

Landmark Judgement for Starbucks in Chinese IPR Case

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The protection of intellectual property in China has long been high on the list of concerns for innovative foreign companies looking to do business there. What little legal framework existed around intellectual property rights (IPR) has been difficult and time-consuming to enforce. There are signs, however, that the situation may be improving for companies which use trademarks, logos and branding in the People's Republic.

In a recent case, newly amended Chinese trademark legislation was put to the test when the American speciality coffee retailer Starbucks accused a local Shanghai company of copying their trading name and logo.

Starbucks opened its first Shanghai outlet on Huaihai Road on May 4, 2000, building on the success of its dozens of stores across Taiwan and the rest of mainland China. Shortly prior to this opening, a local company had registered its own business name – Xingbake Coffee Co. Ltd. – with the Shanghai authorities. By 2003, the Chinese firm had opened two outlets in Shanghai using the trade name 'Xingbake'.

The legal dispute between Starbucks and their local competitor arose because 'xing' translates from Mandarin as 'star' and 'ba-ke' is an approximate phonetic rendition of 'bucks'. Although Starbucks does not officially use this rough translation in China, the word 'Xingbake' has become synonymous with the US firm's outlets amongst the public.

Starbucks considered that, by trading under a similar name and by the use of a very similar green and white logo, Shanghai Xingbake was competing unfairly. On this basis, Starbucks filed a law suit against Xingbake in Shanghai on December 23, 2003, alleging trademark infringement.

In reply to the accusation, Mao Yibo, General Manager of Xingbake, said that his company has registered its enterprise name with the Shanghai authorities in March 2000, before Starbucks was established in the region. By using the name 'Xingbake', he claimed that his company was simply using its legitimate title instead of a trademark.

Mao denied that the name of his company and its logo had been influenced by their Seattle-based rival. "We invented 'Xingbake' as our brand when we planned to start a café business in Shanghai and it is just a coincidence that our name is the same with Chinese version of Starbuck [sic]", he said. "The logo was designed by our own staff. To be frank, I hadn't heard of Starbucks at the time, so how could I imitate its brand or logo?"

Chen Naiwei, director of the Intellectual Property Research Centre of Shanghai's Jiaotong University does not accept this, explaining that 'Xingbake' has been used as the sole translation of 'Starbucks' in Taiwan since 1998. This predates the registration of Xingbake's enterprise name in Shanghai by two years.

Despite Mao Yibo's claims and his further assertions that Xingbake's serving style and target market differ substantially from those of Starbucks, Shanghai No. 2 Intermediate People's Court found in favour of the American giant on December 31, 2005 – two years after the law suit was filed.

Shanghai Xingbake was ordered to stop using its name, issue an apology in a local newspaper and pay 500,000 Yuan (US\$62,000) in compensation to Starbucks.

The basis of the Court's decision was the relatively newly amended Trademark Laws of the People's Republic of China, which came into force on October 27, 2001. The amendments form part of a raft of revised legislation introduced to protect the owners of intellectual property in China. Under the new laws, the Court determined that the name 'Starbucks', written in Chinese or English, was sufficiently well known to be deemed a famous trademark and was, therefore, entitled to protection.

This ruling is the first of its kind under the new legislation and may be an indication that China is responding to pressure from the European Union and the United States to crack down on IPR infringements and counterfeiting. China is believed to be the source of around 70% of the world's pirated goods at a cost of around US\$250bn each year to US companies alone.

In a statement released on January 18, Jiang Zian, the attorney for Shanghai Xingbake confirmed that the company had already begun an appeal against the judgement in the Shanghai Higher People's Court. Jiang explained that Xingbake does not use the English translation 'Starbucks' and had no plans to counter claim against their competitor for using the same Chinese name. "The problem is they use Xingbake as the brand name in Chinese and we use it as our company name. We just want to keep our company name and run our own business", Jiang said. A spokesperson for Starbucks later confirmed that it would be defending itself against the appeal.

Starbucks now has 156 outlets in mainland China and has a presence close to some of the country's most iconic locations, including the Great Wall and the Forbidden City. At up to US\$6 per cup, the company's coffee costs more than the average Chinese worker makes in a day. Despite this, Starbucks coffee is increasingly popular with China's emerging urban middle class. **About the author** Thomas Moore is Director of Computer Forensics for TKM Technologies Ltd. – a UK firm providing computer forensics and data recovery services to corporate clients in Europe,

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