

SPECIAL REPORT TRADEMARKS IN CHINA

LAND OF OPPORTUNITY POSES UNIQUE INTELLECTUAL
PROPERTY RISKS FOR BRAND OWNERS

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THOMSON REUTERS

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INTRODUCTION

Have you seen the new Budweiser shoes? How about the Mercedes toaster oven? While neither company has plans to enter the footwear or kitchen appliance markets anytime soon, some enterprising trademark squatters have already secured rights to use these brand names on everything from housewares to clothing sold in China.

How is this possible? China has 45 different trademark classes, each of which has several sub-classes, and if the real Budweiser and Mercedes wanted to protect their brands in every class, they would need to file across all of them. If not, they leave themselves exposed to opportunistic filing by trademark squatters who secure trademark protection in the hopes of catching a ride at the real company's expense or being bought off by the real company.

This is just one example of what can happen when you combine the irresistible lure of China's 1.3 billion consumers with a complex intellectual property infrastructure that requires detailed local knowledge and constant vigilance to navigate successfully. Despite these hurdles, the market opportunity in this region is just too big to ignore for today's multinational firms.

In the second quarter of 2010, China officially passed Japan to become the world's second largest economy after the United States. With a gross domestic product valued at \$5.879 trillion USD, China also passed Germany last year to become the world's largest exporter. China consumes more energy than any other country in the world⁽¹⁾ and its 1.3 billion inhabitants bought so many automobiles last year that it is now the largest market for passenger vehicles⁽²⁾.

The payoff for multinational firms that have been early movers in China is already being realized. In its second quarter 2011 corporate earnings report, General Electric logged a 25 percent increase in revenues from China, while its US revenues declined by 3.4 percent⁽³⁾.



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But multinational firms are not the only ones that recognize the opportunity in China's current status as the growth engine of the world economy. China's own citizens are working feverishly to capitalize on this opportunity – from the universities, small businesses and government agencies that are all incentivizing innovation as a global imperative to the vast network of counterfeiters and IP squatters seeking to profit from foreign ignorance of local laws.

How can multinationals develop successful brand strategies in China without falling victim to the kinds of pitfalls that can shrink profitability, dilute brand value and erode competitive advantages? And what's at stake if they fail?

To find out, Thomson CompuMark tracked trends in trademark activity in China over the last 20 years, sought input from leading trademark attorneys and Chinese language experts, and analyzed trademark strategies of the world's leading brands. This research finds that although there is no one-size-fits-all approach to branding in China, early leaders in the region have established a clear set of best practices for trademark filing and maintenance that greatly improve the odds of success.

(1) "China Tops U.S. in Energy Use," The Wall Street Journal, July 18, 2010 – professional.wsj.com

(2) "China Overtakes Japan as world's second-biggest economy," The BBC, February 14, 2011 – bbc.com

(3) "Business Abroad Drives U.S. Profits," The Wall Street Journal, July 25, 2011 – professional.wsj.com



REUTERS/Petar Kujundzic

TRADEMARKS IN CHINA BY THE NUMBERS

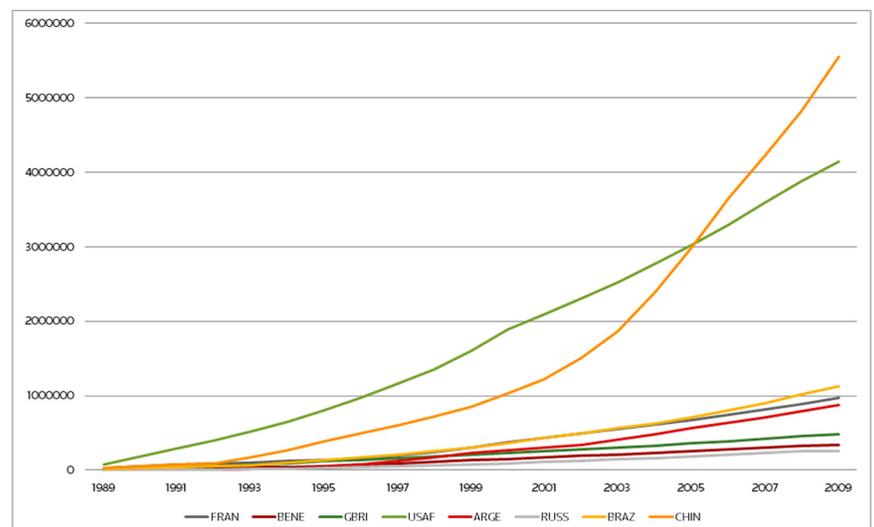
The Mercedes toaster oven example offers a glimmer of insight into the enormity and complexity of the Chinese trademark landscape.

