

Piracy of China's Trade Marks and Domain Names and Cultivation of its Famous Brands

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Abstract

A large number of Chinese trade marks and domain names have been registered improperly or illegally by foreign companies or businessmen. Additionally, a large number of famous Chinese brands have vanished through joint ventures, mergers and acquisitions since foreign direct investment (FDI) came to China more than two decades ago because some Chinese managers have not been fully aware of the value of trade marks and domain names. Consequently, the number of China's registered trade marks and famous brands does not match China's export volume and its Number four trade status in the world. China's enterprises have yet to realize the effects of these events. It is very important for China to protect and cultivate its own famous brands. This paper discusses Chinese companies' neglect of the value of their trade marks and domain names, and the possible consequences. Additionally, this paper puts forward suggestions concerning the protection and cultivation of China's famous brands.

Key Words: Trade Mark, Brand, Domain Name, Enterprise, China

I . Introduction

Among the thirty most famous brands and the five hundred most prominent companies in the world there are only a few from China. Moreover, over seventy percent of Chinese commodities have not been registered in the domestic market.¹⁾ More than six hundred Chinese companies' trade marks and domain names have been registered improperly or illegally by foreign companies.²⁾ As a result of these acts of piracy, Chinese businesses have suffered immeasurable economic losses in their intangible assets. How to protect China's trade marks, domain names and cultivate its famous brands remains a significant problem for Chinese companies.

II . China's Trade Marks, Domain Names and Famous Brands

It was reported that there were over 8 million companies in China, but only 590,000 of them had registered their trade marks. There were 30,000 export-oriented companies in China, but only 11,000 of them had registered their trade marks abroad. By the end of March 1996, of the 10,435 companies authorized to export commodities, two thirds had not registered any trade marks at home or abroad. One third of Chinese products bore foreign trade marks.³⁾

Many Chinese industries have been affected by foreign investment. For example, twelve of thirteen pharmaceutical plants, seven of eight soft-drink companies and forty-nine of sixty beer breweries which had joined with foreign partners surrendered their famous brands.⁴⁾ Three of China's four largest detergent plants have given up their trade marks through joint ventures. A number of rubber tire plants have been purchased by foreign companies, leading to monopolization of the industry.⁵⁾

The ten most famous brands selected through an appraisal in the 1980s have all vanished through joint ventures or by direct acquisition. The famous brands in the 1990s are confronted with cut-throat competition in the commercial war.⁶⁾ Foreign investors have purchased and then buried Chinese brands only to champion their own products. Not only have Chinese famous brands been lost in the establishment of

1) ZHU Mingxia and QI Yongling, "Growing Market Share of Brand Names from Foreign-funded Enterprises Operating in China," *International Trade Journal*, June 1997.

2) *International Business Daily*, January 6, 1996.

3) *International Business Daily*, January 25, 1997.

4) *China Daily*, September 11, 1996.

5) ZHU Mingxia and QI Yongling, *op.cit.*, 1997.

6) *International Business Daily*, December 2, 1996.

joint ventures, but companies have also had their reputations damaged and their well-established sales networks dismantled. The value of a recognized brand name far exceeds a few million Chinese RMB yuan. China needs foreign investment, but a prerequisite for accepting foreign investment should be the retention of its brands. China should not allow its young national industries to compete head-to-head with centuries-old foreign industries without protection.

In many countries of the world, the first to register a trade mark becomes its legal owner. However, when Chinese companies have applied for registration of their trade marks overseas, they have often discovered that foreign businessmen have already registered the mark. Indeed, 15% of Chinese brands have been registered by businessmen abroad.⁷⁾ The purposes of the pre-emptory registrations are to:

- (1) extort high charges if the Chinese company asks to transfer or purchase the brand,
- (2) use the trade mark to gain an advantageous position in the sales of products, or
- (3) stop the Chinese products from entering their markets so that they can sell their own products.

The more famous the brand, the more likely it is to be registered by others overseas. For example, Tongrentang Medicine has been registered in Japan, Tiantan Medicine in Zaire and Indonesia, Butterfly Sewing Machine in Indonesia, and Hero Fountain Pen in Japan, Taiwan and Nepal. The number of Chinese companies' domain names improperly or illegally registered by businessmen overseas amounted to over six hundred. Included in this list are famous brand names such as Haire, 505, Changhong, Wahaha, Qingdao Beer, Jianlibao, and Quanjude Roast Duck.⁸⁾ Forty domain names from Zhejiang Province alone have been registered by others abroad. In 1995, among well-known Chinese brands, 150 in Australia, 27 in Japan, and 48 in Indonesia were registered by foreigners.⁹⁾ Of great concern is the fact that some Chinese companies are not aware of the registration. Nor do these companies seem to understand the negative consequences of these acts of piracy.

