



NEWSLETTER

LIFANG & PARTNERS 立方观评

No.261

2021.08

Special Trademark Edition

In this special Lifang & Partners Newsletter, we share a collection of 5 articles that we contributed to the International Trademark Association (INTA) over the first half of 2021. These articles cover a range of issues in trademark law and practice and we sincerely hope that our readers find them both useful and informative.

If you have any questions about our articles or anything else, please feel free to contact us. Our email address is info@lifanglaw.com and our telephone number is +86 106 409 6099.

Contents

Punitive Damages Clarified, Six Exemplary Cases Released

Key Issues in Deceptive Trademark Cases Clarified

Beijing Higher People's Court Dismisses AWS Appeal

Nation Sets Up Fourth IP Court

Valuing Trademarks in China: A Perspective on Common Methods

Punitive Damages Clarified, Six Exemplary Cases Released

Published: May 26, 2021

Yan Zhang, Lifang & Partners, Beijing, China

Geographic Indications Committee—GI Governance Subcommittee

Verifiers

Jian Xu, Beijing, China

INTA Bulletins—China Bulletin Subcommittee

Albert Tsui, Dentons, Beijing, China

INTA Bulletins—Asia-Pacific Subcommittee

The Supreme People's Court (SPC) issued the *“Interpretation of the Supreme People's Court on the Application of Punitive Damages in the Trial of Civil Cases of Infringement on Intellectual Property Rights”* (the Interpretation) on March 3, 2021, effective immediately.

The Interpretation contains specific guidance to Chinese courts on awarding punitive damages in intellectual property (IP) rights infringement cases. The SPC followed with six exemplary judgments (the Six Judgments) to provide guidance on applying the Interpretation. The Interpretation gives both general guidelines and concrete circumstances that explain the double condition for punitive damages, that is, intentional and serious infringement.

According to the Interpretation, two conditions must exist before applying punitive damages: (1) the defendant must have acted with willful intent; and (2) the circumstances of infringement must be *“serious.”*

The Interpretation specifies that the following circumstances will be considered *prima facie* as rendering the infringement *“intentional”*:

- The defendant continues infringement after being notified and warned by the plaintiff or interested parties;
- The defendant, its legal representative, or manager, is the legal representative, manager, or control-

ler of the plaintiff or other interested party;

- Where there is a relationship between the defendant and the plaintiff or other interested party in terms of labor, service, cooperation, licensing, distribution, agency, and representation; and the defendant had access to the infringed IP rights;
- The defendant and the plaintiff or other interested party engaged in transactions or contract negotiations; and the defendant had access to the infringed IP rights; or
- The defendant has committed acts of piracy or counterfeiting of trademarks.

The above circumstances are not considered exhaustive, and the guidelines give courts discretion to recognize other circumstances in finding infringement to be *“intentional.”*

Courts may find circumstances deemed *“serious”* if the following are true:

- The defendant conducted identical or similar infringing acts after receiving an administrative penalty or being subject to a court judgment for IP rights infringement;
- The defendant's business activity depends on conduct amounting to IP infringement;

- The defendant has forged, destroyed, or concealed evidence of infringement;
- The defendant refuses to comply with a preservation ruling;
- The infringement has resulted in sizable profits for the defendant, or losses for the rights holder; or
- The infringement may endanger national security, public interest, or personal health.

Again, the above list is not exhaustive, and the guidelines give courts flexibility to recognize other circumstances in finding infringement to be “serious.” The Interpretation also provides guidance on calculating punitive damages that follows specific Civil Code rules and IP laws, including the Anti-Unfair Competition Law, Copyright Law, Patent Law, and Trademark Law.

Exemplary Judgments

On March 15, the SPC released the Six Judgments to provide guidance on how to apply the Interpretation.

The SPC raised concern with local courts awarding punitive damages inconsistently and aims to give guidance to the courts through these judgments.

In the Six Judgments, all courts unequivocally stated that two elements form the basis for awarding punitive damages: (1) the defendant’s “intentional” infringement and (2) the “serious” circumstances of the accused infringing activities. Many situations or conditions that constitute willful conduct or serious circumstances as regulated in the Interpretation are discussed in the Six Judgments.

