be no serious contest for

---

211 *Id.*

212 Chow, *supra* note 11, at 218.

213 The Main Markets of Yiwu, *supra* note 210. This figure may be somewhat questionable, since it comes from Yiwu's own website. It is also somewhat unclear what is meant by the word "containers." Other commentators have put this figure at "approximately 2,000 tons of goods each day." Liu, *supra* note 18, at 1154; *accord Bargain Shop to the World Feels Price-War Heat*, THE STANDARD, Nov. 28, 2005, http://www.thestandard.com.hk/news_detail.asp?we_cat=14&art_id=6531&sid=5631619&con_type=1&d_str=20051128 ("Yiwu is the place to come if you need 20,000 electric razors for HK$26.74 apiece, 30,000 clocks at HK$4 each or maybe 50,000 blow-up Santa Clauses."). A U.S. dollar exchanges at a rate about eight times that of the Hong Kong dollar. *See* X-Rates.com, Currency Calculator, http://www.x-rates.com/calculator.html (last visited Feb. 12, 2008).

214 *See* Daniel C.K. Chow, *Counterfeiting in the People's Republic of China*, 78 WASH. U. L.Q. 1, 20 (2000).

215 Chow, *supra* note 11, at 219; *see also* Shao Xiayi & Ren Kan, *Yiwu Enjoys Golden Prospects*, CHINA DAILY, Oct. 19, 2004, http://www.chinadaily.com.cn/english/doc/2004-10/19/content_383674.htm (noting that over five thousand foreign merchants live in Yiwu full-time, that thousands more travel to Yiwu every year on buying trips, and that most of Yiwu's local traders maintain relationships with traders overseas, selling products to nearly two hundred countries and regions worldwide).

216 Chow, *supra* note 11, at 219.

217 Liu, *supra* note 18, at 1161–62; *see also* Chow, *supra* note 11, at 218 (noting that the ZCSCC "grew at a rate of about 4,700% from its establishment in 1982 to 1996").

218 *See, e.g.*, Stacey H. Wang, Note, *Great Olympics, New China: Intellectual Property Enforcement Steps up to the Mark*, 71 LOY. L.A. INT'L & COMP. L. REV. 291, 303 (2005) (explaining that China's failure to implement a truly effective intellectual-property-enforcement

local authorities attempting to balance the rights of foreign trademark owners against tremendous local prosperity and the admiration of all of China.

4. *Government Involvement in Counterfeiting*

Furthermore, protectionism of counterfeiters often extends beyond a mere balance of foreign and domestic interests, since many local Chinese administrative agencies themselves contribute to or even create the problem of counterfeiting.[219] The ZCSCC in Yiwu, for example, began when the Yiwu government decided to invest ten million dollars in 1982 in a wholesaling entity dedicated to the sale of small commodities such as toiletries and handbags.[220] Though the ZCSCC underwent privatization in 1993, it still retains ties to the local government.[221] Not only is a large portion of the senior management of the ZCSCC made up of current or former government

---

regime has stemmed, in part, from its "deep distrust of foreigners").

219 Liu, *supra* note 18, at 1181–83.

220 Chow, *supra* note 11, at 218. Apparently, Yiwu also owes part of its success to a local man, Xie Gaohua, who was the town's Communist Party Secretary during the Chinese Cultural Revolution. *Bargain Shop to the World Feels Price-War Heat*, *supra* note 213. *The Standard* describes Yiwu's humble beginnings:

> At the time, there was nothing more glorious in Mao Zedong thought than to be a peasant and, to prove it, the peasants had to work the land. But in hilly, unproductive Zhejiang, there was little glorious about the land, and Yiwu's people were starving. Xie decided to follow the old Chinese saying that "the mountains are high and the emperor is far away."
>
> Without seeking permission, he allowed locals to resuscitate a trade dating from the Qing dynasty a century before.
>
> They grew sugar and exchanged it with surrounding areas for chicken feathers, which they made into feather dusters and sold.
>
> The feather duster sellers started hawking other goods. Nearby towns would off-load their goods on them too. In 1982, after Deng Xiaoping had launched economic reforms, Yiwu was allowed to set up street markets, an example of Chinese law following reality.

Id.

221 Chow, *supra* note 11, at 219. Perhaps it is worth noting here that the ZCSCC "enjoyed a dramatic surge in growth after privatization." *Id.* at 218. Two years before the ZCSCC was privatized, its total revenues were one hundred-million dollars. *Id.* Three years after its privatization, the ZCSCC annual revenues increased to $2.2 billion—"a growth rate of about twenty-two times in a period of five years." *Id.* Privatization removed the restrictions on the ZCSCC's use of revenue that were in place while the ZCSCC was still under the control of the Chinese government. *Id.* However, privatization also introduced problems, such as conflicts of interest among government officials who may have gained a private financial interest in the formerly public entities they were assigned to regulate. *See* Liu, *supra* note 18, at 1181.