Although some Chinese companies have recovered their trade marks or domain names, they have generally paid astronomically high amounts to do so. If a company's trade mark or domain name is registered overseas by others, there are three options:

- (1) the company can not sell its products in that country or region,
- (2) the pirating company may publicize information detrimental to the originating company's product on the internet or other media, or
- (3) the originating company may have to pay astronomically high charges to the registrant overseas to

7) *International Business Daily*, February 2, 1997.

8) *International Business Daily*, January 6, 1997.

9) *International Business Daily*, March 24, 1996.

recover the trade mark. If this payment is not made, the brand name and the design of the trade mark will have to be changed and the originating company will have to cultivate the brand as essentially a new product.

America's McDonalds Corporation paid US\$8 million to recover its brand in a trade mark dispute in Asia. Shanghai Xiehe Sewing Machine Plant spent eight years fighting an Indonesian company, eventually paying US\$200,000 to recover its Butterfly brand in order to maintain its market share in Indonesia.¹⁰⁾

Ⅲ. Issue of Trade Mark Infringement

Products bearing fake trade marks are prevalent in the world, accounting for five percent of the total sales volume and costing 250,000 jobs. The industries concerned lose US\$100 billion annually. It is generally believed that Asia produces the largest number of fake products. In China, fake products have been a public hazard. Almost all the well-known brands in China have been infringed upon to some degree.¹¹⁾ For example, thirty-eight factories in sixteen different locations in China produced fake products with the same famous mark as that legally registered by a factory in Beijing. In the early 1980s, twenty-eight kinds of soft drinks bore the famous trade mark, "Jianlibao".¹²⁾ At the 80th China Export Commodity Fair in Guangzhou in 1996, it was discovered that the brand Penguin had been infringed upon. In 1996 Shengjia company's brand SINGER was found to have been infringed upon. Fake products bearing the SINGER brand were on sale abroad.¹³⁾

In the last ten years the departments at all levels of China's National Industry and Commerce Bureau have investigated over 100,000 cases of fake products. The violating companies were punished severely. In the first half of 1996 Chinese courts dealt with 1,380 cases, as a result, in excess of 2,000 people were convicted.¹⁴⁾

China is the largest exporter of clothes in the world. Its workmanship and technology have reached advanced levels. However, among all the world-famous brands of clothing none are from China, even though several of them are made in China. Beijing Quanjude Roast Duck is featured in many Chinese

10) *Focus by CCTV*, March 5, 1997.

11) NIU Ruchen & ZHAO Chunhua, *Intangible Capital*, Zhejiang University Press, June, 1995, p.113.

12) Compiling Group of Beijing Institute of Finance and Trade, *Management of Trade Marks*, Beijing People's Publishing House, November 1988, pp.1-2.

13) *International Business Daily*, October 20, 1996.

14) *International Business Daily*, April 4, 1996.

restaurants overseas and enjoys a history of over 200 years, but it has not become a world-famous brand and its company has not turned into a transnational company like the much younger American Kentucky Fried Chickens.¹⁵⁾

Over ninety percent of the 85,000 world-famous brands belong to developed countries and regions. Twenty percent of the world's best-known brands belong to the United States and Japan. Since the European Union implemented their Trade Mark Law in 1997, application forms submitted by China for registration of trade marks has amounted to only 61, accounting for only 0.13% of the total number. Meanwhile, China is now the 4th largest trade power. Clearly, the number of trade marks registered abroad and the number of world-famous brands do not match China's trade status in the world.¹⁶⁾

IV. Suggestions Concerning the Protection of Trade Marks & Domain Names & the Cultivation of Famous Brands

Trade marks and domain names are part of a company's intangible assets. The value of a famous brand may be equal to a company's economic profits, considering the publicity the brand can generate over time. In 1995 it was estimated that the brand names Coca-Cola, Nestle, Kodak were worth 35.9, 11.5, 10 billion US dollars respectively.¹⁷⁾ A famous brand can bring inestimable economic benefits to a company.

