

# Should Your Company Register Its Trademark in China? Ask Ben Franklin.

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While considering whether to register his trademark in China, Ben Franklin would follow his own mantra: “an ounce of prevention is worth a pound of cure.”

China is a “first-to-file” jurisdiction when it comes to acquiring trademark rights.<sup>1</sup> That means that the first person to register a trademark rather than the first person to use a trademark has superior rights in China. In other words, someone who merely registers a trademark in China, without any use of that mark, still trumps a prior user of an unregistered mark. Unlike the U.S., there is simply no common law protection for unregistered trademarks in China except possibly in the case of well-known marks. But the “well-known” mark argument did not work for Tesla, for Apple with iPad, for Pfizer with Viagra, and even for basketball legend Michael Jordan. Apple reportedly paid \$60 mm to use its iPad trademark in China.<sup>2</sup>

U.S. businesses need to know that their prior use of a trademark anywhere in the world, including inside China, will not grant them any trademark rights or protection in China. Nor will their prior registration outside of China protect their trademark in China. In fact, the use of the “circle R” in China based solely on a U.S. trademark registration will subject you to penalties and fines.<sup>3</sup> A Chinese registration is necessary for protection, period. So, imagine

that you are manufacturing or selling products in China under a trademark not yet registered there, and someone else without any prior use registers your trademark in China before you do. This so-called “trademark squatter” can wreak havoc on your business.

Trademark squatting is widespread in China. Unless your business has a prior Chinese trademark registration, a “squatter,” after registering your trademark, can prevent you from using it or even make you pay them a licensing fee to use your own mark! That’s exactly what happened to Tesla, Apple, Pfizer, Michael Jordan, and countless others.

Even if your company manufactures in China solely for export, a trademark registration is advisable. If your mark is registered by a squatter, you can be sued for trademark infringement, be accused of counterfeiting, and be prevented from exporting your own products. And, you certainly cannot prevent the squatter from using your mark, allowing them to “legally” manufacture counterfeit goods. Ben Franklin would avoid this nightmare by simply registering his trademark in China before his business becomes successful.

Although recent changes in Chinese trademark law which became effective in May 2014, were aimed at curtailing the impact of squatters, the effectiveness of the new laws remains to be seen.<sup>4</sup> There is now a “good faith” requirement for applications which, for example, should lead to the rejection of a Chinese trademark application by a manufacturer, distributor or agent working for a foreign company that is using an unregistered trademark in China. Blatant attempts to squat should be eliminated. There

is also an element of “consumer confusion” in the new Chinese trademark law for proving infringement. This suggests that if you only manufacture for export in China, a registration is not necessary for protection because Chinese consumers cannot be confused by the sale of goods or services bearing a mark only outside of China. Unfortunately, there is little in the way of Chinese court precedent to confirm how that new law will be interpreted. There is also a three-year limit for non-use, meaning trademark protection could be lost if a squatter registers your mark but does not use it within three years of registration. But three years in today’s fast-paced economy is an eternity.

All things considered, you should still heed the advice of Ben Franklin. Be proactive and register your trademark in China to avoid penalties and fines or the time and expense of a protracted trademark infringement litigation there. You should seek a trademark registration for anything that identifies your brand, such as your trade name, logo, slogan, or even the shape of your product if your goods or services are sold, manufactured, developed, or shipped in China or will be in the near future. In addition to the English words of your trademark, you should file an application to register a transliteration of your trademark in Chinese characters because the majority of China’s nearly 1.4 billion people do not read English and, therefore, Chinese consumers will create their own name for your goods or services. You can often select a Chinese transliteration that sounds similar to your name and conveys a positive message about your product. Examples of well-known brands that have done this are Nai Ke for Nike, which means “enduring” and “persevering,” Sai Bei We for Subway, which means “tastes

better than yours,” and Ke Kou Ke Le for Coca Cola which means “delicious” and “happy.” You can also be more creative like Citibank which registered Hua Qi Yin Hang which means “star-spangled banner bank.”

The cost of a Chinese registration when compared to penalties for unregistered use or litigation in China is relatively minimal – less than \$1,000 per trademark class.

Research by the United States Patent and Trademark Office revealed that only fifteen percent of small businesses conducting business abroad knew that U.S. trademark rights do not extend overseas.<sup>5</sup> With ninety-five percent of the world’s consumers living abroad, U.S. businesses have to consider selling their products and services overseas, especially in China, to remain competitive.<sup>6</sup> If you are one of those businesses, protect your trademark before you need a pound of cure.<sup>7</sup>

<sup>1</sup> “Don’t Sit and Wait: Stopping Trademark Squatters,” *Inventors Eye*, United States Patent and Trademark Office, Feb. 2013, volume 4, issue 1, available at [http://www.uspto.gov/inventors/independent/eye/201302/TM\\_Squatting.jsp](http://www.uspto.gov/inventors/independent/eye/201302/TM_Squatting.jsp) (last visited Jan. 19, 2015).

<sup>2</sup> “Apple Settles an iPad Dispute in China,” *Keith Bradsher*, *The New York Times*, July 2, 2012, available at <http://www.nytimes.com/2012/07/02/business/global/apple-settles-an-ipad-trademark-dispute-in-china.html> (last visited January 22, 2015).

<sup>3</sup> See Chinese Trademark Law, Articles 10 & 52; “Key Amendments of New Chinese Trademark Law 2013, Jason Wang & Yan Zhang, Oct. 1, 2013, available at <http://ipchina.ip4all.com/?p=288> (last visited Jan. 29, 2015).

<sup>4</sup> See China’s New Trademark Law, Zhang Mao, *World Intellectual Property Organization*, Sept. 2014, available at [http://www.wipo.int/wipo\\_magazine/en/2014/05/article\\_0009.html](http://www.wipo.int/wipo_magazine/en/2014/05/article_0009.html) (last visited Jan. 19, 2015).

<sup>5</sup> “What Every Small and Medium Sized Business Should Know About Intellectual Property,” *Sue A. Purvis*, United States Patent and Trademark Office, available at <http://www.uspto.gov/about/offices/ous/121110.pdf> (last visited Jan. 19, 2015).

<sup>6</sup> “Don’t Sit and Wait: Stopping Trademark Squatters,” *Inventors Eye*, United States Patent and Trademark Office, Feb. 2013, volume 4, issue 1, available at [http://www.uspto.gov/inventors/independent/eye/201302/TM\\_Squatting.jsp](http://www.uspto.gov/inventors/independent/eye/201302/TM_Squatting.jsp) (last visited Jan. 19, 2015).

<sup>7</sup> Gracie C. Wright, an associate at Ruskin Moscou Faltischek, P.C., assisted with the preparation of this article.