“If you look up trademark registrations for Ben Chi, the Chinese equivalent for Mercedes-Benz, you’ll find more than 80 different registrations and published applications, but only 4 or 5 of them are registered to Mercedes. The rest are for things like luggage, kitchen appliances and clothes registered or applied for primarily by Chinese companies and individuals,” said Dr. B. Gary Zhang, president of China Sinda, a Beijing-based law firm specializing in intellectual property law. “Some may argue that the Chinese word Ben-Chi is not distinctive enough and should not be owned by anyone, but if you ask most Chinese people, they will automatically link the word with Benz, the famous German car brand. Chinese entities are applying for a staggering amount of trademarks. In fact, some Chinese companies make their sole business applying for trademarks. They may see that a western mark has not been filed completely or that the Chinese character version isn’t complete and they will claim it. Chinese companies are sophisticated; they have a keen sense of what value a western firm will place on a mark and they will charge for it.”

CHINA: BIGGEST LEAP AMONG GROWTH MARKETS

The trademark squatting phenomenon is visible in the growth stats of Chinese trademarks over the last 20 years. Between 1989 and 2009, more than 550,000 trademarks have been registered in China. Since 2000, the number of marks registered in China has increased by more than 450 percent⁽⁴⁾. As chart 1 indicates, the cumulative growth of Chinese trademark registrations has far outpaced that of other nations:

CHART 1
CUMULATIVE TRADEMARK GROWTH (1989-2009)



Source: Thomson Reuters IP Leader Exchange, “Trends and Evolution in the Nature of Trademark Registration”, Thomson CompuMark, October 14, 2010

(4) Thomson Reuters IP Leader Exchange, “Trends and Evolution in the Nature of Trademark Registration”, Thomson CompuMark, October 14, 2010

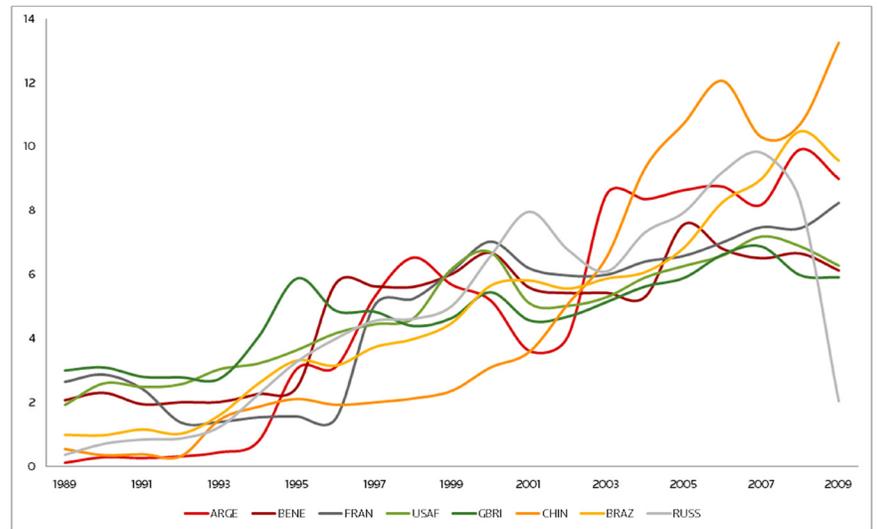


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China represents approximately 13% of all trademarks filed globally. Chart 2 compares the variation activity from 1989 - 2009 in China and other world-leading trademark authorities.