The Six Judgments also set precedent for factors to be considered in calculating punitive damages and the determination of a punitive multiplier, including the IP

rights owner’s losses, the defendant’s profits, and licensing fees. Among the Six Judgments, two doubled the award on punitive grounds, three tripled the award, and only one SPC case imposed the maximum multiplier of five. The SPC is inclined to guide Chinese courts to render a multiplier of two or three in punitive damages.

Of the Six Judgments, five concerned trademark infringement and one related to trade secrets. None of the judgments involved copyright, patents, or other forms of IP protected under the Chinese Civil Code. While the Trademark Law adopted punitive damages in 2013, it has only been adopted and regulated with respect to other IP rights in the last two years. There is currently a lack of precedent in those areas.

The SPC is expected to publish more exemplary judgments addressing copyright, patents, and other IP-related infringements in the future. This will give courts further guidance in granting punitive damages for infringements of these IP rights.

**This article was first published by the International Trademark Association on inta.org.*



Yan Zhang
Partner of Lifang & partners
Practice Areas:
Intellectual Property
yanzhang@lifanglaw.com

Key Issues in Deceptive Trademark Cases Clarified

Published: June 9, 2021

Yan Zhang, Lifang & Partners Law Firm, Beijing, China

Geographic Indications Committee—GI Governance Subcommittee

Verifier

Albert Tsui, Dentons, Beijing, China

INTA Bulletins—Asia-Pacific Subcommittee

The Beijing Intellectual Property Court (BJIPC) held a briefing on March 31, 2021, on administrative cases involving trademark applications that contain deceptive elements. Summarizing different types of deceptive content in trademarks, the BJIPC identified six common factors, along with precedential cases for each.

The BJIPC disclosed that over the past three years, it tried more than 1,000 administrative cases involving refusals to register allegedly deceptive trademarks and upheld over 81 percent of rejections. The low reversal rate demonstrates the consistency between the BJIPC and the Trademark Office on this issue.

The BJIPC explained that under China's Trademark Law, a trademark is considered deceptive if it contains misleading commodity characteristics (such as quality, components, or technique) or sources (including place of origin and business name). Examples of misleading geographical sources include the following:

- A country or place name in an application made by an applicant from another country or place in circumstances where such a name is not subject to the prohibitions under Article 10.1.1 and Article 10.1.2 of the Trademark Law;
- The words comprising the mark suggest a Chinese or foreign geographical name subject to the prohibition under Article 10.2 of the Trademark Law by using similar-sounding or similar-looking words or characters that might mislead the public; and
- The mark comprises or contains other geographical names not subject to the prohibition under Article 10.2 of the Trademark Law that might mislead the public.

The BJIPC introduced the following six factors that the

court shall take into account when identifying deceptive trademarks:

- Deception should be determined objectively, not only by mere subjective intent of an applicant;
- Whether the mark is deceptive and misleading should be considered in the context of the designated goods or services;
- A likelihood of misleading the public is a requisite factor, but not that the public is actually misled;
- The public's common sense and cognitive ability should be taken into account;
- Deception is an absolute, not relative, ground of refusal. The deceptive term shall not apply to cases when a third party's right is infringed; and
- A deceptive mark shall never acquire registrability through use.

This briefing not only clarifies the law pertaining to deceptive marks but also provides leading cases as guidance for practitioners.

**This article was first published by the International Trademark Association on inta.org.*



Yan Zhang
Partner of Lifang & partners
Practice Areas:
Intellectual Property
yanzhang@lifanglaw.com

Beijing Higher People's Court Dismisses AWS Appeal

Published: February 17, 2021

Zhimin (Grace) Gong, Lifang & Partners, Beijing, China

INTA Bulletins Committee—China Bulletin Subcommittee

Chris Fung, Lifang & Partners, Beijing, China

Verifier

Yueqin (Cathy) Wu, Watson & Band, Shanghai, China

INTA Bulletins Committee—China Bulletin Subcommittee

Amazon.com, Inc., and a codefendant in China were ordered in a judgment released December 30, 2020, to cease use of AWS trademarks in the country and pay millions in damages and expenses to a domestic Chinese company.

The Beijing Higher People's Court issued its judgment in the case Beijing Yanhuang Yingdong Technology Development Co. Ltd. v. Amazon ICT services (Beijing) Co. Ltd., and another, (2018) Jing Min Chu No 127.

