



# **Quick Legal Basics for Music Companies Doing Business in Asia**

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### Introduction

In both good economic times and bad, there has been a move by companies across a wide range of industries to take advantage of the lower manufacturing costs and fast-improving quality from manufacturers in the Asia Pacific region. The music industry has particularly interesting challenges both because of the increased reliance on new technologies and because of the huge importance of a company's name and brand recognition. Thus, Asia-Pacific manufacturing raises two key questions – 1) implementing adequate protections to do business with new partners there; 2) implementing adequate protections against competitors there.

In recent years, there have been numerous companies in the music sector who have been able to successfully source and sell products in the Asia-Pacific region. However, at the same time, there are numerous cautionary tales of manufacturing deals gone wrong as well the counterfeiting of many famous instrument brands.

### A. Some Notes on Contracting

Companies considering doing business in Asia have to set the ground rules in their contracts with local parties. The more the parties understand one another from the outset, the more room that you have for speaking up before a small problem becomes a big problem. While there's plenty of Asian companies that will complain that a long contract is not "necessary" or that they can do business purely on the basis of purchase orders, you also have rights and needs that need to be protected – it's your reputation, your trademarks, and your knowhow that's at stake.

Local practices may tend towards relatively short contracts or "business on a handshake", but there are good ways to get beyond this to include the terms that are important to your company. In many cases, it can be useful to use a relatively short main contract as the framework for the relationship but then to lay out detailed information on specifications, pricing, etc. into the exhibits referenced in the main contract.

#### 1. Due Diligence: Know Your Partner

It's important to know whom you're doing business with, and for a long time it was very hard and/or expensive to run checks on the finances, reputation and business affiliates of Asian businesses. However, the tools for checking out a company have got-



ten far more affordable and simple to use in recent years – in about one week it is often possible to use corporate research services get a snapshot look at your counterpart and to have some idea if they are who they say they are. These research services are often useful for understanding more about a prospective business partners' affiliates and existing business partners.

## **2. Know Who is Doing What and Where**

There's a strong trend for Asian companies to outsource products themselves – either in a middleman role or in working with their own subsidiaries or related entities elsewhere within Asia. This can mean that a party contracting with a Taiwanese head office may find that the products are being made somewhere in the PRC, Vietnam or elsewhere. And untangling the parties involved can be a huge headache if problems come up later, as similar-sounding company names may actually represent entities set up in a variety of countries. For example, a Taiwanese head office with a manufacturing company the PRC may operate primarily through a trading company in Hong Kong, all with a holding company in Singapore.

From the contracting standpoint, knowing the entities is important because a Non-Disclosure Agreement intended to protect your key knowhow and confidential information won't mean much if it's signed with some company that exists only as an asset-less mailbox somewhere that has sent your designs to be manufactured at some separate company sitting in an entirely different country in the region.

## **3. Specifications: Quality, Materials, etc.**

Even if an acceptable sample has been provided at an early stage in the relationship, it's still important to have some guidelines as to the quality and materials expected from the mass production. Otherwise, there is not much to point to if "economy measures" suddenly show up -- the sturdy metal parts are replaced with breakable plastic ones, solid wood is replaced with particleboard, different tubes are substituted, and the paint starts to rub off in transit! Good contracts encourage parties to talk when problems arise.

## **4. Extra Materials and Rejects**

Inherent in the manufacturing process is some waste, and a good contract lays out how this is treated. The manufacturer wants excess material to go to some use – either to make a profit or else to get it out of its own warehouse. While some leftovers of the manufacturing process may not be a problem, where they are linked into your brand identity by a unique shape, color or pattern, you'll need to find some way to protect against them undermining your own brand.

The logo for 'eiger' is located in the bottom right corner of the page. It features the word 'eiger' in a lowercase, sans-serif font. The letters are a light orange or tan color. The 'e' and 'i' have a slight shadow or glow effect around them, making them stand out from the rest of the text.