officials, but also many of Yiwu's current government officials regularly hand out name cards bearing the ZCSCC business logo.[222] Professor Chow notes that Yiwu's "placement of key current government officials in its current management adds to the perception that the [ZCSCC] operates as an arm of the government. It also suggests that any attempts to attack the [ZCSCC] will be [met] with heavy resistance from the local government."[223]

Though trade in counterfeit goods may be more extensive in Yiwu than in other towns and small cities close to it in size, there are over one hundred other locations in China that are, like Yiwu, involved heavily in trading and manufacturing counterfeits.[224] Most have similar origins and affiliations with the local governments. In communist China, the State oversees and runs most economic activities; it also owns much of the property used for commercial activities.[225] Thus, the State often plays dual roles in China's trade activities—that of economic stimulator and that of regulator.[226] These two roles are often at odds with one another. As one commentator puts it:

> By creating distribution channels that manufacture, sell and deliver phony goods to retail markets and consumers, local governments often have a financial stake in the very counterfeiting activity that they are meant to suppress. By owning, regulating, and operating wholesale distribution centers, local government officials lease shops to wholesalers and distributors who may also be potential counterfeiters; recalcitrant local officials tend to perceive counterfeiting not as a prohibited act, but as an opportunity to add to their profits.[227]

Typically, the local AIC will invest to renovate or construct the buildings, outlet stores, booths, stalls, warehouse spaces and other venue requirements needed for the creation of a wholesaling entity like that in Yiwu.[228] Once vendors have established themselves in the newly created or renovated wholesaling space, the AIC will charge

---

222 Chow, *supra* note 11, at 219.

223 *Id.* (citations omitted).

224 *Id.* at 220.

225 *See* Liu, *supra* note 18, at 1180–81 (suggesting that the State's control over most economic activities in China "may have inadvertently engendered several factors responsible for the plague of Chinese counterfeit goods").

226 *Id.* at 1181.

227 *Id.* (footnotes omitted).

228 Chow, *supra* note 214, at 28.

them rent and monthly maintenance fees of up to 120 U.S. dollars each.[229] For relatively large markets, this may result in total monthly revenues of 120,000 U.S. dollars and annual revenues of nearly 1.5 million U.S. dollars.[230] Further, in such markets, it is illegal under PRC law to do business without an AIC-issued license.[231] "Overall, the AIC has assumed the roles of investor, manager, regulator, and law enforcer for these markets."[232] Considering the significant monetary benefits associated with allowing vendors who may deal in counterfeit goods to continue doing business, the fact that the AICs are also responsible for enforcement against trademark infringement seems a bit suspect, if not wholly at odds with effective trademark-law enforcement.

5. Enforcement Practices: Corruption and Leniency

To make matters worse, many enforcement officials have been known to accept gifts, side-payments, and outright bribes—sometimes known as "case fees"—for conducting trademark-enforcement actions on behalf of trademark owners.[233] Though local AICs initially scoffed at outside pleas to tighten enforcement against counterfeiters, they quickly came to realize that enforcement on some level could provide a huge amount of "extra-budgetary income," as well as extra padding for individual officers' pockets.[234] These "case fees" have run as high as six thousand dollars for the arrest of a single counterfeiter,[235] and it is not uncommon for enforcement officers directly to demand compensation in exchange for turning guilty parties over to the Public Security Bureau (PSB), the entity responsible for criminal prosecutions.[236] Often, governmental officials directly obstruct investigation and confiscation efforts or request that law enforcement officers treat counterfeiting offenders "leniently" when they are caught.[237]

Effective means of redress against local AIC officers who engage in activities such as these apparently are nonexistent.[238] In fact, until 1999, the law permitted local AICS to keep all the money they collected and to distribute it in-house as they liked; many continue to

229 *Id.*
230 *Id.*
231 *Id.*
232 *Id.*
233 *Id.*
234 Mertha Testimony, *supra* note 191, at 3.
235 Liu, *supra* note 18, at 1183.
236 Mertha Testimony, *supra* note 191, at 3.
237 Birden, *supra* note 39, at 477.
238 *Id.*

do so in spite of the fact that the practice is now illegal.[239] In the mid-1990s, the problem of bribery, smuggling, and general corruption among officials with regard to intellectual-property enforcement was so widespread that some commentators have likened it to the degree of corruption surrounding the fall of the Qing Dynasty and the Nationalist Chinese government.[240] Though China was able through unified political reform and often draconian criminal penalties to bring the smuggling aspect of this problem under control over several years, corruption among some officials and counterfeiting in general remain pervasive.[241]

In recent years, some AICs have shifted policies: instead of demanding "case fees" or bribes in exchange for handing over counterfeiters to the PSB, they have come to rely on the money they collect from the counterfeiters themselves "to enhance their own official and unofficial operating budgets."[242] This may help explain why so few cases are referred for criminal prosecution, a phenomenon noted earlier. If a counterfeiter is convicted, he might go to jail; and if he goes to jail, he will be put out of business.[243] When this happens, the local AIC loses the revenues it collects through enterprise registration, regular management fees, and fines for counterfeiting; additionally, corrupt AIC officials lose the money they skim for themselves from these resources.[244] The incentives to keep these forms of revenue available are high, since they are where "the real money is."[245] As a result, prosecutions are rare. One investigator said that in his two years working in Shanghai, he never witnessed an AIC voluntarily turning over a case to the PSB.[246] Only fourteen cases were passed along for criminal prosecution in the first half of 2004.[247] In many cases, the AIC will agree to increase the fine—with the acquiescence of the company upon whom the fine will be levied—in exchange for being able to keep the case.[248] This means that the threat of criminal sanctions does not constitute a serious deterrent for most counterfeiters.