Beijing Yanhuang Yingdong Technology Development Co. Ltd. (Yanhuang), the plaintiff, is the owner of the Chinese-registered AWS trademarks, nos. 4249189, 8967031, and 8967030, the first of which dates back to September 2004. The trademarks cover several classes of goods and services. Amazon ICT services (Beijing) Co. Ltd. (Amazon), the defendant, is an affiliate of Amazon.com, Inc., and Beijing Sinnet Technology Co. Ltd. (Sinnet), the second defendant, entered an operation agreement with Amazon in August 2016. Both defendants used the mark "AWS logo" and "AWS" to refer to Amazon Web Services, such as in "AWS cloud computing services," "AWS technology," "about AWS China," and "AWS is a comprehensive, evolving cloud computing platform provided by Amazon that includes a mixture of cloud infrastructure and cloud computing services for businesses across the world." In July 2018, Yanhuang lodged a lawsuit asserting that Sinnet and Amazon infringed upon its exclusive rights to the AWS trademarks.

In the judgment, the Court considered two main issues: (1) Did Amazon and Sinnet infringe upon Yanhuang's trademark rights? (2) If infringement occurred, what

liability should Amazon and Sinnet bear?

The Court dismissed Sinnet's claim that they used "AWS" only as a technical term, rather than as a trademark. It noted that the AWS marks displayed on the defendants' websites and WeChat accounts should be considered as identifying the source of goods or services, and therefore were sufficient to constitute trademark use.

The AWS marks used by Amazon and Sinnet are either similar to or the same as the plaintiff's trademarks for infringement purposes, with the same letters, same pronunciation, and an indistinguishable meaning.

Cloud and computer software are similar products or services, considering their purpose, content, means, customers, and sales channels.

The concept of "confusing and misleading" includes not only the likelihood of defendants' goods or services being mistaken as the trademark owner's goods or services, but also the other way around. The latter applies in this case, considering Amazon's reputation, and the plaintiff had evidence to prove this.

Regarding the first issue, the Court made its decision using a four-step test:

1. Is the defendants' use of the marks considered trademark use?
2. Are the defendants' marks similar to the plaintiff's registered trademarks?
3. Are the defendants' goods or services bearing the marks similar to the goods or services designated for the registered trademarks?
4. Was any confusion caused?

Regarding the second issue, the Court found that Amazon and Sinnet should bear joint responsibility to stop their infringing use of the AWS marks, make a declaration in China Intellectual Property News to remove any adverse effect caused by their infringement, and jointly pay damages amounting to 5 percent of Sinnet's profits made from providing cloud services in 2017 and 2018.

It is noteworthy that the Court eventually awarded double punitive damages based on two factors:

Amazon Technologies filed an application for AWS MARKETPLACE that was rejected in 2013 on the basis of a citation of Yanhuang's no. 4249189 trademark "AWS." Amazon Technologies, Inc.'s application for

"AWS and device" in 2017 was also rejected due to Yanhuang's "AWS" marks. This demonstrates Amazon's knowledge of the plaintiff's prior trademarks and as a result, is regarded as evidence of malicious conduct.

Amazon and Sinnet delayed the proceedings by abusing their procedural right and pursuing jurisdiction objection on obviously untenable grounds, further exacerbating the plaintiff's losses.

**This article was first published by the International Trademark Association on inta.org.*



Zhimin (Grace) Gong
Associate of Lifang & partners
Practice Areas:
Intellectual Property
zhimingong@lifanglaw.com



Chris Fung
Foreign Legal Counsel
of Lifang & partners
cfung@lifanglaw.com



Nation Sets Up Fourth IP Court

Published: February 10, 2021

Grace Gong, Lifang & Partners, Beijing, China

INTA Bulletins—China Bulletin Subcommittee

Verifier

Maggie Yang, Corner Stone & Partners, Beijing, China

Brands and Innovation Committee—Content Subcommittee

China launched its fourth specialized intellectual property (IP) court with the inauguration on December 31, 2020, of the Intellectual Property Court of the Hainan Free Trade Port (HIPC). The court began accepting cases on January 4, 2021, the first working day of the year.

The IP court in Hainan follows Beijing, Shanghai, and Guangzhou, all of which were established in 2014. It is the first to have jurisdiction to conduct three-in-one IP trials involving civil, administrative, and criminal matters.

