



Canadian Social Science
Vol. 12, No. 6, 2016, pp. 20-25
DOI:10.3968/8510

ISSN 1712-8056[Print]
ISSN 1923-6697[Online]
www.cscanada.net
www.cscanada.org

A Study of the Strategies Adopted by Italian Enterprises in China for the Protection of Intellectual Property

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Received 26 February 2016; accepted 10 April 2016

Published online 26 June 2016

Abstract

Italy is a major manufacturing exporter. The export revenue takes up a significant proportion of its national income to which exported commodities of Italian brands contribute a great deal. This is why the Italian authority has been making continuous efforts to crack down on intellectual property infringement for the protection of Italian exports and ultimately the stability of the Italian economy. Once entering the Chinese market where counterfeit consumer goods go rampant, Italian enterprises have the urge to fight against different kinds of counterfeiting under the intellectual property laws so that the trustworthiness among consumers and the benefits brought by intellectual property rights protection can be maintained.

Key words: Italian enterprises; China; Intellectual property; Protection strategy

Zhang, H. H., & Dai, J. Y. (2016). A Study of the Strategies Adopted by Italian Enterprises in China for the Protection of Intellectual Property. *Canadian Social Science*, 12(6), 20-25. Available from: <http://www.cscanada.net/index.php/css/article/view/8510>
DOI: <http://dx.doi.org/10.3968/8510>

INTRODUCTION

The 21st century is just an era of knowledge economy. Against such a background, intellectual property (hereinafter referred to as IP) is not only part of the human wealth, but also, more importantly, a tool for enterprise to gain benefits. Italy has been taking the lead in the IP development in Europe. For one thing, Italy ranks

top worldwide in terms of the total amount of patents. According to the European Patent Office (EPO), over the past 10 years, Italy has authorized 36,000 patents in total with an average increase of 4.6% annually (Ministry of Commerce, 2010), which earns it the 8th place among 12 most developed countries. For another, Italian pioneers in the innovation of certain practices of IP protection. “The latest innovation includes the introduction of new anti-counterfeiting technologies, Internet-involving IP protection, integration and simplification of patent and trade mark regulations, and online applications for patents” (Ministry of Commerce, 2008).

With the ever closer business ties and trade relations between China and Italy, it concerns Italian enterprises as to how to cope with the counterfeiting in the Chinese market and protect the IP of Italian brands. By probing into the strategies for IP protection that Italian enterprises in China adoption, this essay aims to provide Chinese businesses with certain suggestions for their exploration of the global market as well as self-improvement.

1. CURRENT SITUATION OF IP IN ITALIAN ENTERPRISES IN CHINA

It is a reality that the Chinese market, to pursue economic benefits, is imbued with various acts of counterfeiting and infringement. Statistics from State Administration for Industry & Commerce (SAIC) of the P.R.C. show that during the 11th Five-Year Plan, China has seen the occurrence of 265,000 cases of IP infringement. 53,000 cases, a roughly 20% of the total, involved “foreign brands”. The overall number of trademark infringement cases involving foreign businesses reached 11,524, which was a 10% increase compared to the data of last year.

In spite of China’s unpleasant climate of IP protection, foreign enterprises still keep flooding into the Chinese market. What is the reason for this? Through an analysis of the IP infringement cases that involve foreign

enterprises nationwide, it is easy to learn that the foreign companies in China have already formulated a series of protective measures to deal with IP protection in the Chinese market, which will not only protect the IP of enterprises from infringement, but will also help them obtain greater benefits. A combat for IP protection between Chinese businesses and foreign enterprises in China has been on without fire.

For instance, from 2003 to 2008, courts in Zhejiang Province dealt with 464 IP disputes in total involving foreign businesses. The two sides are mainly China's private businesses and enterprises from developed countries, especially those from the US, Japan and Italy. In these cases where foreign enterprises are the obligees, up to 95% of them win the lawsuits. Therefore, it can be concluded that the foreign enterprises in China, especially large multinational corporations, are equipped with a set of strategies for IP protection that are functional and effective in China.

2. AN OVERVIEW OF THE IP PROTECTION OF THE ITALIAN ENTERPRISES IN CHINA

According to the statistics from ISTAT, China became Italy's third biggest non-EU source of exports in 2011, following the US and Switzerland. According to the data released by China's Ministry of Commerce, the bilateral import and export trade between China and Italy reached 43.14 billion US dollars in 2012, making China the biggest source of exports in Asia for Italy. As is shown, Italy and China have established increasingly close economic ties with each other.