---

239 Mertha Testimony, *supra* note 191, at 3.
240 *See* Birden, *supra* note 39, at 477.
241 Chow, *supra* note 11, at 222.
242 Mertha Testimony, *supra* note 191, at 6.
243 *Id.*
244 *Id.*
245 *Id.*
246 *Id.*
247 Forney, *supra* note 1.
248 *Id.*

C. Silk Street: Another Example of China's Counterfeiting-Enforcement Problems

Another illustration of China's inability to curb counterfeiting has followed from a recent Chinese decision in favor of five luxury brands, including Burberry, LVMH (Louis Vuitton–Moët-Hennessy), and Gucci, against a Beijing shopping-mall landlord.[249] On April 18, 2006, the Beijing High People's Court upheld a previous Beijing No. 2 Intermediate People's Court ruling that the landlord had facilitated or provided "convenience" to counterfeiters and their activities in violation of Article 50(2) of the Implementing Regulations of the 2001 Trademark Law.[250] Pursuant this ruling, the court ordered the Beijing Xiushui Haosen Clothing Market, a landlord at the Silk Street shopping mall in Beijing near the U.S. Embassy, to compensate each of the five plaintiff-brands 20,000 yuan, or 2,500 U.S. dollars for its failure to prohibit the sale of knock-off goods within its premises.[251] This marked the culmination of the first civil action that holders of foreign well-known marks brought in China against a landlord for renting space to vendors of counterfeits.[252]

The five plaintiff brand-owners claim to be happy with the judgment.[253] They believe it "should send a message to all landlords in China that they cannot blindly lease their premises to tenants without taking responsibility for their actions."[254] As Joseph Simone, who served as counsel for the five plaintiffs, noted, "[w]e want to use the case to publicize landlord liability, to make them understand that we could come after them at any time."[255] In fact, the favorable decision has made possible an agreement between luxury-brand-owners such as the plaintiffs and Beijing retailers to halt the sale of pirated goods in China's capital.[256] Under this agreement,

---

[249] Liu Mo & Cao Li, *Luxury Brands Win Trademark Suit*, CHINA DAILY, Apr. 19, 2006, at 3, http://www.chinadaily.com.cn/home/2006-04/19/content_571000.htm.

[250] Howard Tsang, *Tackling Counterfeiting via Landlords in China*, IP RISK MGMT. REV., 2006, at 40, *available at* http://www.ipcrimecongress.org/ipcrime2007/documents/IPRMR9.pdf.

[251] Mo & Li, *supra* note 249.

[252] *Western Brands Win Piracy Suit in Beijing*, INT'L HERALD TRIBUNE, Jan. 4, 2006, http://www.iht.com/articles/2006/01/04/business/prada.php.

[253] Mo & Li, *supra* note 249 (quoting Wang Yadong, legal counsel for the five plaintiffs, who said "[w]e are satisfied with the final judgment, with the exception of the amount of compensation"). Initially, each plaintiff demanded 500,000 yuan, or U.S. $62,000. *Id.* As noted earlier, this is the maximum penalty available for plaintiffs in trademark protection actions under the 2001 Trademark Law in China. It is also the amount the Shanghai court awarded to Starbucks in 2005. *See* Ping, *supra* note 3.

[254] *Western Brands Win Piracy Suit in Beijing*, *supra* note 252.

[255] *Id.*

[256] *China to Crack Down on Knockoffs*, INT'L HERALD TRIB., June 7, 2006, *available at* http://www.iht.com/articles/2006/06/07/business/lux.php.

representatives of these foreign luxury brands will monitor shopping districts in Beijing known for trading in counterfeit goods and report any violations they see to the vendors' landlords.[257] The landlords, in turn, must evict tenants who violate the agreement more than once, under penalty of facing legal action themselves.[258]

Some brand owners believe that agreements like these will offer them more protection against counterfeiting than they might get solely by way of "official" action through the Chinese government.[259] According to European Union Trade Commissioner Peter Mandelson, who was present at the June 7, 2006, signing ceremony for the agreement described above, "[t]his is a protocol with teeth."[260] He continued, "I hope that increasingly you will see, not just in Beijing but elsewhere in China: cleaned-up markets, authentic goods and real action now at long last."[261]