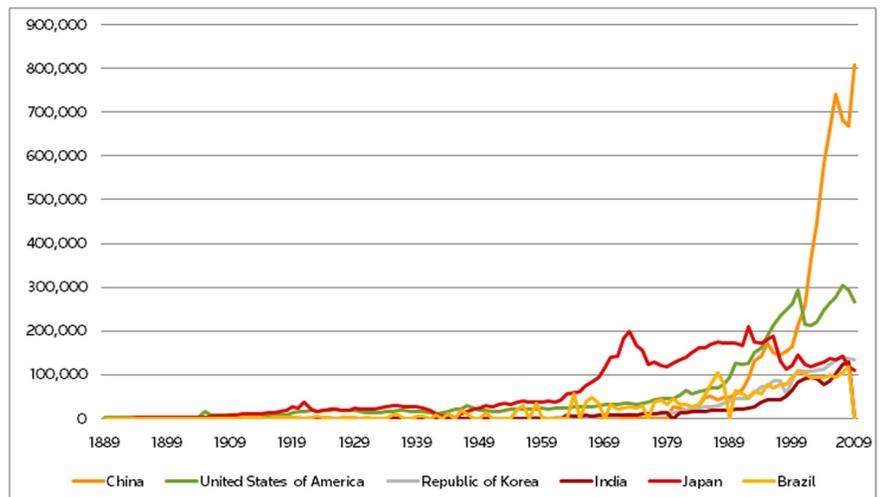
As chart 3 illustrates, the trademark office of China was the largest recipient of trademark applications in 2008 with 669,088 applications, followed by the IP offices of the US (294,070), the Republic of Korea (137,461), India (130,172) and Brazil (119,841). This means that three of the four BRIC countries (Brazil, Russian Federation, India and China) were among the top five offices globally. The combined share of the BRIC countries was around 30 percent of all trademark applications worldwide. ⁽⁵⁾

CHART 2
TRADEMARK REGISTRATION ACTIVITY BY REGISTER (1989-2009)



Source: "World Intellectual Property Indicators," World Intellectual Property Organization 2010 Edition - wipo.int

CHART 3
TRADEMARK APPLICATIONS AT SELECTED IP OFFICES THROUGH 2009



Source: "World Intellectual Property Indicators," World Intellectual Property Organization 2010 Edition - wipo.int

(5) "World Intellectual Property Indicators," World Intellectual Property Organization 2010 Edition - wipo.int



REUTERS/Jason Lee

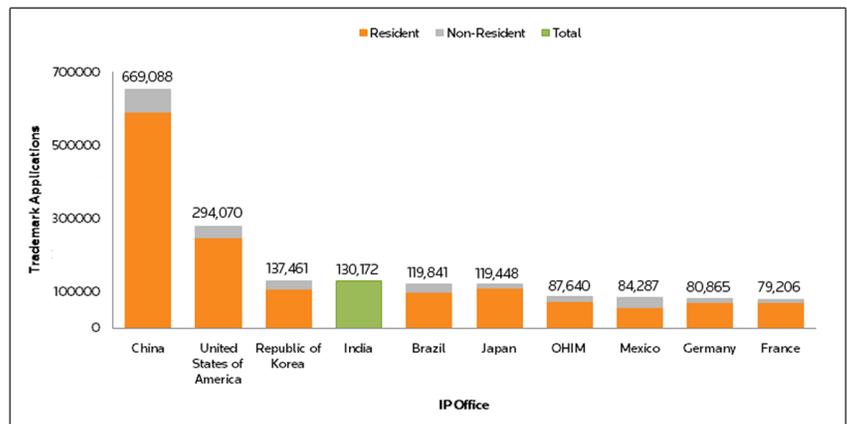
TOP FILERS IN CHINA

Much of the sky-high trademark registration activity occurring in China is driven by its unique single-class filing system. Within the international trademark system and in certain offices, an applicant can file a trademark application specifying one or more of the 45 classes of goods and services. However, China is one of the few countries that uses a single-class filing system which requires brand owners to file separate applications for each class in which they seek trademark protection. As opposed to offices that allow multi-class applications, the number of applications China receives is much higher. For example, as illustrated in chart 4, the trademark office of China receives more than 8.2 times the number of applications received by Germany's IP office⁽⁶⁾.

Despite a groundswell of interest among western firms to expand into China, the vast majority of trademark applications in China are filed by Chinese organizations. Non-residents accounted for approximately 30 percent of total trademark applications filed in China through 2008. Moreover, China-based companies, universities and individuals are expanding their own reach beyond their local market. Chinese residents submitted 35,444 applications for protection outside of China which places the country eighth worldwide.

The companies filing the most trademarks in China include a cross-section of domestic and international filers. As table 1 indicates, several multinational brands such as Johnson & Johnson, Disney, Mars and Walmart are among the top trademark filers in China since 1976⁽⁷⁾.

