

Selling products in China calls for well-executed trademark plan

U.S. companies that are considering doing business in China should be mindful of the unique aspects, risks and opportunities of trademark use and registration, perception and protection in China – then develop a branding strategy.

REGISTRATION

In the U.S., trademark registration is based on the first-to-use principle, under which priority of trademark rights is generally determined by who was the first to use the trademark. Accordingly, successful trademark registration in the U.S. requires the filing of a first-use date and a specimen showing use of the mark in commerce.

In China, trademark rights are generally established by a first-to-file principle, under which whoever first files the trademark application with the Chinese Trademark Office has the priority of rights. Also, domain name rights, which are related in meaningful ways to trademark rights, are based on the same first-to-apply principle.

If a U.S. company considers doing business in China, it should register its trademarks and acquire the related domain names there as early as possible, ideally even before engaging in any serious business negotiations or activities there. It is not unusual for potential Chinese business partners, once they are aware of a company's business interest in China, to file an application for registration of that company's trademark and to acquire related Chinese domain names.

Once the Chinese entity has secured the U.S. company's rights they likely will seek to (i) control or interfere with the U.S. mark owner's production, marketing or business activities such as distribution in China or preventing exports of the company's products; (ii) take a stronger position in negotiating with the U.S. company as a potential business partner and (iii) sell the trademark and domain name rights in China to either the U.S. company or a third party for profit.

PERCEPTION

From a branding perspective, it may not be sufficient for a U.S. company to register only its English trademark in China. Part of the



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purpose of a trademark is to establish a positive, recognizable brand.

In China, the average consumers are not able to read and write English and they heavily rely on trademarks in Chinese language to help them associate with brands. Therefore, a Chinese derivative trademark – a trademark in the Chinese language that is based on or related to the English trademark but usually not a direct translation – may be essential if a U.S. company intends to sell its products or services to Chinese customers.

Unlike most English trademarks, Chinese trademarks usually consist of two or more characters which, as a combination, connote certain meanings. In most cases, a good Chinese derivative trademark should have a phonetic similarity to the original English trademark and have a positive meaning that may be culturally appreciated.

Take Subway, for example. It's Chinese name sounds similar to its English origin – pronounced as sai bai wei – and literally means "taste better than hundreds of others." Thus, Subway is an excellent example of how an English trademark may have a derivative Chinese trademark that is very effective in establishing goodwill and a strong branding and marketing presence.

To the contrary, Best Buy did poorly in adopting its Chinese trademark, which sounds similar to its English origin – pronounced as bai si mai – but literally means "think a hundred times before buy." That's an awful meaning for any retail chain store. Best Buy's poor Chinese derivative trademark likely contributed to the company's failed business in China.

Another example is Viagra. When Pfizer started its marketing efforts to promote the drug in China many years ago, the company failed to adopt a Chinese derivative

trademark and basically all its marketing efforts were made under its English trademark. The English Viagra mark did not catch on with the average Chinese customer who cannot read English.

Instead of referring to the product as Viagra, Chinese consumers commonly refer to the product using the Chinese name which sounds similar to Viagra – pronounced as wei ge – but literally means "great brother." Because Pfizer did not adopt a Chinese derivative trademark for Viagra, the company essentially lost control of the branding and marketing of its product and has faced many unintended consequences in China such as contending with counterfeit products.

A U.S. company expanding to China should strongly consider not only registering its English-language trademark, but also a Chinese derivative trademark. Ultimately, it is the Chinese derivative trademark that is likely to be more recognized and used by the average Chinese consumer.

PROTECTION

Unfortunately, intellectual property infringement is not uncommon in China. Trademark protection through the Chinese courts is a common approach. A U.S. company also may consider an administrative approach to protect its rights.

In China, the State Administration of Industry and Commerce is the administrative agency with the authority to deal with trademark infringement. Agency offices can crack down on the businesses within their jurisdiction that are engaged in trademark infringement activities. In many cases, the agency's administrative remedies can be much more effective and less time-consuming compared with the judicial remedies.

The agency's administrative remedy is a viable option for trademark protection in China. A good relationship with, and a convincing case presentation to, its offices can prove to be extremely helpful in effectively addressing trademark infringement.

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