However, many Beijing retailers have expressed concern that it will be impossible to purge trade in counterfeits completely from large markets,[262] and enforcement in this case certainly has gotten off to a rocky start. Ten days after the Beijing No. 2 Intermediate People's Court's initial ruling, in December 2005, against the Silk Alley landlord, counterfeit Prada and Gucci bags were still available for purchase in the mall, despite the fact that the defendant had a duty to "timely and effectively" stop the infringing activity.[263] According to one saleswoman hawking goods at Silk Alley during this time, "[e]verything here is fake . . . [e]veryone knows it's fake."[264] She offered a bag bearing the Louis Vuitton logo for one hundred yuan, or about twelve U.S. dollars.[265]

Notices prohibiting the sale of counterfeits bearing about a dozen foreign brand names, including Prada, Louis Vuitton, and Chanel, are now displayed throughout Silk Alley, and many stalls at first blush

---

[257] *Id.*

[258] *Id.*

[259] *See Western Brands Win Piracy Suit in Beijing, supra* note 252 (quoting James Haynes, partner at Beijing-based law firm Tee & Howe and co-chairman of the intellectual property rights committee of the American Chamber of Commerce in China, who noted, "Western companies can't do anything by themselves, because it's too big a problem, and the Chinese government can't do anything because the companies aren't involved").

[260] *China to Crack Down on Knock-Offs, supra* note 256.

[261] *Id.*

[262] Mo and Li, *supra* note 249.

[263] *Western Brands Win Piracy Suit in Beijing, supra* note 252.

[264] *Id.*

[265] *Id.* Some authentic Louis Vuitton handbags sell for over two thousand U.S. dollars. *See* Louis Vuitton Official Website, http://www.louisvuitton.com (follow "USA" hyperlink; then "catalog" hyperlink; then "women" hyperlink; then "city bags & briefcases" hyperlink; then "monogram multicolore" hyperlink) (last visited Feb. 13, 2008).

seem to carry generic goods.[266] But one showing the slightest interest in a fake Fendi need not go away discouraged. Passersby cannot help but hear salespeople whispering "Prada? Prada?" and other advertisements of their counterfeit wares;[267] in some cases, one literally must push such salespeople away.[268] To avoid potential trouble, some vendors now keep a bit quieter, opting to store their stalls' contraband in cupboards and suitcases hidden away from plain view.[269] Others choose to keep counterfeits in nearby warehouses, ready for quick delivery to interested customers.[270] In any case, the problem has far from disappeared, and many say it is getting worse.[271] One should have no difficulty, for example, finding items bearing the logos of the five luxury brands that "successfully" sued Silk Alley's landlord.[272]

Though the central Chinese government often expresses a seemingly sincere desire to curb these illegal practices, clearly "the system can't even bring itself to take care of the most blatant transgressors right in the heart of Beijing."[273] Local people simply make too much money selling counterfeits to be deterred,[274] and though enforcement officials conduct periodic raids, "any action against Silk Alley is purely cosmetic. The big deals take place behind the scenes, by container-load to Russia, East Europe and South America."[275] Exports such as these benefit both the counterfeiters themselves and China as a whole.[276]

Moreover, counterfeiters likely view the periodic fines and confiscations as merely a cost of doing business.[277] The fine that the Beijing court issued in this case was similarly low.[278] If Chinese courts want to prove that they are serious about upholding foreign brand-owners' trademark rights, they will have to award brand-owners more than 2,500 U.S. dollars each, which was the award for

---

266 Ann Mah, *Fakes Still Have Their Niche in China*, INT'L HERALD TRIB., May 31, 2006, http://www.iht.com/articles/2006/03/05/opinion/rfake.php.

267 *Id.*

268 Simon Elegant, *How to Fake Your Way to the Top*, TIME, Feb. 12, 2007, http://www.time.com/time/world/article/0,8599,1588195,00.html.

269 Mah, *supra* note 266.

270 *Id.*

271 *Id.*

272 Elegant, *supra* note 268.

273 *Id.*

274 *Id.*

275 Calum MacLeod, *Yiwu: The Only Thing Real in Counterfeit Capital is the*, THE INDEPENDENT (London), Jul. 24, 2000, *available at* http://findarticles.com/p/articles/mi_qn4158/is_20000724/ai_n14335764.

276 *See* Chow, *supra* note 11, at 213–15.

277 *See* Chow, *supra* note 214, at 20.

278 *See* Mo & Li, *supra* note 249.

each plaintiff in the Beijing court, and is an amount just three times that of the average fine enforcement authorities imposed in 2000.[279] Otherwise, counterfeits will not soon disappear; many say they will never go away.[280] Especially in China, where Western-inspired materialism and average expendable incomes are on the rise—but in most cases, still do not allow for the purchase of a real Louis Vuitton handbag—trade in counterfeit goods can only continue to flourish.[281]

D. The Convenience of the Starbucks *Case*

1. The Benefits of Exportation Do Not Apply to Starbucks

In affording Starbucks trademark rights, China can demonstrate to the international community that it is making progress in the area of trademark law while refraining, for the time being, from really addressing the underlying problem. While China often receives great benefit from the export of counterfeit goods,[282] China would have received little benefit from exportation of the goods Shanghai Xingbake had to offer. Coffeeshops are more akin to restaurants or hip clubs than to factories or wholesale markets. People go to them mainly to buy prepared, immediately consumable items and for the experience associated with the coffeehouse aesthetic. Whereas it generally benefits China when counterfeiters ship their goods overseas, perhaps it goes without saying that a latte with extra foam would not fare so well in such a situation. Coffeehouse aesthetic likewise seems wholly non-exportable. Thus, any benefit China ordinarily receives from the exportation of counterfeits would be entirely lacking in this case were Shanghai Xingbake allowed to continue its trademark-infringing operation.