CHART 4
TRADEMARK APPLICATIONS BY IP OFFICE: 2008



Source: "World Intellectual Property Indicators," World Intellectual Property Organization 2010 Edition – wipo.int

TABLE 1
TOP 20 TRADEMARK FILERS IN CHINA (1976 - 2011)

APPLICANT	NUMBER OF TRADEMARKS
NEI MENG GU YI LI SHI YE JI TUAN GU FEN YOU XIAN GONG SI	1902
JOHNSON JOHNSON	1877
DISNEY ENTERPRISES INC	1647
DI 16JIE YA YUN HUI ZU WEI HUI	1483
MAOQISHI INDUSTRIAL COMPANY	1327
CHANGSHA CIGARETTE FACTORY	1236
MARS INCORPORATED	1223
DA LIAN YA TU TOU ZI ZI XUN YOU XIAN GONG SI	1140
KABUSHIKI KAISHA HITACHI SEISAKUSHO	1100
KAO KABUSHIKI KAISHA	1086
ZHU HAI GE LI DIAN QI GU FEN YOU XIAN GONG SI	1073
SHANG HAI WEN GUANG XIN WEN CHUAN MEI JI TUAN	1066
ALIBABA GROUP HOLDING LIMITED	1057
HU NAN HONG MENG KA TONG CHUAN BO YOU XIAN GONG SI	1038
GUANG DONG AO FEI DONG MAN WEN HUA GU FEN YOU XIAN GONG SI	986
GENERAL MOTORS CORPORATION	980
ZHONG GUO GUO JI HANG KONG GU FEN YOU XIAN GONG SI	934
LADDER INTERNATIONAL BVI CORP	933
SHANG HAI YI JIA LU XIN XI JI SHU YOU XIAN GONG SI	932
WALMART STORES INC	893

Source: Thomson CompuMark SAEGIS™

(6) (7) "World Intellectual Property Indicators," World Intellectual Property Organization 2010 Edition – wipo.int

CHINA'S TWIST ON TRADEMARKS: THREE MARKS FOR EVERY BRAND

"The first thing we tell all of our clients doing business in China is that they need to think three dimensionally. A single western brand will typically have at least three marks in China: the original brand-name, the 'sound-alike' version and the definition of what the brand means in Mandarin," said G. Roxanne Elings, a partner with Greenberg Traurig who specializes in trademark and copyright law.

In order for a trademark to be successful in China, the form, sound and meaning of the mark all need to be protected.

"THE WORLD'S MOST DIFFICULT LANGUAGE"

Trademark protection is no small feat in a country where there is no alphabet. Instead, the Chinese language is composed of 48,000 characters of which approximately 8,000 are regularly used. There are three different forms of Chinese characters: archaic, traditional and simplistic, all of which change the meaning of a word and are used in different geographic regions. If that's not complicated enough, there are no written spaces between characters and, when writing, the stroke order influences the meaning of the word, creating the potential for context problems. While written language is uniform in China, spoken Chinese is different across the country. The Chinese language most frequently utilizes five different tones that instantly change the meaning of a word; Cantonese, China's most famous dialect, has nine tones.

This complexity has resulted in dozens of difficult brand introductions for Western firms unveiling new products and campaigns in China. Even KFC, which has become one of the most successful international fast food brands in China, faced challenges with the Chinese translation of its brand in its early forays into the country.

KFC launched its first outlet in China in 1987, becoming the first fast-food restaurant on mainland China (McDonald's debuted in Schenzhen in 1990). The fried chicken giant also became one of the first to confront the challenges of literal translation of its brand when its famous slogan "finger lickin' good" was translated literally into Chinese characters that meant "eat your fingers off."⁽⁸⁾

Fortunately for KFC, the "eat your fingers off" designation never led to anything more serious than a bit of marketing legend because the brand was a hit in China, despite its slogan. But the example stands out for modern-day brand owners as a cautionary tale of what can happen when China's

three linguistic elements of form, sound and meaning are not all kept in balance.

"Every company trademarking in China needs a Chinese character name because if they don't create one for themselves, the Chinese people will," said Attorney Zhang.

In order to truly protect a brand, trademark holders must not only understand the complex linguistic rules but also apply the appropriate cultural intelligence to ensure that the brand's meaning is not lost in translation.

A frequent method that trademark squatters use to infringe on brand owner rights is manipulating the form, sound or meaning of the marks in the Chinese language. The linguistic complexities of the language are further complicated by an abundance of similar characters, forms and sounds. For that reason, trademarks that work best in China often convey the unique meaning of the brand without describing it literally or copying it phonetically.

Brands that have succeeded with this approach include Nestle, which uses the name Que Chao as its Chinese brand. This translates to "swallow's nest," which evokes the brand's famous bird's nest logo. Likewise, Wrigley's leverages its arrow logo in China to create the brand name Jian Pai, which translates to "arrow brand."

