

Legal Risks and Solutions in the Process of Trademark Transfer of Multinational Corporations: Take IPAD as An Example

Zhouni Gong *

School of Economics and Management ChongQingJiaoTong University, Chongqing, China

* Corresponding author: Charleneqin1021@mails.cqjtu.edu.cn

Abstract. With the increase in global intellectual property trade, intellectual property infringement cases are also gradually increasing. This paper adopts the case analysis method to analyze the three problems faced by multinational enterprises in transferring intellectual property rights in the IPAD trademark case, such as unclear subject, unclear jurisdiction court, and complicated procedure and gives suggestions for solving these three problems.

Keywords: Intellectual Property Law, Trademark, Transfer.

1. Introduction

Trademarks play an essential role in a company, especially in multinational enterprises. A trademark could sell for tens of millions of dollars if the trademark was robbed by another legal holder who was not the original owner of the trademark. There is a noted case, called IPAD CASE, which shows how trademarks are important to a multinational enterprise.

It is known to all that Apple incorporated (hereinafter referred to as “Apple”) is one of the largest multinational enterprises in the high-tech area. IPAD is one of the major products of Apple. However, the trademark of “IPAD” belonged to another multinational enterprise, called Proview International Holdings Limited (hereinafter referred to as “Proview”), which produced and sold monitors. To deal with this trouble, Apple purchased the worldwide trademarks of “IPAD” from Proview under the name of IP Application Development Limited (hereinafter referred to as “IP”) for 35,000 pounds. Unfortunately, Apple missed a fact that trademarks of “IPAD” in China did not belong to Proview but belonged to Proview Technology (Shenzhen) Cooperation Limited [hereinafter referred to as “Proview (Shenzhen)”] which was a subsidiary of Proview. It meant Proview was not the owner of the trademarks of “IPAD” in China so Apple could not possess the trademarks of “IPAD” in China through the contract between IP and Proview. This had made it extremely difficult for Apple to sell IPADs in China. Subsequently, Apple sued Proview in Shenzhen and Hong Kong. Nevertheless, the court of Shenzhen and Hong Kong came up with opposite verdicts. In other words, Apple could not easily obtain the trademarks of “IPAD” in China through verdicts. Finally, Apple and Proview (Shenzhen) reached an agreement that Apple purchased the trademarks of “IPAD” in China from Proview (Shenzhen) for sixty million dollars, which was far more than the original purchase price [1].

The multinational enterprises are reminded of three vital problems about trademark transfer they have to confront through this case. This paper focuses on legal problems encountered by multinational enterprises in trademark transfer.

2. Existing problems

2.1. Undefined subject of trademark transfer

The first trouble which Apple faced was the indistinct owner of trademarks. There was different opinion between the Shenzhen court and Hong Kong court about this problem.

In the Hong Kong court’s opinion, the parent company colluded with the subsidiary company to seek enormous economic benefits. That was to say parent company had a right to transfer the possession of trademarks. One reason was whether parent company or subsidiary company, they both

were under Yang Rongshan's control, which was the legal representative of those two companies. Another reason was the Hong Kong court believed that Provview misled Apple in the process of selling. In other words, Provview misled Apple deliberately that Provview International Holdings Limited was the owner of the trademark "IPAD" in China.

About whether the Provview intentionally misled at the time of initial sales, there was a logical error in the Hong Kong court judgment. If Provview had deliberated intent at the time of initial sales, it would sell trademarks for a high price like sixty million dollars rather than three thousand and five hundred pounds.

In the Shenzhen court's opinion, the parent company and subsidiary company were independent legal entities, so the parent company could not transfer the trademarks validly. In addition, the contract between a parent company and IP was not binding on the subsidiary company because of the relativity of contracts. Provview was the counterpart of the contract, so Provview (Shenzhen) was not obligated to perform the contract. Thirdly, the action of the parent company's property of the company shall not be considered as the agency, because Apple did not provide relevant evidence that something could prove that Provview (Shenzhen) authorized Provview to sell trademarks on behalf of Provview (Shenzhen) [2].