Chinese brand names Meijiaying and Lumei became almost extinct after Shanghai Cosmetics Co. formed a joint venture with an American company and sold its brands for US\$50 million. After the company regained the right to market its Meijiaying and Lumei brands, the managers concluded that a famous brand is worth more than its negotiated value and that a prerequisite for absorbing foreign investment is to retain one's own brands.¹⁸⁾

A famous brand represents the greatest wealth of an enterprise in its development. If an enterprise intends to maintain or increase its world market share, it must have a brand with its own characteristics. If the company does not have its own brand or its products bear another company's brand, it will probably have no future and no potential for development. Even if a company is permitted to freely use a foreign brand, the foreign brand will become famous through publicity. The intangible assets accumulated through

15) *China Daily*, September 11, 1996.

16) ZHU Mingxia and QI Yongling, "Growing Market Share of Brand Names from Foreign-funded Enterprises Operating in China," *International Trade Journal*, June 1997.

17) ZHU Mingxia and QI Yongling, "Growing Market Share of Brand Names from Foreign-funded Enterprises Operating in China," *International Trade Journal*, June 1997.

18) *China Daily*, September 11, 1996.

the publicity will belong to the foreign company exclusively while expenses for the publicity will be covered by the joint venture instead of by the foreign company alone. In the 1960s, Japanese Sony products began to enter the American market. The Sony's American agent reportedly advised Sony executives that he could guarantee sales of 100,000 units every year if the product bore an American brand name. Sony executives declined the offer by replying, "Today we can not sell well, but in some years our sales volume will multiply."¹⁹⁾ The Sony's declaration has come true. Today, Sony is one of the best-known electronic brands in the world. According to the president of Coca-Cola, the Coca-Cola brand has become so well-known and accepted that even if its visible assets turned into nothing, the company could still prosper and grow.²⁰⁾ Japan's Toshiba has registered more than 10,000 trade marks and has monopolized electronic market. China's Haire has registered 516 trade marks in 128 countries and regions in the world and is among the top 100 brands in the world. Toshiba and Haire are good examples for Chinese companies to follow.²¹⁾

Compared with state-owned companies in China, more private and collective companies have registered their trade marks at home and abroad. Some large and medium-sized state-owned companies have advertised and are selling their products, but they have not registered their trade marks. When Chinese companies have established joint ventures with foreign partners, they have sold their successful brands, generally for a low price. Foreign companies would never do this. Presidents of state-owned companies used to be appointed by the state authorities. As a consequence, these executives did not have a strategic plan. What they were interested in is the short-term economic profits, their workers' welfare, and how to fulfill the tasks assigned to them by the state authorities above during their tenure of office. The accumulation of intangible assets through the cultivation of famous brands could not be realized in the short run. In order to change this situation, the registration and protection of the trade marks and domain names, and the cultivation of their brands should be taken into account when a president's performance is evaluated. Those who have neglected the protection and cultivation of their brands should be demoted or punished. Those whose brands have been well protected and cultivated leading to dramatically accumulated intangible assets should be praised and economically awarded in order that their sense of the value of brands can be strengthened.

Chinese companies must renew their products, increase their variety and styles, renovate their technologies, operate on a large scale and offer efficient customer-service. These actions are necessary to maintain superiority in quality, price and workmanship. In doing these things, the companies will increase their products' competitiveness.

19) *International Business Daily*, March 25, 1997.

20) ZHU Mingxia and QI Yongling, "Growing Market Share of Brand Names from Foreign-funded Enterprises Operating in China," *International Trade Journal*, June 1997.

21) *International Business Daily*, July 27, 1997.

China must make the utmost efforts to open up markets both at home and abroad. Chinese companies used to be operated under the planned economic system. As a result, they overemphasized production while making little effort to enter new markets and advertise their products. In contrast, companies in capitalist market economies spend half of their time and energy publicizing their products, opening up markets for their products and cultivating their brands. For example, it is widely known that a large percentage of America's Budweiser Beer's costs are in advertising. Investing in famous brands is investing for the future of one's national industries. Only by constantly renewing its products, renovating its technologies, attaching great importance to publicity and protection of its brands, and improving its services can Chinese companies create world-famous brands.

