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Lessons from China

 *A discussion of the case and the lessons learned in protecting the Sotheby's mark in the People's Republic of China*

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IN SUMMARY

- A discussion of the case against Sichuan Sufubi by Sotheby's
- The lessons learned by Sotheby's legal counsel about protecting IP in China

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China's IP regime continues to present challenges for intellectual property owners. On the trademark front alone, in 2008, China investigated more than 56,000 infringement cases, an increase of 12.6% over that of the previous year. And, indeed 10% of the 56,634 trademark infringement cases investigated by the State Administration for Industry and Commerce involved foreign brands, an increase of 8% from the previous year.

Nevertheless, in September 2008, the Beijing Higher People's Court, an appeals court, affirmed the December 2007 decision of the Beijing Intermediate People's Court, the first instance trial court, finding that a local auction house, Sichuan Sufubi Auction Company ("Sichuan Sufubi"), was liable to the world's oldest auction house, Sotheby's,¹ for trademark infringement and unfair competition. Importantly, both courts found that SU FU BI (in Chinese characters), which is a Chinese transliteration of SOTHEBY'S (hereinafter "SU FU BI"), was a well-known mark in Mainland China, despite being unregistered. It is noteworthy that this recognition was granted despite the fact that

Sotheby's did not offer auction services in Mainland China owing to local regulations that prohibit foreign auction companies from offering such services in the country.²

Factual background

Sotheby's is the oldest and most famous international auction house in the world with a continuous history of more than 260 years.³ It specialises in auctions of more than 70 categories of objects, including fine art, antiques, decorative art, jewellery and wines.

Sotheby's operates as a conglomerate in numerous countries all over the world, including the United States, the United Kingdom and Hong Kong. It carries on its business in these countries through local entities, all of which are either direct or indirect subsidiaries of a US company. Sotheby's Hong Kong Limited is responsible for carrying out promotional and sourcing activities in Mainland China.

At the end of 2006, Sotheby's learned that Sichuan Sufubi, based in Mainland China's Sichuan Province, had been using SU FU BI and marks that incorporate SU FU BI in connection with auctions of real estate,

calligraphy and other works of art since at least as early as 2003. An investigation revealed that Sichuan had been using SU FU BI in connection with auction services, in its advertising materials, on business cards and on its websites. Among other things, Sichuan Sufubi's promotional materials and web sites stated that "SU FU BI is a worldwide brand and a company which has a history of over 280 years" and Sichuan Sufubi "comes from the famous international auction company of Hong Kong." The investigation also revealed that Sichuan Sufubi had secured registrations in Mainland China of SU FU BI and some other marks that incorporated the SOTHEBY'S mark.

After negotiations with Sichuan Sufubi failed, it became apparent that Sotheby's would have to test the Chinese legal system.

In July 2007, Sotheby's filed two separate lawsuits against Sichuan Sufubi at the Beijing Intermediate People's Court, one alleging trademark infringement and the other alleging unfair competition. In its pleadings, Sotheby's contended that the SU FU BI mark had become well-known in Mainland China and asked that the mark be granted the status of a well-known unregistered mark in the country.

The decisions

The Beijing Intermediate People's Court held that SU FU BI is a well-known unregistered mark in Mainland China and found Sichuan Sufubi liable for trademark infringement and unfair competition. Sichuan Sufubi was ordered to cease use of SU FU BI in its company name, take down its website, cease false advertisements relating to Sotheby's in its promotional materials and pay Sotheby's RMB 45,000 (approx. US\$6,600) as compensation.

Sichuan Sufubi filed appeals in March 2008 at the Beijing Higher People's Court. The Beijing Higher People's Court affirmed the first instance judgments. In addition, Sichuan Sufubi was ordered to publish an apology and pay Sotheby's RMB 65,000 (approx. US\$9,500).

Challenges for Sotheby's

In bringing the action, Sotheby's had to grapple with several challenges, but two, in particular, were formidable.

First, Sotheby's did not own a Chinese registration of the mark SU FU BI for auction services. Sotheby's had registered SOTHEBY'S in Mainland China for auctioneering services in the early 1990s. It

had filed an application to register the SU FU BI mark in 2005, but the application was still making its way through the Trademark Office. It was clear that considerable time and resources would need to be spent collecting evidence to demonstrate that Sotheby's was commonly known as SU FU BI in Mainland China, and that owing to extensive publicity and use, Chinese consumers associated SU FU BI solely and exclusively with Sotheby's. The mandate was to prove that the unregistered mark SU FU BI had become well-known in Mainland China in connection with auctions.

“ The issue of Chinese transliterations of marks can be extremely tricky for foreign brand owners and must be given special attention not only when a brand owner is contemplating entering the Chinese market, but also afterwards ”

Second, Sotheby's did not offer auction services in Mainland China because of the highly regulated nature of the auction industry. Therefore, Sotheby's had to prove that it had used the SU FU BI mark in China in connection with auction services despite being prohibited from offering such services in the country!

After months of preparatory work by Sotheby's Chinese trademark counsel, An, Tian, Zhang & Partners, as well as by Cowan, Liebowitz & Latman, P.C. in New York and Sotheby's in Hong Kong and London, extensive and voluminous evidence relating to use of the SU FU BI mark was gathered. Gathering evidence of local use of a mark is of fundamental importance to a well-known mark claim. It is therefore key for outside counsel to liaise and coordinate with local counsel and a client's in-house personnel in the particular jurisdiction. Parties should allocate considerable time and resources to collect such evidence.

