

Brief

Starbucks Wars: Chinese Courts Say “No Hitch-Hiking Allowed”*

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Coffeehouse culture has hit China, most visibly in the form of Starbucks outlets spreading across major cityscapes, controversially even breaching the *sanctum sanctorum* of the Forbidden City, as the company seeks to penetrate (or arguably to create) a lucrative PRC coffee-drinking market. The alacrity with which Chinese urbanites have taken to coffeehouses has provoked Chinese and foreign observers alike to theorize about the meaning of this development. Is it an indicium of deep social change, or merely another instantiation of existing trends of rampant consumerism and faddish adoption of Western ways? Some, perhaps hoping to see rather more in this, ask whether it might have implications for political evolution. Others argue (approvingly or otherwise) that it should primarily be viewed through the lens of globalization, an example of yet another massive American brand pushing into China.

However, Starbucks has also been a victim of its own success. Many who could imagine themselves as coffeehouse *habitués* can ill afford 17 *yuan* for an espresso. But nature abhors a vacuum, especially in commerce, and thus it was not surprising that more affordable alternatives sprang up to service aspiring Chinese coffee-drinkers of more limited means.

In Qingdao and Shanghai, amidst the rash of *echt*-Starbucks outlets, two *ersatz*-Starbucks businesses – evidently unconnected with each other – opened. They adopted nearly identical methods to attract customers, in disregard of Starbucks’ intellectual property rights (IPR): they registered business names using the words “Xingbake” (星巴克), which the real Starbucks uses in China as its Chinese name; they festooned menus, business cards, windows, cups and receipts with “Starbucks” or “Starsbuck” (*sic*) as well as Xingbake; they sold drinks bearing Starbucks-registered names like Frappuccino and Yukon Blend; and they appropriated with scant modification the distinctive melusine logo which consumers across the world associate with Starbucks.¹

No-one familiar with Starbucks could have really believed they were in a genuine outlet, but for those who cannot afford Starbucks’

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1. There were some differences in the way the two defendants utilized Starbucks’ branding, but these differences are not material for present purposes.

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prices, perhaps “near enough is good enough,” and the stores attracted custom, no doubt on the basis of Starbucks’ familiar branding. Determined to protect the value of its brand from these cut-rate simulacra, Starbucks initiated lawsuits before the Qingdao and the Shanghai courts, claiming loss on three grounds: (1) infringement of its registered trademarks; (2) infringement of its marks’ status as “well-known trademarks;”² and (3) unfair competition in violation of the PRC Anti-Unfair Competition Law (*fan bu zhengdang jingzheng fa* 反不正当竞争法).³ Starbucks sought monetary damages and an order that the defendants cease their infringing acts.

In judgments issued⁴ respectively by the Qingdao and Shanghai courts in October 2005 and December 2005, Starbucks won⁵ and the defendants were ordered to cease infringement. The rhetorical characterization of infringement urged upon the courts by Starbucks’ lawyers found favour at least in Shanghai, where the court excoriated the defendant for “hitch-hiking” (*da bian che* 搭便车)⁶ onto Starbucks’ trademarks.

But as will be discussed below, the courts’ judgements, although based on overwhelmingly similar facts and considering identical legislation and international treaties, nevertheless differed in important ways: the Qingdao court ruled that infringement of Starbucks’ prior registered trademarks had occurred, and that it was therefore unnecessary to make a finding with regard to the grounds of well-known trademarks and unfair competition, but in a judgement which followed Qingdao’s by a matter of weeks, the Shanghai court found for Starbucks on all three grounds.

Although not wholly innovative, these judgements (especially the Shanghai one) garnered much media attention in China and abroad. Why? One element must have been the prominence of Starbucks, which (like McDonalds and a few other highly distinctive American

2. Such status would confer protection even if registration was defective for some reason. It is not clear from the Qingdao judgement that this second ground was pleaded, but this seems implicit from the written reasons.