Synthesizing the judgments of both courts, the truth could be found apparently. Firstly, Yang Rongshan was the legal representative of both the parent and subsidiary company, so he had a strong power to control the Provview group but not absolutely. Secondly, the parent company had no right to dispose of its subsidiary's trademark without authorization. Based on the above two points, whether the parent company and its subsidiaries collude maliciously becomes the key. The Hong Kong and Shenzhen courts took opposing views on this crucial piece of information.

Through the judgments of the Hong Kong court and Shenzhen court, a phenomenon worth thinking about is that the courts in Hong Kong and Shenzhen have completely different thinking. As a typical representative of the written law system, courts in mainland China (Shenzhen court in this case) tended to judge the case from the logical starting point of the affair, that is, the subject identity of trademarks in this case. The judges in the written law system judged whether the subject of trademark transfer was qualified from the two perspectives of "who is the legal owner of trademark right" and "whether the contract has binding force on the legal subject". On this basis, the judge would judge the subjective elements of the subject's behavior. The seriousness of the written law system to the subject made the judges of the written law system need to judge whether the parent company and subsidiary company constituted ostensible agency when considering the subjective elements. By contrast, case law judges (in this case the Hong Kong courts) tended to consider the merits of the case first. They did not pay too much attention to who is the legal owner of the trademark right but directly judged whether there was the intention and behavior of malicious collusion between the parent company and the subsidiary company so that the transferee of the trademark would pay a huge price for being cheated. The two thinking paths showed two completely different judicial value orientations: the formerly paid attention to the order that a single judgment ensured predictability of other persons; the latter focused on fairness and whether the current case can achieve fairness and justice.

This paper does not discuss the advantages and disadvantages of the two legal systems, but the question of court selection in trademark transfer cases of multinational corporations. Radically different approaches to the trial led to the second question, how to determine the jurisdiction court for transnational trademark transfer disputes?

2.2. Undefined jurisdictional issues

As you can see from the IPAD trademark case, the Shenzhen court and the Hong Kong court both had jurisdiction and had made completely different decisions. If the result of this case was not finally settled through mediation, the situation of "same case, different judgment" would seriously affect the execution of the judgment result. As intellectual property rights circulate more and more frequently around the world, the legal conflicts of intellectual property rights become more and more obvious,

and issues such as the jurisdiction of foreign-related intellectual property cases and the place where the protection is requested also need to be solved urgently.

Take this case as an example, the first thing to be resolved is whether the Shenzhen court and the Hong Kong court had jurisdiction? The courts in Hong Kong shall have contractual jurisdiction according to the jurisdiction stipulated in the trademark transfer agreement signed by Provview and IP Company, while the courts in Shenzhen shall have exclusive jurisdiction according to the registration place of the disputed trademark.

So, when two courts have jurisdiction, how to solve the problem of parallel jurisdiction? The traditional conflict norms of torts include the place of infringement, the law of the place of court, and the place of protection requested, but these conflict norms are still vague and cannot solve the problem of the simultaneous existence of multiple jurisdictions [3]. Among them, the definition of “protected place” is vaguer and interferes with the determination of jurisdiction of intellectual property infringement cases.

The ambiguities created by multiple jurisdictions seem to be resolved by two new treaties: the American Law Institute Principles on Jurisdiction, Applicable Law, and Recognition and Enforcement of Judgments in Intellectual Property (ALI Principles); and the Proposal of European Max Planck Group for should be Conflict of Laws and Intellectual Property (CLIP Proposal) [4].

According to the “principle of the first court” established in intellectual Property rights: Principles of Jurisdiction, Choice of Law, and Judgment in Transnational Disputes (hereinafter referred to as the “ALI Principles”), the later court should suspend the proceedings before the earlier court determines the jurisdiction. According to Article 2.402 of The Principles of Conflict of Intellectual Property Law (hereinafter referred to as the “CLIP Principles”), intellectual property rights based on registration, such as patents and trademarks, are subject to the exclusive jurisdiction of the right registration place. Courts other than the right registration place have negative obligations and must respect the exclusive jurisdiction of the right registration place. In addition, Articles 2.701 and 2.706 of THE CLIP Principle more clearly define the issue of parallel jurisdiction. It not only inherits the principle of “the first court to hear” of the ALI Principle but also provides exceptions: (1) courts with exclusive jurisdiction; (2) The judgment of the court first accepted cannot be recognized and enforced by other states; (3) The court that accepts the case first fails to enter the proceedings within a reasonable time; (4) The court that accepts the case first decides not to continue the trial [5]. In other words, according to the CLIP Principle, when the courts in both places have jurisdiction, the IPAD trademark case conforms to article 2.402 and the first exception of the “Court of first Acceptance principle”, and the Hong Kong court should respect the exclusive jurisdiction of the Shenzhen court. Exclusive jurisdiction is superior to contractual jurisdiction in this case.

