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GENERAL BRIEFING

Made in China – Trade Mark Perils, Pitfalls and Possibilities

China produces nearly a quarter of all global manufacturing output. It is therefore no surprise that a large proportion of Western companies are partially or wholly reliant on the Chinese manufacturing industry for the production of their products, and that many such companies are keen to go a step further and establish a presence in China.

However, before you launch into a new enterprise in China, you would be wise to consider how best to protect your brand, as an understanding of China's unique trade mark landscape could help you to avoid some of the common perils and pitfalls, and to benefit from the possibilities that this emerging market can offer.

Translations & Transliterations

The registration of a trade mark in roman characters in China does not protect the same mark written in Chinese, and where there is no Chinese character version of a foreign brand, Chinese consumers will often create their own version. For example, as a result of use of the marks shown below, Quaker Oatmeal became known amongst consumers in China as "Lao Ren Pai" ("Old Man Brand"), and Ralph Lauren discovered that their brand was known as "San Jiao Ma" ("Three Legged Horse").

Foreign brands are therefore strongly advised to create and register a Chinese version of their mark. This should be done with expert guidance, in particular from native speakers, as it is not only the meaning of the mark in Chinese, but also the sound and tone which can affect the impression it conveys.

There are various options when creating a Chinese language version:

1. Create a literal translation (e.g. Palmolive chose the brand name "Zong Lan", a combination of the Chinese words for "palm" and "olive"). One of the disadvantages in doing so is the difference in sound and the need to build an association between the Chinese version and the Roman character mark.
2. Create a phonetic transliteration (e.g. Audi is known in China as "Ao Di", which means "brighten profoundly"). Care must be taken when creating a transliteration, as the Chinese characters could have an undesirable meaning in any of the Chinese dialects.
3. Strike a balance between the two, creating a phonetic transliteration with an appropriate meaning relevant to the goods and/or having a positive meaning in Chinese culture (e.g. Coca Cola is famously known in China as "Ke Kou Ke Le", roughly translating as "tasty and joyful").

First to File System

China operates a "first-to-file" trade mark system, whereby the first person to file the mark obtains the right, irrespective of any prior use. This can be contrasted with systems such as in the UK and US, where companies can obtain enforceable rights through use. If a trade mark is not already registered in China, virtually anyone can register the mark, often leaving foreign companies vulnerable to the misuse of their brand by a third party, and unable to market their own goods or services in China or, even worse, on the receiving end of an infringement lawsuit.

In 2014, US electric car manufacturer Tesla Motors was sued in China for trade mark infringement by a Chinese businessman who had registered the trade mark TESLA in both English and Chinese before the US company came to China, and Apple reportedly paid a Chinese company an eye-watering $60 million to settle a dispute over the iPad trade mark. Philips, Unilever and Burberry are among the other well-known brands who have fallen foul of the well-known practice of some Chinese companies or individuals, who register foreign brands in China with the express intention of selling the registration to the foreign company at an inflated price.

Companies who fall victim to brand hijackers in China and who do not wish to face the significant inconvenience and cost of rebranding for the Chinese market can (i) wait for three years, hope that the trade mark squatter does not use the mark, and apply to have the registration cancelled for non-use; (ii) apply to cancel the mark on the ground that it was registered in bad faith (in practice, this is often difficult); or (iii) buy the registration.

The exception to the rule?

A recent decision of the Beijing Intellectual Property Court suggests that the Chinese courts may be starting to take a more flexible approach when it comes to cases involving trade mark squatting. Shenzen-based technology company Tencent, which operates □□ (Weixin – "WeChat" in English), one of the largest and most popular messaging apps in China, was able to overcome an earlier registration of the identical mark □□ on the basis that it's messaging app is so popular and widely recognised in China that registration of the mark by a third party would have a negative impact on the public.

Although the decision may give brand owners hope, it remains to be seen whether the decision will only be of benefit to brands that are as famous in China as Weixin. As such, registering your mark in China at an early stage remains of crucial importance in protecting your valuable brand equity and mitigating the risk of falling victim to a trade mark squatter.

Manufacturing for Export

Another recent decision in China could prove useful to foreign companies looking to manufacture in China exclusively for export overseas. The Supreme People's Court recently held that manufacturing products in China for export overseas does not constitute use of a trade mark, and so cannot be considered infringement of a mark registered in China. Unfortunately the decision is not binding on future decisions, but it could nonetheless prove helpful for foreign companies manufacturing in China exclusively for export, as judgements of the Supreme People's Court are considered strongly indicative of future trends.

For more information on protecting your brand in China, or if you need to seek specific legal advice, please contact your usual J A Kemp advisor.

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