Exercising jurisdiction over Hainan Province, the HIPC hears the following types of cases:

- Specialized and technology-intensive, first-instance IP civil and administrative cases relating to patents, trade secrets, computer software, new plant varieties, integrated circuit layout designs, recognition of well-known trademarks, and anti-monopoly disputes;
- First-instance civil, administrative, and criminal IP cases previously under the jurisdiction of Hainan's intermediate courts except those under the preceding paragraph;
- Appeals against civil, administrative, and criminal judgments and rulings in IP disputes made by lower courts; and
- Other types of cases as may be determined by the Supreme People's Court of China.

Appeals of HIPC decisions are made to the Hainan Province Higher People's Court. However, the Intellectual Property Tribunal of the Supreme People's Court directly hears appeals involving invention patents or utility models, new plant varieties, integrated circuit

layout designs, trade secrets, computer software, and anti-monopoly disputes. Art. 2(1) of Regulation of the Supreme People's Court on Several Issues Concerning Intellectual Property Tribunal, Fa Shi [2018] No. 22.

The HIPC is the latest initiative to consolidate and strengthen IP cases in China, in particular by consolidating trials of civil, administrative, and criminal IP cases.

The Hainan Province was selected as the seat of China's fourth IP court for a reason. China's southernmost province, Hainan has embarked on a new and accelerated phase of development since June 2020, and now is the largest special economic zone in China. Moreover, the island is being turned into a free trade port (FTP), providing special policy support and tax incentives to businesses. Hainan is targeted to be a globally significant FTP by 2050, and investment is surging. Investors from 80 countries and regions, including all G20 countries, invested in Hainan last year, double the number in 2019. The HIPC will contribute to enhancing IP protection in the development of the Hainan FTP.

**This article was first published by the International Trademark Association on [inta.org](https://www.inta.org).*



Zhimin (Grace) Gong
Associate of Lifang & partners
Practice Areas:
Intellectual Property
zhimingong@lifanglaw.com

Valuing Trademarks in China: A Perspective on Common Methods

Published: June 16, 2021

Chris Fung, Beijing Lifang & Partners Law Firm, Beijing, China

By one measure, the value of the top 100 brands in China has steadily risen over the past decade and increased 12 percent last year alone. (Kantar, Brand Z China Report). According to Brand Finance's 2021 brand ranking, Chinese brands accounted for 20 percent of total brand value. Other measures may tell a different story.

In the knowledge-based economy, businesses increasingly value intangible assets such as brands, leading to questions of how they are valued and lessons about valuation models. This article looks at the brand valuation models used in China, where the highest number of trademark applications are received worldwide.

A discussion of Chinese laws, regulations, and practices contribute insights into this topic should be of interest to brand owners and professionals in all jurisdictions. The methods used in China are in line with those commonly used globally.

In China, trademark valuation is primarily done by appraisal professionals "who have passed the appraiser qualification examination." Art. 8, Asset Appraisal Law. They use various methods, alone or in combination, to value trademarks and produce appraisal reports. Understanding such methods will help report-users to understand the basis for valuation, object to the content of such reports, and seek corrections.

Some trademarks have real monetary value and allow brand owners to distinguish themselves from others, charge a premium or sell more of their products or services, or gain some other commercial advantage. These advantages can increase revenue, are a good measure of a business's ability to sell a product or service, and can boost shareholder value.

There are three basic appraisal methods, namely, the cost approach, market approach, and the cash flow approach. The accounting method and the royalty relief method are considered derivative methods. The Notice of the China Appraisal Society on Promulgation of the Revised Guidelines for Intellectual Property Asset Appraisal states that "Whoever carries out ... intellectual property asset appraisal shall analyze the applicability of the ... basic methods and choose an appraisal method... [appropriate for the] purpose, appraisal target,

type of value and document collection, etc." Xong Ping Xie, 2017, No. 44, Art. 23.

As a matter of general practice, the author prefers using revenue rather than profit for valuation since profit is arguably easier to manipulate, as shown in the example below:

Courier Company wants to license the trademarks for KD Express (which is famous for logistics and delivery services) from KD Co. Courier Company values the trademarks based on KD Co.'s profits and industry growth projections. However, KD Co. has been depreciating the value of its vehicles and other assets over a period that is longer than the lifespans of the assets. This reduces business expenses and inflates profits. Valuing the trademark based on the reported profits of KD Co. would inflate its value.