## **B. Some Notes on Brand Protection**

When a company first enters the Asian markets, there are many brand-related issues that often slip by the wayside. Whether it is a failure to think of trademark and domain-name registrations as key, “deal fever” about one’s newfound trusted local partner, or a failure to leave enough flexibility for future plans, it is important for companies to consider their brand in light of the old adage “an ounce of prevention is worth a pound of cure.” Fixing problems down the line is always far more expensive than anticipating them upfront.

With the growth of globalization and the internet, your brand – and its imitators – have a reach far beyond the distances likely or available even just five to ten years ago. The networks used by pirates, counterfeiters and other assorted infringers span regions and often move merchandise globally. Without the sorts of research, product-development, advertising or other costs associated with legitimate products, the copycats are in a position to throw discount products into markets worldwide rapidly and efficiently. What this means is that infringers are often swift to take full advantage of any gaps or lapses in your brand protection with results that can mushroom quickly.

### **1. The Forgotten Applications**

Trademarks often are dealt with as an afterthought, a hassle to deal with, and an extra unwelcome cost – as if by their “intangible” nature they had no significant value. While most famous brands realize the value of their trademarks, it’s often the companies just entering into the market that question whether it is really necessary to get registrations and whether they will actually succeed enough to generate imitators. Imitation is more than just sincere flattery, it’s a way of life for many companies in Asia. If somebody thinks they can make a buck from your name, they will try to do so.

It is common enough to see the results of a company’s failure to file to protect their key trademarks in markets where they are selling or manufacturing, as well as those from which pirated goods are likely to start coming from. In Asia, manufacturers and importers of counterfeit products often move aggressively to file trademark applications in China, Taiwan and elsewhere in Asia, and sometimes those doing so are able to establish an alternate reality in which consumer confusion is maximized via misleading company registrations, domain-name registrations, and other falsified trappings of legitimacy.

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Undoing these messes once they're been given an opportunity to grow and fester costs far more than taking remedial steps and ensuring appropriate applications are filed at the start. One such very bold PRC "fake" company included the original genuine company's address on its site with a statement to the effect that the genuine company was their "subsidiary." When fake-company sales reps are crawling the world, talking to your customers, attending trade shows and otherwise offering "your" products at the steep discounts customary in the pirated-goods world, the economic losses can be very serious.

## **2. The Trademark is Your Trademark**

At the outset of a business relationship, some parties get complacent, feeling that the relationship between the parties is so strong, so filled with trust, such a "good match" that they ignore the practical reality that over the life of a business relationship the warts of one's business partner may become more apparent, business realities may change, and personnel may change significantly on both sides of the arrangement such that the original high hopes and good feelings are irrelevant. It is important to keep in mind that your brand is your brand -- your company spent years or even decades building up a name, and thus you should not give up control of it lightly even when you are working with great people locally.

Parties entering Asian markets are sometimes so relieved to find a one-stop-shop who can handle their importation and distribution worries that somewhere in the back of their minds, they figure that it will be simpler, cheaper and perhaps even give the local partner some sense of "connection" in with their company to let the local partner handle all the trademark applications and domain-name registrations. When the task of handling all the local trademark applications is ceded over to one's local business partners, it cuts out the short-term hassle and expense in place of what may turn out to be chronic long-term hassles and expenses. The key to most of this problem is that local business partners, no matter how well intentioned, may never value your trademarks, your brand, your company's goodwill as much as you do. Also, some of the very "cheaper-small-faster" drive that makes Asia a great place to do business is not always so good for long-term brand-protection strategies.

### **a) Application and Renewal Concerns**

Local partners are often tempted to file trademark applications on their own without using trademark counsel and are not often knowledgeable enough to know when the applications are facing real trouble. Risks at the application phase include inadequate pre-filing availability searches and analysis, a failure of the local distributor to respond in a timely or appropriate manner to inquiries from the trademark authorities or to

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challenges from other pre-existing trademark holders, as well as cultural issues that sometimes interfere with local business partners providing a candid depiction of the mess that the trademark applications are currently in. Down the road, the local distributors may not adequately pay attention to renewal deadlines for registered marks and may not maintain files showing the use and growing fame of the marks over years.

