



## OFFICIAL TESTIMONY

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### U.S. SENATE SUBCOMMITTEE ON TRADE, TOURISM AND ECONOMIC DEVELOPMENT

#### THE IMPACTS OF PIRACY AND COUNTERFEITING OF AMERICAN GOODS AND INTELLECTUAL PROPERTY IN CHINA

MARCH 8, 2006

Chairman Smith, Ranking Member Dorgan and members of the Committee, I am pleased to join you today to discuss the impacts of Piracy and counterfeiting of American goods and Intellectual Property in China.

I want to begin my testimony by thanking the Committee for your efforts to understand the impacts these activities have on American business, large and small. I would like to present to you today an insight into one such American company, Leupold & Stevens, Inc., and how piracy and counterfeiting are impacting our business. Your focus on these issues is greatly appreciated and we think it holds great promise that this committee will identify and implement strategies that will lead to further refinement of international intellectual property standards and the corresponding domestic legislation where these international agreements, conventions and protocols are interpreted into the laws of the member countries.

Leupold & Stevens, Inc. is based in Beaverton, Oregon. We have been in business since 1907. As our business has grown, we have expanded our workforce to approximately 600 employees. Leupold is a fifth-generation family owned company. We pioneered the manufacture of waterproof riflescopes in 1947 and have steadily developed a worldwide reputation for building the world's finest hunting scopes, binoculars, spotting scopes and rangefinders, sold under the trademark LEUPOLD.

Over time, our brand has been built on the principle that every customer is entitled to a square deal. Leupold has become legendary for its rugged dependability, absolute waterproof integrity and lifetime guarantee. This is an old fashioned guarantee from an old fashioned kind of company: *If any Leupold Golden Ring product is found to have defects in materials or workmanship, we will, at our option, repair or replace it. FREE. Even if you are not the original owner. No warranty card is required. No time limit applies.* These are the building blocks that our brand and LEUPOLD trademark have been built upon.

Leupold & Stevens projects worldwide sales of well into the hundreds of thousands of units in 2006, totaling in the hundreds of millions of gross revenue dollars, for hunting scopes and related goods sold under the mark LEUPOLD. The trademark LEUPOLD for hunting scopes and related goods was first registered in the United States on January 12,

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1971. Since then, Leupold & Stevens has obtained registrations for the mark LEUPOLD in the member countries of the European Union, Australia, New Zealand, and Japan.

Leupold sells its products to three unique markets; Hunting/Shooting, Observation and Tactical. Our riflescopes are used for hunting and target shooting all over this great country and, in fact, all over the world. Our tactical line of riflescopes is used extensively by law enforcement officers and by many branches of our military. Our troops in Afghanistan and Iraq rely on our riflescopes on a daily basis to complete their missions.

Aside from the U.S., we have distributors and/or representation in Austria, Australia, Belgium, Bulgaria, Canada, Czech Republic, Denmark, England, Finland, France, Germany, Holland, Ireland, Israel, Italy, Japan, Kazakhstan, Latvia, Mexico, New Caledonia, New Zealand, Norway, Poland, Portugal, Qatar, Romania, Russia, Serbia & Montenegro, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Ukraine and United Arab Emirates. Although we source components and finished goods such as binoculars and range finders from China, we do not export riflescopes there due to Tiananmen Square-related Sanctions that are in place at the U.S. State Department. If market conditions in China and export laws were to change in the future, Leupold would consider expansion into this market just as we have done elsewhere in the world.

Before we begin to recount the history of what has transpired in regards to Leupold's efforts to trademark and protect our brand LEUPOLD in China, I do want to state for the record that Leupold has strong business partners in China. Most companies and authorities that we have dealt with in China and certainly those relationships and partnerships that are currently in place are based upon mutual respect, trust, honor and proper business ethics. From Leupold's perspective, we find it most unfortunate that with such positive business dealings with our many partners in China that a single company could cause us such problems. What is more troublesome however is that with the extent of trade between China and the U.S. and all of the international agreements, conventions and protocols that China has acceded to, one would think that the PRC intellectual property laws would not allow such behavior. That has not been the case, at least from our experience over the past five years.