Although revenue is harder to manipulate, people can manipulate it, nevertheless. Accordingly, valuation report users should be financially literate and evaluate such reports with a critical eye.

Cost Approach

The cost approach focuses on the question:

How much would it cost to develop a similar brand?

This approach considers a brand's value as equal to its owner's investment in marketing and advertising. Using this approach can be challenging and may require guesswork or access to the target brand's accounts. The difficulty of this method can correlate with the age of the company.

Consider the following, based on a real example:

In 2019, a brand was valued at around US \$80 billion. To achieve this, the brand had to invest money in marketing and advertising, develop and deliver products, and survive since its founding in the nineteenth century.

Imagine the daunting task of reviewing more than 100 years of accounts. Sometimes judgment calls must be made during valuation.

Another issue is when a valuable brand suffers damaging blows. Consider an airplane manufacturer. Its brand

could lose value if it experiences a series of fatal crashes.

Accordingly, the cost approach may be suitable for brands that have not faced any significant crises.

Market Approach

When you buy or sell a house, the price is often determined by the price of similar properties. At auctions, the price is determined by what others are bidding.

The market approach is based on the prices that others have paid or would be willing to pay for an asset. The asset's characteristics are not always considered, but external factors are. Because the asset being valued is not essential in this approach, some consider this to be a method of pricing rather than valuation.

This method depends on suitable comparators and market data. However, finding a suitable comparator might be trickier than one might imagine. For instance, under this approach, the brand above was valued at US \$69 billion in 2019, while a competing brand was valued at US \$11 billion. This represents a big difference in what might be perceived by some as similar brands and complicates comparison.

In bullish environments, the market approach leads to the overvaluation of assets, while in bearish situations, it leads to undervaluation. Moreover, such valuations include implicit presumptions that cannot be clearly expressed, such as public optimism or economic growth. Regardless of its weaknesses, this approach is easy to understand, making it popular in many situations.

According to the Guidelines, the market approach “*is usually chosen for the purpose of capital contribution, transfer, licensed use or other transactions.*” The author suggests that those seeking valuations always request a secondary method in addition to this one because markets can behave unpredictably.

Cash Flow Approach

The cash flow approach treats an asset's value as equal to the value of all cash flows from that asset discounted to present values. This approach is less popular as it can be challenging and depends on the explicit assumptions of the evaluator. However, it is a rational model that considers inherent value based upon asset characteristics.

Discounting cash flows to present value raises issues that are best highlighted by a simple example:

In October 2000, the cost of rice was around US \$6 per

hundredweights (CWT). By 2020, that price had reached around US \$12.

Perhaps many readers have noticed during their lives that the cost of things increases and that the buying power of money often decreases. This phenomenon also affects the value of trademarks. A comprehensive trademark valuation should consider this by discounting the value of future cash flows, which should at least equal the cost of capital.

During cash flow-based valuations, we should also consider how a trademark will generate future cash flow. This can be difficult and subject to assumptions, such as inflation, revenue growth, royalty rates, changes in brand premium generated by a trademark, the renewal and continued existence of the trademark, and the trademark owner being rational.

Unfortunately, predictions are less accurate the further into the future they go. After all, 10 years ago, who could have predicted what 2020 would be like? Consider the brands that have risen or fallen in value over the last decade.

The Guidelines recognize this problem, noting that “*the reasonableness of the future earnings forecast shall be comprehensively judged by considering the factors such as the reasonable production scale, market share, technical and management level of the appraisal target.*”

Accordingly, because it is difficult to predict the future, predictions should be based on the risk profile of the person relying on the valuation. A 10-year outlook is the general practice. Predictions can go further into the future for those who are risk-loving than for those who are risk averse. Suitable assumptions must be considered on a case-by-case basis. As a rule of thumb, stable businesses have more distant prediction horizons, while volatile businesses should have shorter ones.

To put things in perspective, consider the following example:

Premium Brand sells for 1 more than Generic Brand. Premium Brand has a brand premium of 1. Sales of Premium Brand were 100 in 2020. Analysts predict sales will increase by 10 percent per year for the next 5 years. We will assume that, after 5 years, growth slows to 1 percent. For simplicity, it is assumed that there is no cost in maintaining Premium Brand. The weighted average cost of capital of 5 percent shall be our discounting factor.