3. Because courts are unpredictable, plaintiffs often “plead in the alternative,” advancing several bases on which the court should find for them. Then, if one of the court’s reasons for judgement should be overturned on appeal, the survival of other grounds for judgement may help make the judgement “appeal-proof.” It was sensible for Starbucks to assert infringement of its registered IPR, *and* unfair competition and entitlement to WKTm status. The WKTm argument would serve as security in the event the claim of prior registration was rejected by the courts, but would also buttress Starbucks’ international IPR strategy: WKTm recognition could furnish a useful support in future litigation outside of China, should the company one day be forced to assert a WKTm basis of entitlement to protection (in the event, say, of legally ineffectual registration of one of its trademarks in one of the more than 120 countries where it has filed for registration).

4. The Qingdao judgement was published on the court’s website at <http://www.qdmc.gov.cn/admin/cpws/html/20061181108107.htm>. The Shanghai judgement has not been publicly issued, because the case is under appeal. There has been limited informal circulation, however, and the author has read it.

5. The awards in each case were for 500,000 *yuan* plus legal and other costs.

6. The concept of “hitch-hiking” has been frequently used by Chinese courts in intellectual property cases.

brands) appears emblematic of a process of “globalization” the definition of which may be woolly, but the contestation of which seems to be intrinsically newsworthy.⁷ The travails of iconic American brands bestriding the Chinese market make good media theatre. Another explanation for the extent of Chinese domestic coverage is that China wishes to be seen to be upholding IPR protection.⁸

However, the mere fact that the Qingdao and Shanghai courts upheld a foreign plaintiff’s IPR does not make these cases noteworthy. Over the last few years, in a China which strives to parade its compliance with World Trade Organization (WTO) IPR commitments, many infringement cases have been won by foreign brand-holders. Moreover, it is not just in China that two courts hearing similar evidence and applying the same laws will arrive at different conclusions.⁹

Rather, these cases are worth examining because, taken together, they illuminate significant issues in China’s handling of IPR protection following its accession to the WTO, especially in the treatment of claims for protection based on well-known trademarks, or “WKTMs.” They also highlight the changing nature and functioning of Chinese courts.

Before discussing the actual decisions, it will be useful to take a brief excursus into the legal issues concerning unfair competition and WKTMs in China.

*Legal Issues*¹⁰

Anti-Unfair Competition Law (AUCL). The stated objective of the AUCL was “to safeguard the healthy development of the socialist market economy, encourage and protect fair market competition,

7. This is not to suggest the defendants in these cases were motivated by “anti-globalization” convictions.

8. One needn’t have to argue that the media must have been responding to specific official directives or “guidance” to publicize this and similar cases showing China upholding IPR, although the media has indeed been generally encouraged to do so. By now, the media have internalized the policy thrust on this issue, and where – as here – powerful Party or State interests do not appear to have been involved in the impugned infringing activity, there is no down-side to carrying such stories. Perhaps most importantly, now that most Chinese media have to be profitable to thrive, stories about controversial plaintiffs like Starbucks sell papers.

9. Yet many Chinese lawyers bemoan the inconsistencies. In an article on the Supreme People’s Court’s *Application of Laws in the Trial of Civil Disputes over Conflicts of Intellectual Property Rights*, one firm’s website states: “It is unacceptable for our country, which has a consistent legal system, to allow for situations in which two cases with identical fact patterns and petitions may come to completely different outcomes simply because the two cases were decided in different jurisdictions” (see http://www.kingandwood.com/Bulletin/IP%20Bulletin/Issue%20April%202006/bulletin_2006_4_en_ipla.htm).

10. For purposes of brevity, and in the belief that there is value in a discussing these issues other than in specialist legal terms, the author has exercised some compression in treating the legal issues discussed in the following paragraphs.

prohibit unfair competition, safeguard the legal rights and interests of enterprise operators.”¹¹ Its promulgation, a year or so after Deng’s Southern tour (*nan xun* 南巡) let slip the dogs of market forces, was timely. With the sudden surge of poorly regulated commercial activity, conflicts around issues of unfair competition began to multiply.

The AUCL was the vehicle for several legislative objects,¹² but we are concerned with Article 5, which prohibits: “passing off” (creating a misleading impression of association with another’s trade name or brand); unauthorized use of well-known names or goods in order to confuse buyers or customers; unauthorized use of enterprise names of others; and falsely using symbols of famous goods.