Italy's Unioncamere gave the statistics that there had been 6.01 million Italian enterprises in total by March 31, 2014. Italian businesses are small in general, most of which are small and medium-sized enterprises where over 95% are made up of 1 to 9 staff. However, the statistics also show that around 1,500 Italian enterprises have set up representative offices in China, accounting for 2.5% of the total amount of Italian enterprises. Take Italy's clothes and luxury brand Prada as an example. Prada entered the Chinese market via Hong Kong in 1988. In its 2013 planning, it established the goal of opening up to 70 to 80 new retail stores worldwide among which 10 to 12 would be in China, making up 10% of the total amount of stores newly opened worldwide.

Apparently, Italian enterprises have a sound momentum for growth in China, with their deep understanding of the Chinese market and even a management model formed to adapt to the Chinese market where intellectual properties lack protection.

IP disputes facing Italian enterprises are mostly trademark infringement and misappropriation of trade secrets, and the former outnumbers the latter. Most

trademark infringement cases happen in the course of business operation involving the sales of infringing products. Therefore, this essay, focused on the IP protection for Italian enterprises in China, will explore the strategies they employ to protect their trademarks. So far, trademarks of Italian enterprises in China are most often infringed upon in clothing, luggage and bags and leather goods industries that have high requirements of design. The trademark infringement often takes place in the following forms.

Type I: Producing products with the labeling of the original brands attached and selling counterfeit Italian goods.

This type of trademark infringement is commonly seen in second or third-tier cities and small towns. It is often small and medium-sized businesses that are lacking in funds and equipped with the most basic production tools and labor force that conduct such acts. They fail to afford the expenses of agent authorization or hire talented designers for research and development, not to mention possess their own brands. Producing substandard products at low costs, they directly use the labels of original brands and sell counterfeit goods for profits.

Type II: Making minor adjustments to the trademarks or brand names of Italian goods

Minor adjustments are made to the trademarks or brand names of Italian goods. Then the modified version is registered and produced home or abroad to confuse the public. It is often those companies with enough funds as well as design and R&D capabilities or even their own brands that risk themselves on the edge of law violation, coming up with slightly modified versions of the recognizable international brands and registering patents and trademarks, so as to build up a positive brand image, increase their brand awareness and expand their market. Given that a false image of "big brands" is created, many regard them legal. However, as far as consumers are concerned, brand imitation leaves a false impression on consumers and misleads them, and thus being somewhat deceitful.

In 2007, Mr. Wang, a Chinese businessman, had his No.3461360 kangaroo trademark registered which was very similar to the "letters + kangaroo" trademark of Alpina (Italy). Unlike Alpina's trademark used on artificial leather goods, Wang's was mainly on schoolbags, umbrellas and animal skins. But Italy's Alpina won the lawsuit due to the similarity of two versions of trademarks on similar commodities.

Type III: Misappropriating Italian trademarks or using them in a different sector.

Infringers that conduct such act are basically those mentioned in the second type. They often misappropriate brands with high reputation to promote their own products that can be rival products to those of the imitated brands or in a completely different field. As far as the production

is concerned, producing infringing products is legal but misappropriation of trademarks is illegal.

A most famous case of trademark infringement in the same sector is the 2008 lawsuit in which the leading Italian manufacturer Camoga S.p.A. accused Yancheng Kaimogao Machinery Co., Ltd of using its registered trademark—CAMOGA—as its domain name—“www.camoga.net” and www.chinacamoga.com—without consent. Eventually, Camoga (Italy) won the lawsuit because it had secured the extended territorial protection through the international trademark registration in Madrid in accordance with the Madrid System, which became a typical case of IP legal protection in China.

Another case involving trademark infringement in different sectors is the dispute between Juventus Football Club S.p.A. and Nanjing Yixun Technology Co., Ltd over the domain name “juventus.com.cn”. Yixun had registered the domain name in China on June 3rd, 2003 while Juventus set up its official Chinese website in 2005. In 2006, Juventus filed a complaint to China International Economic and Trade Arbitration Commission (CIETAC). CIETAC ruled that the disputed domain name should be transferred to Juventus because it had obtained extensive territorial protection for the marks in China.

Type IV: Counterfeiting Italian brands

The infringers are often companies with sufficient funds, strong production, financing and management capacity and even high reputation in the industry. Da Vinci Furniture’s scandal is an example. These companies take advantage of their reputation and create false Italian brands, some of which are not even registered in Italy, leaving a false “made-in-Italy” impression for consumers through brand names or trademarks.

In China, there is a massive amount of counterfeit foreign brands. In 2012, the Beijing office of the Intellectual Property Rights Department of the Italian Trade Commission (ITC) reported a list of over 30 fake Italian brands involving a number of industries including Jajemon (bedding), SABO (kitchenwares), San Marco (clocks and watches) and Toskany (leather goods). Take Italy Pochini International Group Co., Ltd as an example. Established in Hong Kong in 2005, it has claimed itself to be a recognizable Italian brand, misleading consumers, because it had not registered its trademark until 2010.

