Protection of Online IPR in China

Overview: China and the Internet

Internet usage is booming in China. With more than 384 million ‘netizens’, China connects more people to the Internet than any other country. In fact, every fourth person on the Internet is from China. The number of Chinese Internet users is expected to grow continuously over the next decade, facilitated by the increasing availability of broadband technology and the growing trend towards online shopping and purchasing. The Internet, therefore, is an attractive business and marketing platform for many European SMEs working with or in China.

Although the Internet acts as a gateway for European SMEs, it is also an ideal platform for infringers to sell counterfeit products and commit fraud. The Internet provides a low cost method of reaching consumers around the world without revealing identity or origin of operation, meaning that infringers can operate anonymously.

Why is domain name protection so important?

Companies operating in China face an increasing number of online threats such as fraud, counterfeit sales, false affiliation, phishing, slamming and traffic diversion.

These threats may at best lead to consumer confusion or lost web traffic but it could also result in lost E-mails, lost business, and in some cases, lawsuits from consumers against (genuine) IPR holders. In general, various online criminal activities may lead to brand dilution, increased risks, loss of business and an eventual loss of reputation (and ultimately profit). The omnipresent nature of the Internet means that even EU SMEs operating exclusively in their home markets cannot ignore the risks these activities may pose to their business, even if these activities originate in China.
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What are the risks of domain name infringement?

The classic form of domain name infringement is known as ‘cybersquatting’, which is when a person or entity with no legal rights to a particular domain name consciously (in bad faith) registers a domain name identical or similar to a third party company name, product name or trademark. The cybersquatter is taking advantage of the first-to-file principle that applies to domain name registrations, and is seeking to sell the domain name to its rightful owner at a high price. While cybersquatting continues to be a frequent occurrence, this is no longer the main motivation for infringers who register domain names infringing on third parties.

In recent years, ‘monetisation’ of domain names has become more common. Typically, this is registering domain names with misspellings, or typos of famous brands or company names. The registrant or the ‘domainer’ benefits from the traffic generated when people mistype a URL into a browser. If an Internet user mistypes the URL - i.e., types www.euroap.eu instead of www.europa.eu, the user reaches the website of www.euroap.eu, where the domainer can place a number of sponsored links. If the Internet user then clicks on one of those exposed links, the registrant of the domain name receives a portion of the advertising revenue paid by the advertiser. This practice of registering domain names with either legitimate attractive generic domains or infringing misspellings of brand names has increased to enormous proportions, and is a key factor in the massive growth of domain name registrations globally and in China.

Several factors used to make it easy and attractive for domainers to register domain names, both legitimate and illegal, in China.

- .cn domain names are very cheap compared to other top level domain (TLD) names. Prior to December 2009, .cn domain names were also relatively easy to register.
- .cn is divided into 34 regional TLDs such as bj.cn for Beijing and sh.cn for Shanghai and uses both Latin and Chinese Characters.
- The Internet is booming in China – spending on online advertising is increasing annually.

In addition to the threat of ‘typosquatting’, domainers also use fraudulent, counterfeit websites that may be using .cn domain names, as well as websites and E-mail addresses containing your brand name or variations of it. These registrations of infringing domain names occur in many forms: they may be correctly spelt under a regional suffix, misspelt, and/or in Chinese characters. These factors also make it somewhat more complicated for IPR owners to protect themselves online in China, compared to other countries and other top level domain names.

How can I protect my IP assets online and mitigate these risks?

Domain name disputes and other IPR lawsuits in China can often be a costly, time-consuming and complicated process. Therefore, it is strongly recommended that you proactively formulate a defensive domain name strategy to prevent problems from arising in the first place.

When creating and implementing an IPR protection strategy in China, online brand protection is just as important as protecting your trademarks, patents, copyrights, etc. It is essential to protect your company name, product names, services and trademarks through domain name registrations under the Chinese
Prior to December 2009, the .cn domain name had a fully automated registration process that barely required any validation of registration data. The Chinese domain name registry, China Internet Network Information Center (CNNIC) recognised the resulting issues and in an effort to curb the number of bad faith registrations, set stricter requirements for registering .cn domain names. It also introduced a number of control mechanisms for the .cn domain name space.