In the restraint of unfair competition, the AUCL contemplates a role for administrative authorities and, at Article 20, for the courts as well, before which suits may be brought. However, the lack of clear rules specifying the respective roles of agencies and courts, coupled with the traditional deference of PRC courts to administrative agencies, led to procedural confusion and had a partially dissuasive impact on the willingness of some judges to invoke the AUCL.¹³ Despite these difficulties, the principles enshrined in Article 5 have in fact played a significant role, featuring in a number of court decisions,¹⁴ including the Shanghai Starbucks decision.

WKTMs. Prior to its accession to WTO, China was already a signatory to the Paris Convention, of which Article 6bis requires member-states’ trademark registration authorities to give recognition to “famous” mark owners from other member-states, and to cancel conflicting domestically registered marks. It is also open to litigants to seek recognition of this right through lawsuits alleging infringement, as Starbucks did.

However, the Convention did not establish clear criteria for determining WKTm qualifications, and Chinese authorities long interpreted this imprecise obligation as requiring marks to be

11. Article 1, Anti-Unfair Competition Law of the PRC, 1 December 1993.

12. It ushered in a country-wide system of administrative supervision over a plethora of market practices, including a number of anti-competitive practices. It was also designed to restrain unfair procurement practices and other forms of bureaucratic intervention in an economy more command-oriented than it is now. In the years since its promulgation, it has been supplemented by anti-unfair competition provisions in a number of discrete legislative texts, such as the 24 July 2001 “Interpretation by the Supreme People’s Court of Several Issues Relating to the Application of Law in Adjudication of Cases of Civil Disputes over Domain Names on Computer Networks,” but the AUCL is by no means a dead letter.

13. In response, the Supreme People’s Court sought to give clearer direction to courts by promulgation of the 12 October 2002 “Zuigao renmin fayuan guanyu shenli shangbiao minshi jiu fen anjian shiyong falü ruogan wenti de jieshi” (“Interpretation Concerning the Application of Laws in the Trial of Cases of Civil Disputes Arising from Trademarks”), applied by the Qingdao and Shanghai courts.

14. In addition to trademark cases, the AUCL has been successfully argued in a number of cyber-squatting suits. See <http://www.iprights.com/publications/articles/article.asp?articleID=46> and www.inta.org/downloads/brief_ikea.pdf.

well-known *in China* before being considered “famous.” Since most Chinese were not familiar with foreign languages or foreign trade names, this effectively precluded meaningful application of this treaty obligation.

Compared with the Paris Convention, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which China entered into pursuant to its WTO accession, provides clearer standards for WTO member-states. It requires China to domestically recognize, as WKTM, trademarks not registered in China but which *are* WKTM in another member-state.

To comply with these obligations, China revised its Trademark Law in 2001,¹⁵ clarifying the factors for determining whether a mark is a WKTM: public reputation; length of time of continuous use; consecutive time, extent and geographical area of advertisement; the record of protection of the mark as a WKTM; and any other factors relevant to the mark’s reputation.

These criteria leave much room for interpretation. Most of the marks administratively accorded WKTM status by the State Trademark Office were Chinese-owned, with the exception of a very small number of American brands.¹⁶ It has remained difficult for foreign brand-holders to obtain WKTM protection by the Chinese courts. For example, in November 2003, a Beijing court rejected the claim that the Toyota logo was a well-known trademark in China, holding mystifyingly that “automobiles are high-price commodities. If a customer buys one, he will thoroughly understand its brand, performance, price and maker. So he can tell Geely’s Meiri logo from Toyota’s logo.”¹⁷

As with the AUCL, the courts may be reluctant to grant WKTM recognition because the State Trademark Office has powers to declare WKTMs. Courts may be showing deference by not making orders where the agency itself has declined to act.¹⁸ Yet, the courts do sometimes act, and seem to be more willing to do so than previously. Prior to the Starbucks Shanghai case, courts have recognized WKTMs in a number of cases.¹⁹ For example, in 2001 Proctor and

15. With effect from 15 September 2002.

16. Sustained US pressure on China over IPR has assisted the relative success of American companies in achieving recognition. However, this only serves to underscore the politicization of law in China. The US Government continues to criticize China for its IPR protection record. See http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file921_8938.pdf at p. 14.