3. MAIN STRATEGIES EMPLOYED BY ITALIAN ENTERPRISES IN CHINA FOR IP PROTECTION

From the relevant information and cases, it can be discovered that, from a corporate perspective, Italian enterprises mainly adopt two types of strategies—defensive strategy and anti-infringement strategy—for IP protection in the Chinese market.

3.1 Defensive Protection Strategy

Normally, Italian enterprises engaged in design or innovation have an important IP management team, made up of a group of professionals including IP experts, lawyers, assessors and market analysts. Inside the enterprise, this professional team has to make sure that the ownership of outcomes of scientific research belongs to the enterprise and that agreements are signed by the corporate staff and implemented on the protection of IP and trade secrets. Outside the enterprise, they are in charge of the management and operation of corporate trademarks and patents. In general, defensive protection strategies used by Italian enterprises include legal protection strategy, anti-counterfeiting protection strategy and brand image protection strategy.

3.1.1 Legal Protection Strategy

Law is the most fundamental and significant method for intellectual property protection. In China, the key to winning lawsuits involving intellectual property disputes is the registration of trademarks and patents. To ensure legal protection, the most basic way is to register trademarks and apply for patents. After entering foreign markets, Chinese enterprises will apply for legal protection. As for Italian enterprises, they will register trademarks and file patent applications before entering the Chinese market. This strategy is called “patent/trademark first strategy”.

(a) Patent application

There are two characteristics of Italy’s patent applications in China - massive amount and high quality. According to the statistics from the Chinese Patent Office, the number of patent applications filed by Italy has reached up to 18,019 from 1985 to the end of 2011, among which 13,050 were inventions, 4,636 were industrial designs and 333 utility models, accounting for 72%, 26% and 2% of the total respectively. Judging from the statistics, one can discover that Italians attach great importance to patent applications and excel in inventions and innovations. Patents for inventions are the most valuable among various types of patents.

In contrast, over 70% of the large and medium-sized state-owned enterprises as well as 95 percent of small businesses in China have not applied for patents by 2006, according to the statistics from SIPO. In the “863 program”, only 20% of the outcomes that have resulted from the program were patented. Even the ownership of some cutting-edge ones had to be given up because they were not patented.

(b) Trademark registration

According to the statistics from the Trademark Office of SAIC, the number of trademarks registered by Italian businesses in China has exceeded 5,000 (those registered in Madrid excluded), thus making Italy the fifth largest European country in terms of the number of trademark applications in China, following the UK, France,

Germany and Switzerland. Moreover, Italian enterprises pay close attention to detail issues in the course of trademark registration such as the geographic regions in which the trademarks are valid, business areas to which trademarks can be applied and international registration of trademarks.

By registering trademarks internationally in Madrid, Italian businesses have managed to secure trademark protection in more countries/jurisdictions. The legal protection can effectively prevent overseas enterprises from trademark infringement, making it more convenient to protect trademarks. In China, the first Italian trademark that obtained extended territorial protection through litigation is the well-known Italian chocolate brand Ferrero's three-dimensional mark. Since 2007 when the protection was granted, the use of Ferrero's classic golden package has been banned on China's domestic chocolate brands.

Italian enterprises often register a series of defensive trademarks aimed at different sectors. Take Gucci as an example. In the trademark infringement lawsuit against Shanghai Mailun Stationery Co., Ltd, Jiangsu Lixin Paper Products Co., Ltd and Hongkou district outlet of Century Lianhua Supermarket, the world-renowned Italian fashion house Gucci won the compensation because it had registered a series of trademarks in advance including those used on stationery.

Italian enterprises in China also place emphasis on the registration of the Chinese version of its trademarks. Ariston Thermo Group of Italy had registered its trademark in both Italian and Chinese as "Ariston 阿里斯顿 (a li si dun)" before entering the Chinese market. It won the lawsuit in 2009 against the Arizhu company in Foshan because it enjoys the exclusive rights over both the Italian and Chinese versions of its registered trademarks—Ariston and 阿里斯顿.

From a statistical point of view, applications for trademark registration filed by Chinese businesses overseas are far fewer than those by their foreign counterparts in China, according to the data from the Trademark Office of SAIC.

In 2010, the number of trademark applications filed by foreign companies in China amounted to 98,727 but there were only 1,928 trademark applications filed overseas by Chinese applicants through the Madrid international registration system. By the end of 2010, a cumulative total of 154,000 trademark applications filed by foreign companies had been recorded in China but only 11,400 ones by Chinese applicants in overseas markets. (Xinhua News, 2011)

3.1.2 Anti-Counterfeiting Protection Strategy

The anti-counterfeiting strategy is the most straightforward and commonly used strategy for IP protection. Italian enterprises have developed a variety of anti-counterfeiting technologies and a wide range of labeling such as country of origin, technical criteria and materials so as to provide information necessary for consumers to distinguish

between real and fake products. With the technology becoming more advanced, the technical standards have become more complicated. Moreover, the quality of a product depends on its raw material most of the time. Thus, Italian enterprises use technical criteria labeling such as pure wool label, GB label and RFID tag for wine so as to increase their brand awareness. They take pains to invent all types of anti-counterfeiting technologies and methods.