Once jurisdiction is established, it does not mean that the applicable law is the law of the place of court and that the place of action and the place of protection sought cannot simply be equated. In this case, the law applied by the two courts is also widely different, resulting in different outcomes. The ALI Principle gives the parties a large independent right to choose but has special requirements for disputes over the existence, validity, ownership, and infringement of intellectual property rights: the rights requiring registration shall be subject to the law of the place of registration, while the non-registration rights shall be subject to the law of the place of protection requested. The CLIP Principle stipulates that the law of the place of the court shall be applied to procedural issues, and the law of the place of protection requested shall generally be applied to the existence, validity, registration, scope, and duration of intellectual property rights.

It should be noted that “the law of the place where protection is requested” does not mean “the place where litigation is instituted”. For example, when a party sues in country M for trademark protection in country N, the law of country N shall apply. Even if the case is filed in Hong Kong, the law of Mainland China, where the trademark in question is claimed, should be applied.

2.3. Incomplete procedure of transfer

As a kind of intellectual property right, the intangible characteristics of a trademark make multinational companies need to pay attention to its change mode in the process of trademark transfer [6]. Through the literature review, it can be known that there are three modes for the change of intellectual property rights in the world at present [7]. The key difference lies in the effectiveness of registration for the change of intellectual property rights.

The first is the idealist model. As the name of the model suggests, the key to the idealist model is the subject's expression of meaning, which exterior expression is the contract. The change of intellectual property is based on the contract. The effectiveness of the contract means that the expression of meaning is conveyed, which means that the intellectual property is changed accordingly. The contract of copyright transfer, copyright licensing, and patent licensing in China all belong to the changing mode of an idealist.

The second is the model of registration antagonism. The entry into force of the contract is still the basis of the antagonism model, but in this model, the registered change of intellectual property rights can fight against the third party in good faith, conversely, the unregistered change of intellectual property rights cannot fight against the third party in good faith. In French law, the right to register a trademark, the right to apply for a patent, and the transfer of patent rights all fall under this model. The change of copyright in Japan, the change of copyright in the United States, and the trademark licensing contract in China also belong to this pattern.

The third is the model of registration validity which is also the most rigorous model of intellectual property rights change. Only registered and publicized changes in intellectual property rights can take effect. That is to say, the right to adopt this mode not only affects the counterpart of the contract but also affects other relevant public, so registration is needed to ensure the right to know of relevant stakeholders. In China, the transfer of the patent right, trademark right, and the establishment of intellectual property pledge all adopt the model of registration validity.

In the case of the "IPAD" trademark, Apple transferred the trademark of "IPAD" all over the world in a large quantity with one contract, so it must consider the difference in trademark right change mode in various countries. The offices set up in each region would have been specifically dispatched to deal with the trademark transfer procedures so that the action of Apple's trademark transfer in this region could conform to the effective conditions if Apple was very careful about that. If the effective requirements of specific regions could be determined before signing the contract, and the behaviors requiring the cooperation of the transferor could be written into the contract content, the subject ambiguity similar to that in the "IPAD" case could have been avoided as far as possible.

In addition to the problem of unclear subjects, the transferee also faces more risks in the transfer mode of registration validity doctrine. For example, in another case, trademark owner A and assignee B signed a trademark transfer contract, agreeing to transfer 70 trademarks. Now 20 trademarks had been transferred, and company B had paid the transfer fee. However, as company A failed to repay its debts to company C, company C filed a lawsuit and applied for a freeze on 25 trademarks of company B. These 25 trademarks were exactly the subject of the transfer agreement between Company A and Company B, which not only made the remaining trademarks that had not been transferred unable to be transferred but also led to the rejection of the trademarks that were in the process of transfer by the Trademark Administration. The procedural nature of trademark transfer makes the assignee's uncertain factors increase and the risk is greater.