---

[279] *See* Chow, *supra* note 11, at 212.

[280] *See* Mah, *supra* note 266 (quoting the publisher of *Madame Figaro*, one of China's top fashion magazines, who said, "I think knockoffs will always exist . . . . It's a special retail area that won't disappear").

[281] *See id.* ("Lots of people in China are starting to know good quality and appreciate beautiful expensive things . . . . They can't afford the real thing, but still want the prestige of a name brand—so they buy fakes."); *see also* Georgia Sauer, *Double Take: Shopping Bring on Déjà Vu? Maybe It's 'Cause Nothing's New*, CHI. TRIB., May 5, 2004, at 4 (quoting "an executive of a leading European luxury goods company") ("Most people who buy on the streets . . . know it is not the real product and probably would not buy the original anyway. That is not the problem. What they don't realize is that counterfeiting is a crime and distribution of counterfeit goods is a crime. Those manufacturers—often in China—do not pay taxes, do not pay just wages, might employ children, and the profits are often linked to various criminal organizations. If you look at the issue from that perspective, it changes everything.").

[282] *See* Chow, *supra* note 11, at 213–15.

2. Shanghai Does Not Depend upon the Production or Sale of Counterfeits

Further, Shanghai—where the two branches of Shanghai Xingbake were located—does not depend upon trademark-infringing coffeehouses for its economic survival. Nicknamed the "Dragon's Head" for its economic power and strategic location on the middle of China's coast at the mouth of the Yangtze River, Shanghai and its surrounding provinces account for approximately twenty-five percent of China's gross domestic product.[283] Shanghai's port is one of the two busiest in the world,[284] recently surpassing Rotterdam in the total amount of tonnage it handles.[285] Shanghai is a financial hub as well, where many of the financial institutions that handle China's vast stores of foreign currency are located.[286] It also is home to the world's fastest train and may soon boast the world's tallest skyscrapers[287]—a testament to its financial success and international importance. Unlike Yiwu, where shutting down the ZCSCC could mean economic devastation and subsequent ruin for hundreds of thousands of Chinese,[288] Shanghai clearly did not need Shanghai Xingbake in order to keep its economy afloat. In fact, Shanghai Xingbake operated a mere two coffeehouses.[289] The revenue Shanghai and China lost from Shanghai Xingbake's discontinued operation cannot come close to the money they both will gain as Starbucks continues to invest in the region.

Shanghai also may use the *Starbucks* decision to attract other foreign investors. Over three hundred of the world's Fortune 500 companies already have invested in Shanghai;[290] others may have refrained from investing, in part, due to concerns about intellectual-property protection in China. Starbucks' favorable ruling provides

---

[283] Joe Havely, *Shanghai: China's Business Engine*, CNN, Apr. 29, 2005, http://www.cnn.com/2005/WORLD/asiapcf/04/18/eyeonchina.shanghai/index.html.

[284] *See* Joshua A. Lindenbaum, *Assuring the Flow: Maritime Security Challenges and Trade Between the U.S. and China*, 6 RICH. J. GLOBAL L. & BUS. 95, 107 (2006). The other busiest port is the Port of Hong Kong. *Id.*

[285] Havely, *supra* note 283.

[286] *See* Keith Bradsher & David Barboza, *Hong Kong and Shanghai Vie to Be China's Financial Center*, INT'L HERALD TRIB., Jan. 15, 2007, http://www.iht.com/articles/2007/01/15/business/hong.php?page=1 (noting that Shanghai, "as the historic center of Chinese business life . . . has emerged as the center of Chinese bond trading and a favorite headquarters for Chinese and foreign companies"). Shanghai's stock market also out-performed any other in 2006. *Id.*

[287] *Id.*

[288] *See* Chow, *supra* note 11, at 219–20 (describing Yiwu's dependence upon its wholesaling-entity).

[289] *See* Ping, *supra* note 3.

[290] Bradsher & Barboza, *supra* note 286.

China with convenient evidence that it is cracking down on intellectual-property theft. When multinational enterprises express a reluctance to invest in China, the Chinese government now may offer the *Starbucks* decision as proof that their fears are unfounded, though, in actuality, such proof may be little more than paper-thin.