Using the discounted cash flow method, as shown below, the Premium Brand trademarks are worth 3,862.37.

| VALUATION FOR PREMIUM BRAND | | | | | | | |
|---|------|----------|----------|----------|----------|----------|-----------------|
| Weighted Average Cost of Capital | 0.05 | | | | | | |
| Predicted Sales Growth Rate for 5 Years | 0.1 | | | | | | |
| Predicted Annual Sales Growth After 5 Years | 0.01 | | | | | | |
| 2020 Sales | 100 | | | | | | |
| Price Premium | 1 | | | | | | |
| Year | 0 | 1 | 2 | 3 | 4 | 5 TV | Total |
| Sales Growth | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.01 |
| Price Premium | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total Price Premium | 100 | 110 | 121 | 133.1 | 146.41 | 161.051 | 162.6615 |
| Discount Factor = 1/(1+WACC)^Year | 1 | 0.952381 | 0.907029 | 0.863838 | 0.822702 | 0.783526 | 0.783526 |
| Present Value = Discount Factor * Total Price Premium | 100 | 104.7619 | 109.7506 | 114.9768 | 120.4519 | 126.1877 | 676.1288 |
| | | | | | | | 127.4495 |
| Weighted Average Cost of Capital - Growth After 5 Years | | | | | | | 0.04 |
| Total Price Premium/(Weighted Average Cost of Capital - Growth After 5 Years) | | | | | | | 3186.239 |
| Trademark Value | | | | | | | <u>3862.368</u> |

Validation for Premium Brand cash flow table

The weighted average cost of capital (WACC) refers to the weighted average cost of debt, often in the form of interest paid, plus the cost of capital, which is the rate of return expected by investors.

The following is used to calculate WACC:

$$WACC = \text{Cost of Equity} \times \text{Percent of Equity} + \text{Cost of Debt} \times \text{Percent of Debt}$$

Growth figures often come from sales forecasts produced by marketing teams. Therefore, one might wish to adjust for the natural optimism that a marketing team might have, perhaps with the assistance of the organization's finance team.

Note that this valuation method uses explicit assumptions, such as growth, WACC, and other things. These explicit assumptions can have an impact on negotiations and lead to disagreements over details.

Accounting Method

Another approach is the accounting method, which refers to the recorded book value of a trademark. This can be considered a derivative of the other methods as it refers to historic values. Such recorded values might have been obtained from an old transaction and lack relevance today. Moreover, under traditional accounting methods, an internally developed asset may lack value until sale or disposal, which creates problems in practice.

Consider the following example from the author:

| Year | 1 | 2 | 3 | 4 | 5 | Total |
|---------|-----|--------|--------|--------|--------|--------|
| Royalty | 105 | 110.25 | 115.76 | 121.55 | 127.63 | 208.19 |

Note: Net present values (NPVs) are equal to future values for simplicity.

You plant an acorn and it grows into an oak tree. Under traditional accounting methods, said oak tree has the same value as the acorn until sold. The oak tree is obviously more valuable than the acorn. However, by accounting convention, the oak tree has an equal value to the acorn.

A 2018 article by Travis Fairchild (O'Shaughnessy Asset Management, USA) highlights the real-world implications of the accounting method on brands. It provides comparisons between estimated brand values for 15 well-known companies. From his article, it is easy to see that this approach often results in undervaluation. Sellers should be wary of this method.

Royalty Relief Method

The royalty relief method is a common brand valuation method and is also known as the royalty saving method. It can be considered a derivative of the cash flow method. It uses the present value of future royalties for valuation. Future royalty payments can be limited to a specific time frame.

Consider the following example:

Drinks Co., a drinks maker, pays Blue Cow for a license to use the Blue Cow trademarks. Drinks Co. pays Blue Cow annual royalties for the license. The latest annual royalty was 100, and records show that it has steadily increased by 5 percent over the last few years. Royalty payments are predicted to grow steadily for the next five years.

If Blue Cow were willing to sell its Chinese trademarks to Drinks Co. for less than 580.19, it would be a good price for Drinks Co. However, if it sold its trademark for more than 580.19, it would be a bad purchase price.