#### **b) Complication of Enforcement Efforts**

Enforcement also tends to become more complex over time because you may also be ceding important enforcement decisions as well. If allowed to be the trademark registrant, the local company is the one in the position to authorize local counsel and to sign off on settlement agreements. While it is possible for a foreign company to try to retain some strategic control of trademark enforcement litigation matters when they are not the actual registrant, as a practical matter it is a long-term drain on costs.

While it's often useful to work with your local distribution partners to monitor the market for fakes and, sometimes, to provide quick follow-up with the police when a seizure has taken place, the international scope of the counterfeit world means a comprehensive approach is necessary. Goods seized in Taiwan may have been shipped through a Hong Kong trading company representing a Dongguan, PRC, manufacturer run by Singaporean managers who actually ship out the vast majority of their fake goods to Central and South America. If the local distribution partner has control of the enforcement of your trademark, they may have a strong temptation to settle out quickly without pushing for information that may be important to larger brand-protection issues but which does not directly affect their local market.

#### **c) Future Plans**

Even in the best relationships, it is important to keep in mind that personnel, relationships and markets change over time. A company that doesn't have its marks registered under its own name will almost certainly find itself at a disadvantage if it wants to explore other import and distribution options down the road, whether it be moving to a closer relationship with a global or regional partner who can offer economies of scale or if it means entering the market directly themselves. Without control over your own trademark registrations in a market, your company is at a distinct disadvantage in even pondering other possibilities or in discussing overdue changes in an otherwise productive relationship.

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### **3. If You Can, Make Hay While the Sun Shines**

But what do you do when trademark registrations have been delegated to a local partner and you want to straighten it out? Brand-related problems are best fixed while there are not any major problems or business-relationship changes underway. First, the transfer of trademarks and domain names moves much more smoothly if it can be done with the full cooperation of your local business partner. Second, the costs and hassles of trying to straighten out a mess through forceful means once a relationship has gone sour can be terribly high. While it's often counselled not to send out correspondence in the heat of the moment – i.e., to wait a few days before sending an “angry” letter – such cool-down time would also be a good time to review the status of one's registrations.

### **4. Cleaning Up Messes**

If a mess has already emerged, then it is important to regain control of the situation and to get a realistic assessment of what can be done. Where applications have been filed without your consent, there are often provisions under Taiwan, PRC and other trademark laws to take action to protect yourself. Where there are domain-name issues at stake, nearly all nations in the region have implemented procedures in line with the ICANN Uniform Domain-Name Dispute-Resolution Policy; Taiwan's procedures are quite cost-effective as a means for ensuring return of domain names registered in bad faith.

If any documents have already been issued by courts or administrative bodies pertaining to your brands, it can often be important to review them carefully – especially if a decision has gone against your side. While not all expatriate managers have time to review and understand local legal terminology, it can often be key to have the documentation reviewed and translated by independent counsel. Unfortunately, in the Asia-Pacific region, blame is unfairly shifted onto the system with unfounded claims that the judges are “prejudiced” or “corrupt,” when a quick review of the actual decision would show otherwise. Put simply, you should know for yourself what is happening with your brands.

### **5. Conclusions**

The most important factor is to acknowledge that, despite being “intangible property,” your brand has (or will have) a tremendous value for the company in the future. Trademarks and domain names you use in the market do need to be registered and should be done so under your company's name. Agreements with local partners should be very specific about how and when marks can be used and spell out clearly when use of marks must be terminated. These trademark portfolios need to be maintained in a

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professional, organized manner in a way that allows for timely renewals or the filling in of any gaps in coverage. By retaining control of your brand and its use in the market, you set the stage for key future savings if and when the day comes that infringers arise or your business plans change.

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