3. *Enforcement and the Special Nature of Starbucks' Goods*

One reason for the limited applicability of the *Starbucks* decision to other types of intellectual-property infringement in China may lie in the nature of Starbucks' products. Ordinarily, counterfeiters capitalize upon a famous-trademark-owner's goodwill by manufacturing or selling fake products unlawfully bearing the famous trademark. However, counterfeiters could not easily capitalize on Starbucks' goodwill in this manner. Though counterfeiters could try hawking fake Starbucks coffee in street markets—in much the same way most counterfeit goods are sold in China—such efforts would miss the mark. That is because Starbucks' success in China may have very little to do with the coffee at all. One Chinese Starbucks customer, who drinks coffee in public, but drinks tea at home says, "I prefer the taste of tea."[291] That preference does not stop him, however, from joining the millions of emerging Chinese middle class who enjoy seeing and being seen drinking coffee at hip hangouts like Starbucks.[292] "It's an attitude," he says.[293] According to researchers, one prime "marketing weapon in urban China is to charge more for public consumption, where price can serve as an indicator of quality and sophistication."[294] Of course, the issue of price has not disappeared for most Chinese. Even with a booming economy and increasing incomes for many Chinese, at $2.65, a typical Starbucks coffee is a veritable luxury item for the average Shanghainese household of three, which brings in about $143 per month.[295]

Still, most Starbucks customers are "happy with the charges."[296] That is because it is not about the coffee. As one commentator notes, "[Chinese Starbucks customers] go there to present themselves as modern Chinese in a public-setting . . . . Chinese are proudly

---

[291] Fowler, *supra* note 21.

[292] *Id.*

[293] *Id.* Novelist Jonathan Lethem says of Starbucks' appeal: "It's the faint affect of a counterculture shackled to the most ordinary, slightly upscale product"—part of a kind of "faux-alternative" aesthetic. Susan Dominus, *The Starbucks Aesthetic*, N.Y. TIMES, Oct. 22, 2006, at A25. Herbie Hancock, the famed jazz keyboardist, also notes "you feel kind of hip. I feel kind of hip when I go to Starbucks . . . ." *Id.*

[294] Fowler, *supra* note 21.

[295] *Id.*

[296] *Id.*

conspicuous consumers.[297] With regard to most consumer goods, people can demonstrate brand loyalty and "live the lifestyle" that a famous trademark offers simply by purchasing a counterfeit of the real thing. This is because many counterfeits, especially "A-level" fakes—counterfeits so good, they are rumored to be stolen from the real factories[298]—are indistinguishable from the authentic product. Frugal Fendi lovers, therefore, can sport a brand new baguette without the one thousand dollar price tag. In order to take advantage of the "lifestyle" Starbucks has to offer, however, one must actually go to Starbucks. Indeed, it is *being* at Starbucks that communicates the Starbucks image, not *using* a particular type of good—such as a Starbucks handbag or a Starbucks cell phone. The premium Chinese consumers seem to place on the public aspect of coffee-drinking and the status or "attitude" Starbucks represents is especially important in this regard. As noted earlier, one goes to Starbucks in China primarily to see and be seen. It is possible, therefore, that Chinese consumers would consider illicitly buying a cup of fake coffee at a street market not only to be an act falling short of communicating the Starbucks "cool," but also to be an act of shame. If this is so, then Starbucks counterfeiters could not stand a chance in China, since Chinese feel an almost maniacal cultural compulsion to preserve their personal image and reputation.[299] In any case, the amorphous notion of image and aesthetic associated with a larger Starbucks coffee-drinking experience is not something counterfeiters can readily ape in order to turn a quick profit.

Because of this, Lin, the vice-president of Starbucks' Shanghai joint-venture partner, the Shanghai President Coffee Corporation, does not seem worried about competition from knock-off coffeehouses such as the Taiwan-based Dante Coffee, the Japan-based Manave Coffee and even McDonald's McCafe.[300] He says, "It's helpful to have more coffee out there, to make people aware of it. But because of our high quality and service, I believe that the high-end coffee drinkers will still come to us."[301] Moreover, Starbucks "is increasingly positioning itself as a purveyor of premium-blend culture" worldwide, bringing other products such as books, CDs and films, in addition to coffee into its realm.[302] As Howard Shultz puts it,

---

[297] *Id.*

[298] Mah, *supra* note 266.

[299] *See* Charles A. Miller, II, *A Cultural and Historical Perspective to Trademark Law in China*, 2 BUFF. INTELL. PROP. L.J. 103, 115–16 (2004) (describing the Chinese notion of "face").

[300] Fowler, *supra* note 21.

[301] *Id.*

[302] Dominus, *supra* note 293.