There were also various complications due to the unique structure of the Sotheby's business. As mentioned above, Sotheby's operates as a conglomerate in more numerous countries all over the world, including the United States, the United Kingdom and Hong Kong. Operations in Mainland China are managed by Sotheby's Hong Kong, although Sotheby's UK was the plaintiff in the lawsuit. During trial, Sichuan Sufubi argued that since Sotheby's Hong Kong carried on business in Mainland China, any use of the SU FU BI mark in China could not be attributed to Sotheby's UK. Sotheby's had to demonstrate to the Court that the Hong Kong and UK companies were in fact related and that the Hong Kong company was authorised to use the SU FU BI mark. In the absence of any counterevidence, the Court accepted Sotheby's contentions. It is, therefore, extremely important for multinational companies that operate through subsidiaries in Asia in general, and China in particular, to analyse ownership and use issues with local counsel so that there are no surprises during trial.

Another matter that came up during the pendency of the lawsuits at the Beijing Intermediate People's Court was Sichuan Sufubi's jurisdiction objection. Sichuan Sufubi, as stated above, is incorporated in Sichuan Province. Sotheby's brought the lawsuits in Beijing. Consequently, Sichuan Sufubi argued that Beijing Courts did not have jurisdiction to decide the cases. During the preparatory phase, this objection was expected and discussed extensively. There was a general consensus that Beijing should be the venue for the lawsuits because Beijing courts, unlike courts in other Chinese provinces, had more experience with trademark issues. However, how could we get jurisdiction in Beijing?

Fortunately for Sotheby's, a follow-up investigation of Sichuan Sufubi revealed that it was planning to hold an exhibition in a Beijing hotel. Investigators were sent to the hotel on the date of the exhibition and they were able to "notarize" the exhibition. This was sufficient to bestow jurisdiction on a Beijing Court and the Beijing Intermediate People's Court threw out Sichuan Sufubi's objection. So, it is important not to stop tracking a potential defendant's activities after the initial investigation because you never know what they may do that would help your case. Investigations could get expensive, however, so strategy with respect to continued investigations must be carefully plotted.



Significance of the decisions

Perhaps the most important aspect of this decision to the future of the Sotheby's brand protection strategy in the People's Republic of China is the Beijing Higher People's Court's recognition that SU FU BI is a "well-known" unregistered mark. The Court held that SU FU BI "is not a common or frequently used Chinese word" and had through continuous use and publicity by Sotheby's become well-known, and associated with Sotheby's in Mainland China. This recognition is accorded in rare cases and pursuant to this decision, Sotheby's is the only auction company, and one among few foreign companies, to have the distinction of such recognition. In making its determination, the Court found that, although Sotheby's had not held auctions in Mainland China under the SU FU BI name, for nearly 20 years it had provided services related to its auction services under the SU FU BI name, including advertising and exhibitions, with the ultimate goal of developing its SU FU BI brand and setting up a representative office in Mainland China.

The Court also paid special attention to continuous references by the media to Sotheby's as SU FU BI as well as articles that spoke to the long history of Sotheby's.

There was some question during the litigation that a section of the Chinese media refers to Sotheby's as SUO SI BI (in Chinese characters). SUO SI BI (in Chinese characters) is another transliteration of Sotheby's. However, the Court found that such usage was not widespread, so

consumers recognised SU FU BI as referring to Sotheby's. In addition, the Court referred to a decision rendered by the China International Economic and Trade Arbitration Commission Domain Name Dispute Resolution Center in a dispute brought by Sotheby's in which the Center held that "the trade name SU FU BI was a well-known mark in China." This reference may signal that it is important to police .CN and .COM.CN domain names in Mainland China.

The issue of Chinese transliterations of marks can be extremely tricky for foreign brand owners and must be given special attention not only when a brand owner is contemplating entering the Chinese market, but also afterwards. At the pre-entry stage, the appropriate Chinese transliteration must be devised. Subsequently, the brand owner must ensure that the same transliteration is used uniformly both in advertising and in the media so that consumers associate that transliteration with the brand owner.


The Beijing Higher People's Court also emphasised that the vast differences in the types of articles auctioned by Sotheby's and Sichuan Sufubi did not lessen Sichuan Sufubi's liability for infringement. Although the decision does not discuss this issue length, we can only conjecture that this finding emanates directly from its finding that SU FU BI is well-known and, therefore, entitled to a broad scope of protection.

Another factor that may have helped is that in Chinese practice, the auction service category is not sub-divided into further sub-categories. However, this may not be true for every category of goods and services. Consequently, it is possible that,

despite presenting compelling evidence of use of a mark in Mainland China in connection with one category of goods and/or services, a brand owner may not be able to stop an infringer that is using a similar or identical mark in connection with goods and/or services that are classified in another category.

A further interesting aspect of the decisions is the treatment of evidence presented by Sotheby's relating to Sichuan Sufubi's incorporation of a company called HK Christie's International Auction Co. Ltd and Sichuan Sufubi's application to register the mark NA GAO (in Chinese characters), which translates as NAGEL, a mark owned by a German auction house. Although the decisions made reference to this evidence, they did not explicitly state that these pieces of evidence proved Sichuan Sufubi's bad faith. Perhaps this was because in Chinese practice the standard required to establish bad faith generally tends to be higher than that required under US practice. Thus, foreign brand owners who are contemplating action in China must always supplement such "obvious" bad faith evidence with other evidence to make their cases.

Conclusion

The two decisions give useful pointers for foreign brand owners. The bottom line is that factors such as transliterations, venue and procedural issues that are peculiar to China must be given special attention. Moreover, it is important to provide evidence of local use of a mark. 

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Notes

- 1 Cowan, Liebowitz & Latman, P.C. has represented Sotheby's in its worldwide trademark matters for several years and the author is responsible for all prosecution and enforcement matters relating to the SOTHEBY'S mark.
- 2 Sotheby's did, however, engage in promotional activities relating to its auction services in Mainland China.
- 3 Sotheby's was established in 1744 in London, UK