3. Suggestions

3.1. Suggestions for the unclear subject of rights

In the process of actual operation, the work of confirming the trademark owner should be completed in the early stage of the enterprise signing the contract. Due diligence is often referred to

in the work of enterprises. After a detailed investigation, enterprises should confirm the following issues when signing trademark transfer contracts [8]:

(1) Who is the owner of the transferred trademark? Is it the assignor of the contract? The most important difference between a registered trademark and an unregistered trademark is not that it can bring goodwill, but that it prevents others from using it [9]. As in the IPAD trademark case, Proview (Shenzhen) can block IPAD sales in mainland China by claiming ownership of the trademark. The importance of finding out who owns a trademark before signing a contract is not that Apple can use it only if it owns it, but that it is not prohibited from selling it.

(2) Are there any other trademarks that are the same or similar to the transferred trademark? According to paragraph 2 of Article 47 of the Regulations for the Implementation of the Trademark Law of the People's Republic of China, identical or similar trademarks shall be transferred at the same time to ensure that the transfer of trademarks will not cause confusion or other adverse effects. If the same or similar trademarks are not transferred together, the transfer will be declared invalid by the Trademark Office.

(3) Are there any other circumstances on the transferred trademark that may affect the transfer or normal use of the trademark? For example, if the transferor is in debt, the trademark may be used as collateral, thus affecting the transfer or normal use of the trademark; For example, the death or termination of the trademark owner; For example, whether the transferred trademark has been preserved. These circumstances are likely to affect the transfer or normal use of the trademark.

3.2. Recommendations on issues of unclear jurisdiction

The existing solution to this problem is the signing of international treaties, such as the ALI Principles and the CLIP Principles, both of which lay down in some detail the methodology for determining priorities when multiple jurisdictions coexist. However, the two treaties are limited in the number of countries that can be bound by them, and they come from two completely different enacting organizations. Although there is inheritance in content, there is not the full inheritance in organization membership. This has resulted in inadequate understanding and invocation of the two more explicit treaties by courts in various countries and regions of the world.

The solution proposed by EDWARD LEE to these problems is to establish a unified international intellectual property law under THE framework of THE World Intellectual Property Organization, The Global Trademark Treaty (hereinafter referred to as GTM Treaty) [10]. Unlike previous treaties, the GTM treaty does not set a minimum standard but will specify how some intellectual property legal conflicts should be resolved. This is a good and ideal vision, which can effectively improve the foresight of multinational companies in intellectual property trade.

Until this vision is realized, a more practical solution may be to expand the popularity of the ALI and CLIP Principles and to improve the understanding of the courts of Member States.

3.3. Suggestions on legal risks arising from trademark transfer procedures

The process of trademark transfer has caused great risks to the assignee of the trademark, and any factors that may cause public confusion, such as the inability to transfer the same or similar trademarks together, may make the transfer invalid. Different factors have different solutions. While solving the core problem, ensuring the transferee's use of the trademark is also an important issue.

At the same time as signing the transfer contract, the assignee and the transferor sign an exclusive license to ensure that the timely transfer procedure cannot be carried out smoothly, and the assignee can also use the trademark normally [8]. In order to prevent other unknown risks, the exclusive license fee is not recommended to be paid in a lump sum. Multinational companies can adopt installment payment mode, and part of the royalty is reflected in the transfer fee, leaving part of the balance payment after the completion of the transfer, so as to greatly reduce the great risk that the transferee bears in the trademark transfer procedure.

4. Conclusions

The information on transnational intellectual property trade has some obstacles in circulation, which easily leads to the lack of clear subject in trademark transfer. The difference in intellectual property law in different countries leads to a dispute in the jurisdiction of intellectual property dispute cases. The changing pattern of intangible assets also causes commercial risks in the transfer process. Based on the above three problems faced by multinational companies in the process of trademark transfer, multinational companies need to make a detailed investigation before signing the trademark transfer contract, including the owner of the trademark, the state of power on the trademark, etc. Multinational companies also need to sign an exclusive license contract when signing the trademark transfer contract to reduce the risks in the process of trademark transfer and ensure that the transferee multinational company can use the trademark.

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