> At our core, we're a coffee company, but the opportunity we have to extend the brand is beyond coffee; it's entertainment. . . . With the assets Starbucks has in terms of number of stores, and the trust we have with the brand, and the profile of our customers, we're in a unique position to partner with creators of unique content to create an entertainment platform and an audience that's unparalleled.[303]


[304]

Considering Starbucks' power to generate this kind of far-reaching response seemingly overnight, China had enormous incentive to encourage Starbucks to invest. As an example of Starbucks' seemingly limitless ability to expand, Starbucks even managed to open a store in Beijing's hallowed Forbidden City—an historical landmark where twenty-four emperors from the Ming (1368–1644 A.D.) and Qing dynasties (1644–1911 A.D.) located their palaces.[305] Though Starbucks successfully operated its Forbidden City branch for seven years, many Chinese became opposed to Starbucks' store in this location due in large part to Chinese news anchor Rui Chenggang's popular blog denouncing the Starbucks branch as an "inappropriate" addition to the Forbidden City and "an erosion of Chinese Culture."[306] Though Starbucks at first resisted local pressure, popular sentiment finally prevailed, and Starbucks closed its

---

[303] *Id.*

[304] Photo courtesy of BBC News (2006), *available at* http://news.bbc.co.uk/2/hi/business/4712012.stm.

[305] *See, e.g.*, China.org.cn, Imperial Palaces of the Ming and Qing Dynasties in Beijing and Shenyang: The Forbidden City, Feb. 25, 2005, http://www.china.org.cn/english/kuaixun/74855.htm.

[306] Dexter Roberts, *Forbidden Starbucks*, BUSINESSWEEK, July 16, 2007, http://www.businessweek.com/globalbiz/content/jul2007/gb20070716_579557.htm?campaign_id=msnbc. *See also* Samuel Shen & Yidi Zhao, *Forbidden City's Starbucks in Hot Water*, INT'L HERALD TRIB., Jan. 19, 2007, http://www.iht.com/articles/2007/01/18/bloomberg/bxstarbucks.php. Comments on the blog further expressed that the Forbidden City Starbucks is "a symbol of low-end U.S. food culture" and "an insult to Chinese civilization." *Id.*

Forbidden City store on July 13, 2007.[307] However, Starbucks quite reasonably downplays the importance of the store's closure; indeed, many of those opposed to the store in the Forbidden City do not oppose Starbucks' expansion in China generally.[308] One Chinese citizen who decried the Forbidden City Starbucks said she goes to Starbucks several times per week, adding "[i]f I want to go somewhere to sit down, relax, or read, there is nowhere else I would go except a Starbucks."[309] Even Rui Chenggang, who led the campaign against the Forbidden City Starbucks, admits that "Starbucks has good quality stuff," and that it is "O.K. to have a Starbucks *around* the Forbidden City," just not *in* the Forbidden City.[310]

With the rate of growth Starbucks is projecting and the apparently endless opportunities it has to indoctrinate its coffeehouse culture worldwide, together with its new strategy to offer goods only marginally related to coffee itself, those worried about losing traditional Chinese culture may well have much to fear. However, if China's priority is becoming a dominant player in the world economy,[311] a ruling against Starbucks would have been downright foolhardy; in order to attract foreign investors, China must give the impression that it is willing to protect their intellectual property. Continued suggestions to the contrary on the part of the Chinese government could have permanent, financially isolating effects.

4. Icing on the Coffeecake: Starbucks' Humanitarian Efforts in China

Starbucks' plans to promote socially responsible programs in China constituted yet another incentive for China to grant the company well-known-trademark rights. In February 2006—just two months after receiving its favorable ruling in the Shanghai No. 2 Intermediate People's Court—Starbucks pledged to give forty million yuan, or five million U.S. dollars, and other aid to help poor Chinese students from rural areas receive better access to education.[312] To accomplish this goal, Starbucks and the Soong Ching-ling Foundation, a Chinese social welfare organization, entered into an

---

[307] Roberts, *supra* note 306.

[308] *Id.*

[309] *Id.*

[310] *Id.* (emphasis added).

[311] *See* Chow, *supra* note 11, at 208 (describing China's desire to become a "dominant economic power in all sectors as quickly as possible").

[312] *Starbucks Donates 1.5 Million Dollars to Boost Rural Education in China*, CHINAGATE, Feb. 15, 2006, http://www.chinadaily.com.cn/chinagate/doc/2006-02/15/content_520508.htm.

agreement launching the China Education Project in Beijing.[313] The program will train approximately three thousand female teachers from one thousand primary and middle schools in five western provinces to improve their teaching skills, by providing them with updated learning techniques.[314] Starbucks Chairman Howard Schultz said of the program:

> Operating with a social conscience has always been core to the way we do business at Starbucks . . . . Our objective in creating the China Education Project is to demonstrate our long-term commitment to China and take actionable steps toward supporting the continued education of its young people. We hope to take an active leadership role in working with government authorities and local community organizations to contribute positively to China's educational programs.[315]

Programs such as these allow Starbucks to convey to China the impression that it is committed not only to investing money for its own benefit in China, but also to giving back to the greater Chinese community. Significantly, China places a high premium on bettering education.[316] Few other foreign multinational companies have donated as much money to China—and in agreements as well-publicized—as Starbucks has in this case.[317]

5. Toyota *and* Starbucks: *Continued Investment Despite an Adverse Ruling?*

In short, the *Starbucks* case represented a convenient opportunity for China to show the world that it is serious about protecting intellectual property—it was, in a sense, a kind of pacifier China temporarily could offer multinational investors hungry for more

---

313 *Id.*

314 *Id.*

315 *Starbucks Supports Educational Programs in China with Commitment of $5 Million*, STARBUCKS COFFEE SOCIAL RESPONSIBILITY NEWSLETTER, Winter 2006, http://www.starbucks.com/csrnewsletter/winter06/csrCommSociety.asp.