As of 14 December 2009, domain name registrations require the following:

- Only Chinese companies may register .cn domain names. As a foreign company, you may register for a .cn domain name only if you have majority ownership of a Chinese subsidiary. However, your Chinese subsidiary must be the registrant and the contact person must be a Chinese national.

- The following documents are now required:
  - Application form with business seal of applicant company
  - Copy of business certificate in China (plus a ‘Certificate of Organisation Code’)
  - Copy of identification of registrant contact person in China (must be PRC national)

- All the documents must be submitted within five days of the electronic application; otherwise the application will automatically be void and you must restart the entire process. You are not required to submit originals, nor are you required to submit copies of trademark certificates to prove a prior right to the requested domain name.

Unlike trademark registrations where there is a period of three months time when third parties may object to the application of a certain trademark, .cn domain names are registered within a few weeks without any opposition period.

It is currently uncertain if and when CNNIC will allow foreign-owned enterprises without a Chinese subsidiary to register .cn domain names again. It has stopped accepting domain name applications from foreign companies since mid-January 2010 and has explained it is looking for a way to validate foreign company certificates and the identity of a foreign contact person.

These new restrictions are both good news and bad news for European SMEs. On one hand, the new requirements now make cybersquatting more difficult. Unfortunately, the registration and operation of a .cn domain name is now a much more troublesome and expensive process for European SMEs. However, it is still possible to register .cn domain name using your European registrar, as long as your Chinese subsidiary is the registrant. If you do not have a Chinese subsidiary, you may want to consider using a trustee or ‘local presence’ service such as a Chinese law firm to register Chinese domain names on your behalf.

**What about .cn domain names registered before 14 December 2009?**

As of now, CNNIC has not given any indication that it will require existing .cn domain name registrants to retroactively submit required validation documents.
However, you are strongly recommended to ask your current registrar to monitor any .cn regulation developments as CNNIC may require a transfer of domain name ownership from a foreign company to a Chinese company in the future.

**How do I register a .cn domain name?**

You must first check if the particular .cn domain name is available for registration. You can use the CNNIC domain name registry to search for the availability of your desired .cn domain name at:

- Chinese – [www.cnnic.cn](http://www.cnnic.cn)

Domain name registration must be completed through an accredited .cn registrar. You must download an application form from the registrar website, sign and seal the application form with your company stamp, and send it (via E-mail, fax or print) to your domain registrar, including a copy of your Chinese business certificate, a copy of your ‘Certificate of Organisation Code’, and a copy of the passport or identification card of your local contact person, who must be a Chinese national. Please note that the required documents must be submitted within five days (not working days) of your electronic application by your registrar. Otherwise, you will have to restart the entire process.

The price of a .cn domain name is still quite affordable, ranging from EUR 40 and 80 per .cn domain name per year at European registrars. However, considering the increased workload due to the new regulations, these prices are also expected to increase. Some registrars offer an option for registering domain names for five or ten years at a time, which may be a cheaper option.

**When will China launch the new .中国 (.china) top level domain?**

On 28 April 2010, CNNIC announced that .china domain names were officially ready for use. By the very next day, more than 90% of Chinese ministries and provincial departments and more than 95% of news websites had already activated .china domain names. The domain name is available in both simplified (.中国) and traditional (.中國) characters, and allow Internet users to access websites and E-mail addresses in non-Latin local Chinese script.

**What will happen now that .中国 has been launched?**

CNNIC is confident that the new .中国 domain name will allow Chinese people who have not yet mastered the Latin characters to access the Internet more easily. The new .china top level domain name is also expected to further promote Chinese content on websites. The Chinese government is hopeful that this new top level domain will help to bridge the gap between the modern and industrialised Chinese cities and rural China.

Meanwhile, for European businesses, the new .china top level domain name (TLD) will provide a cheap and efficient way to reach Chinese consumers in their own language.

**What are the rules for registering .中国 domain names?**

While the exact regulations in registering new .china domain names have yet to be announced, CNNIC has said that the registrants of existing .cn domain names
with Chinese characters will be automatically granted with the same domain name using the .china TLD in both simplified and traditional Chinese.

The registration of a .china domain name in simplified Chinese will automatically give access to the same domain name in traditional Chinese and vice versa.

It remains unknown whether there will be a pre-application round (otherwise known as the ‘sunrise period’) for owners of Chinese trademarks and company names. Given the latest developments in the .cn domain name regulations, it is possible that the .china TLD will only be available to Chinese companies and Chinese nationals. However, there have not been any official statements made yet.