If a brand has a name with no direct and natural Chinese translation, the best course of action is to choose a common Chinese transliteration or a hybrid approach that combines phonetic transliteration and more literal translation. For example, the Chinese mark for Starbucks, Xing Ba Ke, combines a translation of the word star, which is Xing in Chinese, along with a transliteration of the sounds Ba Ke. The transliteration has no meaning in Chinese, but it creates phonetic consistency for the brand.

"Companies need to figure out how they want to register. There is a monumental difference between Latin and Chinese characters," said attorney Zhang. "For example, say I'm P&G, and I just want to be known as P&G, that won't work. Of course every company wants to maintain brand uniformity, but doing business in China requires a Chinese character name. That may have brand continuity implications, but you still need to have a Chinese character name. In P&G's case, they've adopted, in my opinion, a very good Chinese name: Bao-Jie."



REUTERS/Jason Lee

(8) "Colonel Sanders' March on China," Time, November 17, 2003 – time.com

A RACE TO FILE IN 45 DIFFERENT CATEGORIES

Adding to the complexity, China employs a first-to-file system for trademark registration, which means that the country does not recognize unregistered trademark rights even for brands that have been actively using a particular mark. This differs from much of the western world, which relies on use-based trademarks.

“In China you want to register as early as possible because it can take 2 to 3 years for the Chinese trademark office to issue your mark. While you are waiting, anyone else can start using your ‘pending’ mark, and you have no recourse until your mark is granted,” said Attorney Elings.

Once a trademark is approved and registered, the registrant is entitled to the exclusive rights to use the trademark, including the rights to use it in relevant business ventures as well as to prohibit anyone from using identical or similar trademarks without permission.

But the only way to be fully protected is to repeat this process dozens of times for China’s 45 trademark categories, each of which has multiple sub-categories. A single trademark in a single category only covers that one category, which can leave the brand open to squatters looking to snatch up the other categories for profit.

COUNTERFEITING

If multinational executives weren’t already concerned with the challenges of brand ownership in China, the latest phenomenon moves well beyond simple mark infringement to the core brand experience itself: fake retail stores.

In July 2011, a phony Apple store selling real iPads and iPhones in the southwestern city of Kunming gained global attention when a blogger posted photos of a retail setting that looked astonishingly similar to Apple Inc.’s trademark stores right down to the employees’ outfits.

Shortly thereafter, knock-off Ikea stores were identified in China, replicating the iconic blue and yellow color scheme of the Swedish furniture giant and even packing a do-it-yourself Allen wrench in every box.

Protecting brands in China is challenging enough in the current IP landscape, but the faux stores present new complications for global companies. While



REUTERS/Bazuki Muhammad

some executives say that even illegitimate stores can build brand awareness, the imitations run the risk of tarnishing a consumer’s association with an established brand⁽⁹⁾.

These developments matter for multinational companies because China is a vital growth market. According to the Chinese Academy of Social Sciences, retail spending is expected to reach 27.4 trillion yuan (\$4.3 trillion) by 2015, up by more than two thirds from the level seen in 2010⁽¹⁰⁾. This is attractive to companies looking to establish brands there, but it is also problematic because the geographical spread of the country creates logistical issues for brand protectors and enforcers. Without an expansive and expensive anti-counterfeiting policy, companies will continue to have problems enforcing their brand holder rights.

“Monitoring has become an important issue for our clients doing business in China,” said Martin Burke, managing director of Thomson CompuMark. It is estimated that global trade in counterfeit goods has increased from approximately \$5.5 billion in 1982 to more than \$600 billion in 2008⁽¹¹⁾. That’s seven percent of world trade. If companies want to enforce their marks, they need to monitor use not just in brick-and-mortar stores in mainland China but also on the web, where infringements are proliferating at a staggering rate.

Attorney Roxanne Elings from Greenberg Traurig further illustrates the scope of the online counterfeiting problem: “To date we’ve shut down 1,400 Web sites through an action in the United States. And those are just the ones we’ve caught; there are companies creating literally thousands of Web sites to sell counterfeit goods being manufactured in China and sold to consumers in the West.”

(9) “Made in China: Fake Stores,” The Wall Street Journal, August 3, 2011 – professional.wsj.com

(10) “Made in China: Fake Stores,” The Wall Street Journal, August 3, 2011 – professional.wsj.com

(11) “Bogus Parts Turn Up More Often in NASA’s Supply Chain,” Houston Chronicle, March 5, 2009 – chron.com

Despite the obvious risks, the opportunity in China is still too large to ignore for western multinationals. Attorney Zhang explains the perspective of his clients: “The vast majority of our clients feel that, yes, the problem still exists but if they take a proactive approach they can take actions and get control of the problem. They know that they need to understand and play within the system, rather than standing on the sidelines and criticizing it. The reality is, if you understand the system, have a good idea of the specific situation you are in and work with the right people, you will have your situation under control.”