17. *Court Rejects Toyota’s Accusing Geely of Logo Infringement*, Int’l Fin. News, 25 November 2003. See *China’s Protection of Famous and Well-known Marks: the impact of China’s latest Trademark Law reform on infringement and remedies*, Alisa Cahan, 12 Cardozo J. Int’l & Comp. L. 219, an article containing several insightful observations.

18. Court judgements would need to be analysed to determine when and why courts determined trademarks to be WKTM where the Trademark Office had rejected those claims. The difficulties in carrying out such an analysis are evident. More generally, analysis of what Chinese courts do is bedevilled by the patchy public disclosure of judgements.

19. See Alisa Cahan, *op.cit.*, and *Swiss Montres Rolex S.A. v. Beijing CINET Information Co Ltd*, at <http://www.ccpit-patent.com.cn/News/2001110701.htm>.

Gamble obtained WKTm recognition of its “Safeguard” trademark from a Shanghai court, the court finding that its achievement of well-known status and registration in China, US, Germany, France, Japan, Australia and elsewhere justified putting Safeguard in the WKTm category. The court also found the defendant had committed unfair competition.

Despite such successes, courts in many other recent IPR cases have found for plaintiffs on infringement but declined to recognize brands as WKTm even where the evidence suggested it might have been reasonable to do so.²⁰ The record of Chinese courts thus remains inconsistent with regard to implementation of both the PRC Anti-Unfair Competition Law and the WKTm concept, as the Qingdao and Shanghai Starbucks judgements show.

*The Judgements*²¹

Starbucks Corporation v. Qingdao Xingbake Coffee Food & Beverage Co Ltd was launched by Starbucks in the face of what it felt was egregious misappropriation of its trademarks. The defendant’s principal responses were:

- it used Xingbake as an enterprise name (which had been duly approved by the relevant business registration authority) and not as a trademark; since Starbucks does not normally use the name “Xingbake” in China, there was no infringement;
- it had in fact enjoyed prior use, ahead of Starbucks’ use or registration of its trademark in China, because, it claimed, it had applied for registration of its enterprise name before Starbucks had registered the trademark “Xingbake”;
- Starbucks was not a WKTm;
- its actions did not constitute unfair competition.

The court made the following findings:

- all Starbucks’ trademarks were registered by Starbucks before the infringing business was even incorporated;
- the defendant had indeed registered its enterprise name, but a precondition to its legitimate use is that it should not damage the lawful interests of others. There is indeed a distinction between a business name and a trademark, but the defendant itself deliberately obscured that distinction and could not rely on it, because its use of the name was not for purposes of a business name, but rather a misappropriation of Starbucks’ name in order to confuse the public

20. Such cases have involved Chanel, Prada, Burberry, Louis Vuitton, Gucci, and Dunhill. Of course, all these cases should be read carefully before passing judgement over the respective courts’ decisions.

21. These judgements are lengthy; the discussion below concentrates only on main points, simplifying the issues to avoid excessive technical discussion.

and attract customers, and was thus a violation of the Trademark Law.

However, regarding WKTm and unfair competition, the court stated it was unnecessary to consider these issues because:

- WKTm claims should only need to be made if the plaintiff alleges infringement by use of marks in registration classes other than the classes of registered marks which the plaintiff actually possesses²² (in other words, where there is not registration in the relevant class). That was not the case here.
- The impugned acts of unfair competition are exactly the same acts which constitute infringement of Starbucks' trademarks.

It is clear from the written judgement that the court reviewed the evidence in detail. However, in the end the court adopted a narrow approach, confining itself to findings sufficient to establish liability on the part of the defendant solely on the basis of infringement. This does not appear to reflect any particular regard for the defendant by the court, which observed that the defendant had been uncooperative in providing information about its profits, which would have assisted the court in determining the appropriate level of damages to award.