**How can I apply for a .china domain name?**

The new .china domain names are expected to become as popular as .cn and .com.cn in the next few years. European SMEs planning on entering the Chinese market or already in China are recommended to take the following steps:

a. Find a domain name registrar that offers .cn domain names (and eventually .china domain names)

b. Follow domain registrar newsletters to keep abreast of news about new regulations related to .china domain names

c. Apply during the sunrise period to secure domain names using your trademark or company name. In the case that only Chinese nationals are allowed to register and you do not have a subsidiary in China, consider using a trustee or ‘local presence’ service, such as a Chinese law firm to register .china domain names on your behalf

The cost for a .china domain name is expected to be the same as for .cn domain names. Foreign registrars should offer a .china domain name for approximately EUR 40-80. However, there may be additional costs during the sunrise period. Typically, these costs range between EUR 200-400.

**How do I choose a registrar?**

A list of accredited international registrars can be found here: www.cnnic.cn/html/Dir/2007/06/25/4671.htm

A list of Chinese registrars can be found here: www.cnnic.cn/html/Dir/2007/06/05/4635.htm

While registrars may vary in costs, it is strongly recommended that you choose a registrar you know and trust. Should you choose an unreliable registrar that suddenly ceases operation, your domain name could be lost and/or temporarily deactivated. However, you do not have to go directly to an accredited registrar. In most cases, your local domain name provider will have ties with accredited registrars and also offer .cn domain name registrations.
**Warning:** It is worth noting that a number of Chinese domain name providers are trying, in bad faith, to encourage European companies to register a number of Asian domain name extensions. These providers typically claim that they have received a registration request from another company who wishes to register domain names that is identical to your company name. This is a well known fraud operation known as ‘slamming’. The Chinese domain name provider is simply trying to persuade you to register a number of domain names in order to profit from such an order.

What to do? If you receive such an E-mail, you have four options:

1. Ignore the E-mail
2. Reply saying that you will report this E-mail to CNNIC as ‘slamming’ and an attempt at fraudulent activity
3. Forward the E-mail to CNNIC at service@cnnic.cn
4. Register some of those domain names you may have already considered registering through your local or usual registrar.

**Building Your Domain Name Strategy**

The Helpdesk recommends formulating and implementing an online brand protection strategy that is aligned with your general IPR and business strategies. In building the best domain name strategy for your company, you may consider using the following questions as a guide and base for discussion with your lawyer:
Domain Name Strategy

• What is the purpose of registering a domain name(s)?
  Reasons might include:
  Protection of IP
  Increasing visibility (online marketing)
  Infrastructure (E-mails, websites, intranet)
  Security (risk mitigation – avoiding lost E-mails, lost traffic, etc.)

Domain Name Audit

• Which domain names do we want to register?
• How are these domain names being used or how will they be used by our company? (Web content, E-mails)

Domain Name Policy

• Which domain names and keywords should we register?

Monitoring

• Which possibly infringing domain names are registered by third parties?
• Which websites are selling our products or eroding our brand?

Enforcement

• Should we recover a third party domain name?
• Should we attempt to remove an infringing website?
• What kind of legal action should we take, if at all?

How can one recover an infringing .cn domain name?

The national domain name registry has implemented the CNNIC Domain Name Dispute Resolution Policy. The cost for a domain name dispute case involving one to two domain names is approximately RMB 7,000, exclusive of attorney fees.

It is recommended you seek assistance from IP law firms – either Chinese or international – with expertise in domain name disputes. The main criteria for proving a prior right to a domain name are:

• The disputed domain name is identical to or confusingly similar to the complainant’s name or mark in which the complaint has civil rights or interests
• The disputed domain name holder has no right or legitimate interest in respect of the domain name or major part of the domain name
• The disputed domain name has been registered or is being used in bad faith

Note: A domain name dispute must be carried out within two years after the initial registration of the .cn domain name. After this period has lapsed, you must go through the legal system, which can be a timely and costly affair.

Take-Away Message

It is recommended that you not only actively promote your business in China by using .cn domain names but that you also protect your IPR by defensively registering domain names under .cn TLD and under the recently launched .china TLD. By defensively protecting your domain names, monitoring for infringements and enforcing your rights, you can prevent a significant amount of criminal online activities in China at a reasonable cost.
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