316 *See* JoAn Vaughn, *Precious Children: Early Education in China*, PBS, 1993, *available at* http://www.pbs.org/kcts/preciouschildren/earlyed/read_vaughan.html (describing the early-childhood-education system in China, particularly in light of China's "one-child" policy).

317 Though, interestingly, Toyota is one company that has. *See, e.g.*, *Toyota Environmental Protection Aid Program for China's Youth Hands out Awards*, JCNNETWORK, Feb. 13, 2006, http://www.japancorp.net/Article.Asp?Art_ID=11889 (describing Toyota's socially responsible activities throughout the world, which focus on the areas of environmental protection, human-resources development, and traffic safety). Perhaps it is Toyota's particular *choices* of sponsored programs that explain their apparent lack of weight with Chinese courts.

substantial trademark protection. But what if the Shanghai court had not granted trademark rights to Starbucks; would *Starbucks* have stopped investing there full-stop? Though the reasons for Starbucks to invest in China at its current rate may have been largely reduced by all outward appearances, the answer could be no. As noted earlier, Toyota operates several plants in China whose output collectively approach 450,000 cars each year.[318] Despite the fact that a Beijing court denied Toyota protection for its famous logo in China in 2003, Toyota has not scaled back its operations in China and, in fact, plans to expand there over the next few years.[319] Specifically, Toyota hopes to seize ten percent of the Chinese market in passenger cars by 2010.[320] As part of this plan, Toyota will open another plant in China in mid-2007 and increase production at its other Chinese facilities for a total annual output of 693,000 automobiles.[321] Clearly, Toyota, with such ambitious plans for its future in China, has been left undeterred by Chinese refusal to bestow upon its trademarks "well-known" status.

Given the particular nature of Starbucks' products and brand appeal—and the difficulty inherent in counterfeiting them—it is possible that Starbucks similarly would have forged ahead in China despite an unfavorable ruling, because it would not be hurt greatly by doing so. This may be evidence that the Shanghai court ruled for Starbucks, less out of a desire to afford real trademark rights to any *one* foreign brand owner, and more because doing so meant an easy way to convey a seemingly powerful signal to foreign investors at large. Whether Starbucks would have followed Toyota's lead in the event of an adverse decision is now a question for the ages—a good one, perhaps, to ponder over coffee.

CONCLUSION

On its surface, the *Starbucks* decision may appear to be a significant victory for well-known-mark-holders in China. However, trademark protection in China may well have more to do with the type of goods the mark-holder purveys and the extent to which China will benefit from the continued infringement of such trademarks than with a more unified, multinational corporation-friendly application of the law. China's problem with counterfeiting is widespread and deeply rooted. Enforcement is lacking, in part, because both China

318 *Toyota Targeting China, India Markets*, *supra* note 93.
319 *See id.*
320 Dawson, *supra* note 92.
321 *Toyota Targeting China, India Markets*, *supra* note 93.

and local counterfeiters benefit significantly from their continued violation of domestic and international trademark law. Direct and indirect government involvement with counterfeiting operations, as well as corruption and leniency among enforcement officials, compounds the enforcement problem. Many foreign brand owners, such as Louis Vuitton and Fendi, suffer continued violations of their trademarks due to these rampant enforcement difficulties—despite favorable rulings in Chinese courts.

Moreover, China's trademark laws are ambiguous, and many foreign well-known-mark-holders have not been able to receive even nominal protection for their famous marks, despite repeated pleas to the various branches of the Chinese government. Toyota's fate in Beijing could be indicative of widespread reluctance among Chinese courts to grant well-known status to foreign marks. If this proves to be true, the current climate regarding intellectual property enforcement in China could remain the same indefinitely, and multinational investors, no doubt, will be wary of further investment in China.

The *Starbucks* case presented a unique opportunity for the Chinese government to attempt to dispel fears among multinational investors concerning intellectual-property protection in China. But Starbucks' victory may be an isolated one. While most foreign investors sell material goods such as leather bags and cell phones, Starbucks offers amorphous, ephemeral items such as image, aesthetic experience, and hot coffee. Distinguishing characteristics like these could mean the difference between intellectual-property theft and protection for a multinational entity in China. Whether other foreign investors will be able to use the *Starbucks* decision effectively to their own advantage has yet to be seen. For the time being, however, Starbucks can "rest" assured that China at least will protect Starbucks, should any other Chinese companies unlawfully attempt to capitalize upon its particular brand of caffeinated culture.

MARY K. ALEXANDER†

---

† B.A., University of Virginia (2004); J.D., Case Western Reserve University School of Law (2008). The author would like to thank Professors Carol T. Fox and Craig A. Nard, as well as Laura Ball and Kevin Carter, for their insights and advice on this Note.