Many countries in the world, including China, Germany and Japan have adopted "the first to register" principle for trademarks: Whoever has registered a trade mark first will be the legal owner of the trade mark. Therefore, a trade mark should be registered before its products are advertised and offered for sale. If the product is registered in China, it can be sold only in China. If the product is to be sold in a foreign country, it must be registered in that country before it is offered for sale. If the product is not registered, it is likely that others may register it, especially if it is a well-known brand or if the businessman abroad is dealing in the same product. If this happens, the product bearing the trade mark would not be allowed to enter that country. A registered trade mark is valid only for a certain period of time. Therefore, companies should assign someone to be in charge of the registration, publicity, and protection of trade marks and domain names. The person charged with this responsibility should read the publication, Trade Marks Notice closely and watch developments in the markets at home and abroad. Once it is determined that a company's intellectual property rights have been infringed upon, the company should seek legal protection and submit its objection(s) to the proper authorities. The validity of a trade mark should be extended once it expires. A company can register a trade mark abroad in the following two ways: 1) register it in different countries or regions; 2) register it according to the Madrid Agreement Concerning the International Registration of Trade Marks. Since China is one of the contracting countries of the Agreement, a trade mark will enjoy legal protection in all the contracting countries if the trade mark is registered in any of the contracting countries. All a company has to do is to submit an application to the Department of International Registration of Marks, Bureau of Trade Marks, China National Industry and Commerce Bureau.

Protective trade marks refer to those trade marks registered by the legal owner for different kinds of commodities in order to prevent others from using the same or similar trade marks, and to protect the brand name. Usually only famous brands can have protective trade marks registered. For example, Jindi is a famous brand in China for chocolates produced by China National Native Cereals, Oils, & Foodstuffs Import and Export Company (CNNCOFIEC). In 1993 it registered its protective trade marks for 34 kinds

of commodities and eight kinds of services. Four pairs of different Chinese characters sharing the same pronunciation as Jindi are also used as trade marks for foodstuffs. GOLDLAND is a trade mark for a high quality wine abroad and its Chinese translation is also Jindi, whose two Chinese characters are registered in Taiwan. A Taiwanese businessman wanted to use the two Chinese characters as a trade mark in China's mainland to sell his wine. However, since the trade mark had already been registered by CNNCOFIEC, the businessman had to withdraw.²²⁾

If a Chinese famous brand is registered abroad by others, the Chinese company can deal with the case in the following four ways according to the Paris Convention for the Protection of Industrial Property:

- (1) Ask the foreign company to return or transfer the trade mark to the Chinese company through negotiation. The Ministry of Commerce and China National Industry and Commerce Bureau can cooperate to negotiate with the local government through diplomatic channels to settle the case.
- (2) When it is determined that someone abroad has applied for registration of a Chinese trade mark, the Chinese company can raise an objection to stop it.
- (3) If it is less than a year since a trade mark has been registered by others, the Chinese company can raise an objection to cancel it.
- (4) If it is already a year since a trade mark was registered by others, the Chinese company must prove that the foreign company registered the mark improperly with fraudulent intentions.

When Chinese domain names are registered on the Internet by others, the Chinese companies can pursue the matter in the following three ways:

- (1) If both parties can show the registration documents to prove that both are the legal owners of the trade mark, the party registering it first can continue to use it while both parties resort to legal means to solve the dispute.
- (2) If the company which first registered the trade mark can not prove that they are the legal owner and the Chinese company can do so, the Information Center of the Internet in charge of international registration of domain names will ask the Chinese company to register a new trade mark in 90 days and the trade mark in dispute will be suspended until the court's verdict.
- (3) Both parties may solve a trade mark dispute through negotiation. The Information Center of the Internet will comply with the agreement reached between the parties.

In the United States, Austria, Spain and some countries of the British Commonwealth, when a trade mark is originally used, the user becomes the legal owner. Therefore, the legal owner may seek recovery of the trade mark when it has been improperly or illegally registered by others. To be successful, the

22) *International Business Daily*, November 15, 1996.

original user must show that they used the trade mark first. In the United States, if a trade mark is not used for a period of two years from its registration date, its validity may be legally challenged. If a trade mark is not used for three years, the registered trade mark will be cancelled and another application for registration must be submitted.

V. Conclusion

As a result of Chinese companies' neglect of the protection of their trade marks and of the cultivation of their famous brands, China has sustained great economic losses by allowing its well-established brands to be absorbed through foreign investment. Chinese enterprises' exclusive rights of their trade marks and domain names have been frequently infringed upon. However, if Chinese companies cease their outdated practices, strengthen their sense of the value of their brands, adopt the "register first and sell second" strategy, attach importance to the cultivation of famous brands, constantly renew their products and renovate their technologies, aggressively publicize their brands and open up markets, use laws to defend their famous brands, they are sure to be in a favorable position in the face of ever-increasing world competition. Consequently, China's intangible assets will be protected and China's national industries will become increasingly stronger.

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