Experts in Chinese counterfeiting agree that the two best weapons for companies looking to protect their brands are due diligence and education. “You’d be surprised at how many companies have counterfeiting problems, yet they have never registered their products with customs. That’s a critical missing link in a brand strategy,” said Attorney Elings.

Customs operating procedures have “really evolved over the past few years: they are much more open to working with companies on educational programs to help agents identify counterfeit goods.” Zhang added, “This education process has helped many companies use the customs procedure more effectively. Also, combining customs operations with its own investigation work, a company can often put itself in good position to identify the roots of counterfeiting and eliminate it at its source.”

BEST PRACTICES

With trademark applications by both domestic and foreign entities on the rise and the country’s overall effort to encourage intellectual property a top priority, China has continually asserted itself as a serious player in the world and intellectual property economy.

“The twin forces of China’s burgeoning middle-class consumer market and its ongoing IP revolution are proving to be an irresistible draw for multinational firms,” said Burke. “The opportunity in China does not come without risk, but with the right tools, brand owners can develop a strategy that holds the attention of consumers and protects valuable IP.”

While there is no perfect solution for protecting multinational trademarks in China, with the right cultural know-how, investment of time and resources, and shrewd navigation of a complicated regulatory framework, brand owners are in the best position in years to build a strong consumer base in

the country. Trademark law is being enforced to better protect brand owners’ assets and customs operating procedures are being improved to reduce counterfeiting operations.

With a deep understanding of Chinese language and culture, combined with an active dialogue between trademark registrants, customs agents, and government officials, a set of best practices can be built for companies looking to expand and protect their trademarks in the Chinese marketplace. Based on our analysis of the industry’s current thinking on the matter, these five steps are keys to successful trademarking:

- **File Early, File Often:** China’s first-to-file system for trademark registration, combined with the trademark office’s two- to three-year backlog, makes it essential for brand owners to file a mark well in advance of a Chinese brand introduction. Also, filing in only one category can leave brands vulnerable to squatters looking to claim marks in other categories.
- **Leave No Stone Unturned:** Due to China’s unique single-class filing system, companies need to protect their brands across all sectors, not just those in which they are active. This means increased paper work, but it also limits the potential for a trademark squatter to scoop up trademarks associated with non-traditional products.
- **Think Three Dimensionally:** Successful Chinese trademarks need to address the country’s three linguistic elements of form, sound and meaning. As KFC learned with its “finger lickin’ good” tagline, literal translation of a western brand doesn’t always work. When it comes to creating a great Chinese trademark, it is essential to focus on what the brand means, how it looks and how it sounds; this often requires a combination of translation and transliteration.
- **Invest in Rigorous Anti-Counterfeiting Measures:** The best way to fight counterfeiting is to implement a systematic approach to identifying the source of the problem. The time spent pursuing the leaders of counterfeiting practices will vastly outweigh the cost of systematically going after each individual factory.
- **Communicate with Customs:** The front lines in the war against counterfeiting may lie in the customs offices. Educating agents about what to look for in copycat products makes their job spotting counterfeit goods easier.



REUTERS/Stringer

HOW THOMSON COMPUMARK CAN HELP

As home to a quarter of the world's population, China has become a hot spot of opportunity – and risk – for today's multinational corporations. As the data and insights in this report illustrate, something as simple as a regional phonetic intonation or the stroke sequence of a written character can be the difference between trademark security and a potential infringement. As more western firms forge new ground in China's consumer market, we are rapidly seeing the development of best practices and operational guidelines that will streamline the trademark application process and mitigate infringement risk. The key to profiting from this collective knowledge is having the right information to make informed decisions.

Thomson CompuMark understands the specialized challenges of clearing, registering and protecting trademarks in China and we offer a wide range of solutions to safeguard brands. Among these is SAEGIS™ Online Screening for China that offers screening of marks in their Chinese transliterations. Our China Availability Search conducts an in-depth search of Chinese sources to help you determine whether a trademark is available for use or registration in China. We also offer Chinese character watching to provide expert, ongoing monitoring of non-Latin character marks that alert you to potential infringement.

To find out more about our specialized trademark services, or to learn more about any of the details covered in this report, please contact Victoria Poor at: victoria.poor@thomsonreuters.com

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