In December 2001, Leupold & Stevens learned that an application for the word mark LEUPOLD, in English, had been filed in the People's Republic of China for goods including those manufactured and sold by Leupold & Stevens. That application, filed for goods in International Class 13, was owned by a company called SAM Optics (Nantong) Company Ltd., hereafter SAM Optics. Note that Leupold & Stevens has never had a relationship with SAM Optics in any capacity, either as a distributor, retailer, or manufacturing partner.

Following counsel's advice, Leupold & Stevens filed trademark applications in China in International Classes 9 and 13, covering all the Goods it manufactures and sells in order to support filings to oppose the SAM Optics application. The LEUPOLD trademark applications were filed on January 21, 2002.

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In preparing evidence to oppose the SAM Optics LEUPOLD trademark application, Leupold & Stevens learned that SAM Optics had filed to register 19 applications for 16 other companies' marks primarily in the sports optics and telescope markets. These included such widely-known marks as CELESTRON, SWIFT, BURRIS, BUSHNELL, SWAROVSKI, SIMMONS, WALTHER, and BSA (See attached list of Marks). In January, 2002, at the Annual SHOT Show, a representative of Leupold, Fritz Kaufman, met with a representative of BSA, Roger Vallecorse, to discuss SAM Optics. Roger Vallecorse followed up that meeting with an e-mail to Fritz Kauffman, which I attach. In that e-mail, Roger Vallecorse offers to introduce Leupold to SAM Optics, who had assisted BSA with buying back its mark from another China company, Asia Optical, to whom BSA paid \$25K. Roger Vallecorse states that SAM Optics' motives in registering the marks referred to above are to prevent those marks from being registered by Asia Optical. Vallecorse, then, paints SAM Optics as a good guy – Asia Optical are the bad guys. Note that Vallecorse's e-mail was copied to both an officer of SAM Optics (Yin Zhu Hua) and the company lawyer (Guo Jun).

We later learned from our counsel that SAM Optics sold one of the marks (we do not know which one) for somewhere between \$50,000 and \$80,000 (USD). This is the kind of experience that awaits US businesses seeking to register their trademarks in China.

SAM Optic's trademark registration pattern and practices were cited in the opposition filed by our counsel on April 20, 2002. That opposition was based on the bad faith of SAM Optics in seeking to register LEUPOLD, among other marks. The opposition cited Article 31 of the PRC Trademark Law, which states:

An application for the registration of a trademark shall not create any prejudice to the prior right of another person, nor unfair means be used to preemptively register the trademark of some reputation another person has used

The opposition also cited Article 6bis (1) of the Paris Convention concerning protection for well-known marks, which states:

The countries of the Union undertake, ex officio if their legislation so permits, or at the request of an interested party, to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an imitation liable to create confusion therewith



Shortly after filing the opposition to the Sam Optics application in Class 13, a second SAM OPTICS application for the mark LEUPOLD in Class 9, for additional Goods manufactured and sold by Leupold & Stevens, was published for opposition. Leupold & Stevens filed an opposition against that application as well.

Leupold & Stevens had diligently filed to oppose both PRC applications for the mark LEUPOLD, filed in bad faith by SAM Optics, and it had filed its own applications in the PRC to protect its own Goods.

In October, 2005, the PRC Trade Mark Office refused Leupold & Stevens application for the mark LEUPOLD: in November 2005, the PRC Trade Mark Office rejected Leupold & Stevens opposition to the first SAM Optics application opposition on the following grounds: that Leupold & Stevens did not own a registration or application for the mark LEUPOLD in the PRC for the same Goods – which was incorrect; and, that the demonstration of trademark registrations, sales and manufacturing volume, affidavits of fame of the mark, were insufficient to prove that SAM Optics had filed in bad faith.