In *Starbucks Corporation et al. v. Shanghai Xingbake Coffeeshop Co Ltd*, the court took a more expansive view of the issues it believed it should consider and rule on.

Much as in the Qingdao case, the plaintiff argued that:

- Starbucks had registered the names Starbucks and 星巴克 (Xingbake) in China and around the world;²³
- the brand is a WKTm;
- the names "Starbucks" and 星巴克 (Xingbake) are intimately connected and form a single entity, in that they are equally well-known in China;
- Starbucks' trademarks and logo are WKTm; and
- the impugned behaviour was a violation of the AUCL, as well as the Trademark Law and the General Principles of Civil Law.

The defendant advanced a number of arguments, including:

- it had applied for registration of its enterprise name before Starbucks had registered its trademarks;
- any resemblance between Xingbake and Starbucks was purely accidental and unintentional – in fact, the defendant was previously

22. By way of illustration, example of registration classes include chemicals, machinery, clothing beverage, etc.

23. The court cited not just registration around the world, but also in Hong Kong and Taiwan, thus basing the finding on international registrations and both actual and asserted Chinese sovereignty over sub-national jurisdictions.

unaware of the name Starbucks and had chosen the name because it reminded him of the Chinese name of a character from *The Lion King*;

- Starbucks is not a WKTМ in China.

The court did not merely reject these arguments; it dismissed them contemptuously in terms which must have been gratifying for Starbucks to hear, ruling that:

- Yes, the defendant had *applied* to register its name before Starbucks had achieved registration in the PRC of its trademarks, but Starbucks achieved that registration before the enterprise name registration was *granted*.
- The defendant's assertions about the inspiration for the name were completely far-fetched (*shifen qianqiang de* 十分牵强的).
- On the basis of a detailed examination of the revised Trademark Law WKTМ criteria (discussed above), it was crystal clear that these marks were WKTMs.
- The impugned behaviour violated the AUCL, the Trademark Law and the General Principles of Civil Law.

The Courts

Chinese courts now face new challenges as they strive to resolve increasingly complex disputes arising from rapid economic and social change, and as the impact of China's WTO obligations makes itself felt. The legislative sources on which judges can draw to craft their judgements have also become more complex.

Whilst Stanley Lubman's nuanced and perceptive analysis of Chinese courts²⁴ retains much salience, there has been real improvement recently in the educational level of judges, and in the courts' handling of civil cases, at least where neither significant state interests nor personal interests of Party officials are in play and where fundamental policies are not threatened. In a situation in which courts often lack clear doctrinal guidance, they experiment. Indeed, it has been noted that we are witnessing a significant "ground-up development" of the courts, which often produce higher quality opinions than in the past, and show an increasing willingness to innovate in fashioning their judgments.²⁵ They increasingly look horizontally to other courts for guidance, rather than looking up the hierarchical chain towards higher-level courts. Whilst the problem of Party committee involvement in judgements remains, there is much evidence that more and more judges are trying to operate like judges.²⁶

24. See *Bird in a Cage: Legal Reform in China after Mao* (Stanford: Stanford University Press, 1999) especially pp. 250–97.

25. This and some of the other points in this paragraph were suggested by Benjamin Liebman in an unpublished paper he delivered at a China law conference in Oxford, September 2006.

26. Even if, as Donald Clarke has suggested, it is arguably misleading to call Chinese courts "courts," and Chinese judges "judges." See "Puzzling Observations in

Clearly, such developments do not occur on a uniform basis across China. It would be wrong to read too much into just two cases, but it is tempting to think that these judgements show courts at different stages of a process of increasing sophistication, professionalism and judicial creativity. For litigants, perhaps only the results matter, but for the development of the law, *reasons* also matter. The Qingdao court has ruled in the narrowest and indeed most cautious and conservative terms possible. The Shanghai court has drawn on the broader range of remedies now available to Chinese courts, to the extent that the courts are bold enough to use them.

footnote continued

Chinese Law: When Is a Riddle Just a Mistake?" in C. Stephen Hsu (ed.), *Understanding China's Legal System* (New York: New York University Press, 2003): 93–121, at pp 97–99.