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Exporters to China remain positive as new balance comes out tops in trade mark tussle

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American multinational New Balance has recently been awarded the highest amount in damages to a foreign entity in trade mark infringement proceedings in China in a cautionary tale for South African exporters for which Asia is their fastest growing market.

The ruling could signal a shift in the Chinese court's approach to brand protection, compensating and ruling in favour of the rightful owner, even it is a foreign entity.

The infringing "N" logo on the sport shoes sold by three Chinese companies was so blatant that it might be expected that the court could only have decided to award New Balance, US damages of $1.5million (R19.42m). But history for foreign companies doing business in China tells a different story. South African born Elon Musk's Tesla was forced to settle with a local Chinese businessman, Apple paid $60m to settle the iPad debacle against a local company who had registered the name, and basketball superstar Michael Jordan left defeated after a two year battle with a local sportswear business. These are just a few examples of when the courts do not uphold repute outside of China, even when there is a strong case for them to do so.

SA Businesses

Asia is South Africa's largest export market and continues to grow year on year. South African wines are particularly popular in China and are a good example of where SA businesses have previously run into trade mark troubles when they have discovered their trade marks were being used in China by others.

It is estimated that South Africa's wine industry is worth more than R26billion with China as South Africa's six largest export market and growing. A lot is at stake and South African businesses stand to lose substantial amounts should they run into trade mark and intellectual property problems. The ruling in favour of New Balance, however, should undoubtedly be seen by South African exporters as refreshing and should prompt brand owners to ensure all brands are protected.

Why Is This Important?

Like many other countries, trade mark registrations in China are based on a first-filed system, which means that the party first to file becomes a holder of the trade mark, regardless of whether they are authorised to do so.

While most may not regard themselves as a New Balance or an Apple, any foreign business doing business in China will know that it is necessary to engage the services of an agent or distributor in China.

Two Scenarios May Arise:

- There is a growing trend for agents/distributors to register trade marks without authorisation, meaning that should you wish to challenge the registration of the trade mark you would need to enter dispute cancellation proceedings demonstrating an act of bad faith on the part of the agent.
- Your newly appointed agent may be reluctant to act because another party has registered the trade mark, albeit in bad faith, requiring your assurances for customs clearances.

Be Proactive

Trade marks are territory and class specific by nature, meaning that if you are exporting your product to a territory outside of South Africa it is necessary to ensure that your trade mark is also protected in that country.

Trade mark registration in South Africa doesn't infer trade mark protection outside of South Africa.

This is particularly important in a country such as China, which handled more than 3.6million trade mark applications in 2016 alone.

While a large portion of trade marks are filed by international corporates, many applications are also filed by local Chinese businessmen and entities who are brand savvy, and are aptly referred to as trade mark squatters.

Best Practice

- Identify primary markets and conduct trade mark availability searches for both core and new marks.
- Apply for and register your trade mark.
- Monitor competitors and the market.
- Use your trade mark and prevent others from potentially cancelling your mark for non-use.
- Renew your trade mark.

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