Leupold & Stevens is filing to appeal the rejection of its opposition to the SAM Optics mark for LEUPOLD in Class 13. According to our counsel, we will not receive a decision for two or three years. If Leupold & Stevens loses this final appeal, and if it loses its opposition against the Class 9 Application for the LEUPOLD mark owned by Sam Optics, Leupold & Stevens will have no recourse except either to pay whatever price SAM Optics sets for the registrations it has obtained in bad faith or run the risk of being prosecuted for infringement of its own mark, LEUPOLD, registered in China by SAM Optics.

This is obviously just the type of Fraudulent Intent that numerous international conventions, agreements and treaties have sought to prevent. China became a member of the World Intellectual Property Organization in 1980. China acceded to the Paris Convention for the protection of Industrial Property on November 14, 1984 and became an official member on March 19, 1985. China acceded to the Madrid Agreement for the International Registration of Trademarks on October 4, 1989 and to the Madrid Protocol on December 1, 1995. China acceded to the Nice Agreement concerning the International Classification of Goods and Services (ICGS) on August 9, 1994. China signed the Trademark Law Treaty (TLT) on October 27, 1994. Finally, China has patterned its intellectual property law after The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

While all of these efforts have contributed immensely to bringing China's intellectual property laws up to internationally accepted standards, a more basic question still remains: Do these international agreements go into effect directly upon signing or are they only implemented through the resulting domestic laws of those countries signing the agreements? In China's case, it appears to be the latter and it has been this translation or interpretation into domestic law in China that the original intent of these international standards seems to break down. What is possibly needed is stricter wording in these international agreements that treaty



provisions take precedence over domestic trademark law provisions, and these treaty provisions must be incorporated exactly as enacted in the signed agreements.

It is clearly not ethical or acceptable that SAM Optics runs out and files trademarks in China for 19 well know international brands of optical equipment with the sole intent being to extort a ransom from those companies to purchase back trademarks which those companies rightfully own by internationally accepted trademark standards. Furthermore, it is absolutely not acceptable that China, after having agreed to these international standards, fails to implement them into law or to correctly apply those trademark laws which it has implemented. How can it be that after all of the work that has gone into setting these international standards that Leupold and Stevens, Inc. cannot register and protect the LEUPOLD trademark in China, even in the face of such a case of pure fraudulent intent by SAM Optics?

If Leupold loses control of the LEUPOLD trademark in China there are resulting potential consequences that we are concerned about. Leupold sources many finished goods directly from various manufacturers in China, including range finders and binoculars. If these goods are stopped for inspection at a point of export from China, with the name LEUPOLD on them, we are concerned that we may run the risk of being charged with attempting to illegally export goods branded LEUPOLD, a trademark that we would not own in China. Ironically, we could be viewed as the counterfeiter.

A similar concern exists in the fact that for some time there have been counterfeit goods coming from China that are being sold on eBay as Leupold clones, replicas or knock-offs. These products are marketed as being the same as Leupold tactical riflescopes but without the Leupold name on them. Whereas a true Leupold tactical scope may retail for over \$1000 (USD), these look-alikes will sell on eBay for about \$100 (USD). There are several sellers who apparently seem to be working out of the Hong Kong area.

Our concern is that if we lose control of the LEUPOLD trademark in China, these replica riflescopes could legally begin to appear with our name on them and from all outward appearances would look just like an original Leupold. Our Leupold tactical riflescopes are built to meet the demanding requirements of our law enforcement officers and military personnel. If these knock-offs are taken to be the real thing, which they definitely are not, they could be mistakenly purchased either new or years from now as used equipment by customers who mistakenly assume them to be genuine Leupold tactical riflescopes. What would happen if these look-alikes then failed in the line of duty? This is a very grave scenario to say the least and the potential ramifications on Leupold are substantial. Everything we have built over the past century under the Leupold brand name would potentially be at risk.



I would like to conclude my testimony with a simple thought. Over 50 years ago, our company's founder, Markus Friederich Leupold declared that, "the customer is entitled to a square deal." That simple ideal has driven our company to always strive to do the right thing and take care of our customers. Mr. Chairman, after you read all of the international agreements, treaties and protocols, ask yourself a simple question...are American businesses getting a square deal when it comes to intellectual property protection in China? I can tell you that from Leupold's perspective we definitely are not. Thank you very much.

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