A would-be trademark purchaser that is not a licensee will have difficulty using this method. Moreover, the practice of making license agreements confidential compounds this difficulty.

Selecting the Right Valuation Method

All these methods have strengths and weaknesses. So, which method is best? The author opines that the best valuation method is the one that achieves your objectives. For instance, if you are the seller or a seller's representative, you should use the valuation method that will help you to realize the best price. However, discovering what is the best method may require using and comparing multiple methods.

Collaboration and Use

Chinese appraisal professionals should work in collaboration with others. The circular about the Relevant Issues on Strengthening the Administration of Intellectual Property Asset Assessment states the following:

When carrying out the intellectual property assessment, an asset assessment institution may employ the experts in the aspects of patent, trademark, copyright and etc. to assist in the work, but the legal liabilities of the asset assessment institution and its certified asset assessors cannot thus be mitigated or exempted. (Art. 2, para. 2.)

Accordingly, a trademark valuation report should be produced by an appraisal professional in collaboration with intellectual property (IP) experts, such as trademark attorneys or other professionals qualified to talk about the validity of the IP. Such IP experts are often required to address the issue of trademark validity because invalidation reduces the value of a mark to zero. Where the risk of invalidation is unclear, the valuation can be risk adjusted.

Users should expect valuation reports to be produced by a collaborative multidisciplinary team so that they can obtain the best information possible. When a report is produced without the input of suitably qualified IP experts, users of reports should be wary. Report users might include a brand owner assessing the value of their trademark, or a potential buyer that wants to know the value of the trademark.

Reasons for using an appraisal professional include demonstrating fair value during transactions in which sellers face bankruptcy (Art. 31, Business Bankruptcy Law); showing due diligence to avoid negligence claims (Civil Code); or proving the discharge of obligations, such as making capital contributions (Civil Code, Business Bankruptcy Law, SPC Company Law Provisions II, III, and others).

Conclusion

Although trademark valuation can be challenging, it is more nuanced and concrete than some might believe. It is often carried out using multiple methods and might involve an appraisal professional working with others, including lawyers and accountants.

Those who own or work with trademarks must understand the conceptual basis for valuation and how valuation is done to better protect the interests of trademark owners, communicate with experts, and negotiate trademark deals. Additionally, one might need to disagree with the opinion of an appraisal expert. However, such disagreement can only be expressed by understanding how to value a trademark.

As the importance of brand value rises in China and globally, it has become increasingly important for brand owners and professionals to understand methods of valuation and apply them to suit their companies' needs.

**This article was first published by the International Trademark Association on inta.org.*



Chris Fung
Foreign Legal Counsel
of Lifang & partners

cfung@lifanglaw.com



ABOUT LIFANG & PARTNERS

Founded in 2002, Lifang & Partners is a full-service law firm with offices in Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan and Seoul, South Korea. We provide a full range of award-winning legal services covering intellectual property, antitrust and competition law, securities and capital markets, dispute resolution, and more.

With more than 70 partners and over 300 lawyers and other legal professionals, Lifang & Partners has formed a well-rounded and diverse team that provides one-stop, high value-added services. Many of our partners and lawyers attended top law schools in China and abroad. Some have worked in the central government, major regulatory commissions, the courts, or overseas in well-known international law firms or multinational companies. Through their exceptional educational backgrounds and rich practical experiences, they have enjoyed successful careers in their chosen fields of expertise. Chambers & Partners, the Legal500, ALB, and Commercial Law have recommended several of Lifang & Partners' lawyers on multiple occasions.

Believing in service, loyalty, diligence, efficiency, and professionalism, we provide excellent transactional and dispute resolution services that combine our in-depth understanding of China's legal, social and economic development with rich practical experience and a solid understanding of the challenges facing our clients.

立方律师事务所编写《立方观评》的目的仅为帮助客户及时了解中国法律及实务的最新动态和发展，上述有关信息不应被看作是特定事务的法律意见或法律依据，上述内容仅供参考。

This Newsletter has been prepared for clients and professional associates of Lifang & Partners. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.



Subscribe to our WeChat community
扫码关注公众号“立方律师事务所”和“竞争法视界”

北京 | 上海 | 武汉 | 广州 | 深圳 | 韩国
Beijing | Shanghai | Wuhan | Guangzhou | Shenzhen | Korea