Among all types of anti-counterfeiting inventions, the most interesting and modern one should belong to Briton S.p.A. (Italy). The manufacturer is engaged in providing all types of mechanical products and has established the Website www.breton.it that automatically matches customers with their information. Only those with purchase records are able to log in the website and look through detailed product information.

The most ground-breaking anti-counterfeiting invention should be the application of DNA technologies in brand protection. Because of its unique and complicated sequences, the DNA will be combined with some special material and then implanted into the anti-counterfeiting carriers which can be categorized as DNA anti-counterfeiting ink, tag and chip.

Furthermore, the soaring Italian luxury industry has invested a great deal of anti-counterfeiting technologies. So far, luxuries most sold in China are mostly garments and leather goods. Considering the nature of these products, anti-counterfeiting technologies must make real products more difficult to reproduce and counterfeits easier to detect. However, authorized third-party institutions for the detection of fake products have not been set up in China. Even if such institutions exist, it will take a long time—six months or so—and fairly high expenses to assess the products. Therefore, the most commonly used anti-counterfeiting tools in the Chinese market are still labeling and receipts.

3.1.3 Brand Image Protection Strategy

This strategy is not used by all enterprises due to their different development patterns and the industries they are in. For all successful multinational enterprises, what they have in common is their deep understanding of the cultures they do business in. Italian enterprises are no exception. While striving to make profits, they value cross-cultural communication, make efforts to fit in with Chinese society and culture and participate to social events so as to improve the image and reputation of their brands and enterprises themselves.

Since 2009, the famous Italian jewelry brand Bvlgari has partnered with Save the Children—the leading independent international charity organization for children in need, raising over 9 million dollars of donated funds and providing better education for over 200,000 disadvantaged children worldwide. Meanwhile, the first STC silver ring was designed to support Save the

Children. Whenever a STC ring is sold, €75 is donated to the organization to support its programs for children’s education. It successfully transformed the role of Bvlgari from a businessman and intervenor to a participant proactively engaged in social affairs for the social good, improving its social reputation. What’s more, more talents have been recruited to its enterprise, bringing an increasing number of loyal brand consumers.

The 2007 Report on Charitable Donations in China released by China Guanghua Science and Technology Foundation indicated that Italian enterprises in China participated in the public charity by giving donations to or sponsoring events for charitable purposes and contributing to education or environmental protection, whose donations accounted for 12% of China’s total charitable donations from overseas.

3.2 Response-Making Protection Strategy

It is mainly employed after brand infringement occurs. Faced with all types of cases of trademark infringement or trade secret misappropriation, Italian enterprises in China mainly respond with two strategies - “indifference” and “anti-infringement”.

3.2.1 The Strategy of Indifference

This strategy is mainly applied to infringement cases where counterfeit products are produced and sold with Italian brands directly attached to. The target customers of the Chinese enterprises producing these products are mostly lower-income customers in small and medium-sized cities. This group of people knows little about Italian products and can hardly afford them. Therefore, Italian enterprises in China targeting high-income customers in big cities do not bother to waste resources to gain their recognition. Most of the time, Italian enterprises turn to the Trade and Industry Bureau

and customs for handling the cases rather than resort to lawsuits.

Of course, there are exceptions. Some Italian enterprises do file lawsuits against small businesses infringing on their intellectual property rights for the sake of their long-term development in the Chinese market. For example, PRADA (Italy) sued the Beijing Xiushui Haosen Clothing Company in 2005 for failing to stop the sale of fake products and allowing trademark infringement in its market. PRADA won the compensation in the end.

3.2.2 The Strategy of Anti-Infringement

When their intellectual property rights are infringed upon, some multinational companies invite those law-breaking businesses to become their distributors and agents. However, Italian enterprises in China seldom use this “pacifist” strategy because they hate such businesses and would take legal action especially when faced with the misappropriation of trade secrets. To begin with, established Italian enterprises conduct regular checks in the market in which professionals will be organized to investigate, analyze and collect evidence once brand infringement occurs. They will take proactive measures against the law-breaking businesses once their rights are violated. If the case is minor, Italian enterprises will normally write them a warning letter. If the acts of infringement are not stopped, they will turn to the Trade and Industry Bureau and customs for help to confiscate counterfeit products or close the factories held accountable. If the case is severe, posing threats to their corporate brand image and business interests, they will file lawsuits. In general, Italian enterprises are more accustomed to legal action in China because the litigation is simpler and consumes less time and fewer expenses, compared to that in Italy.

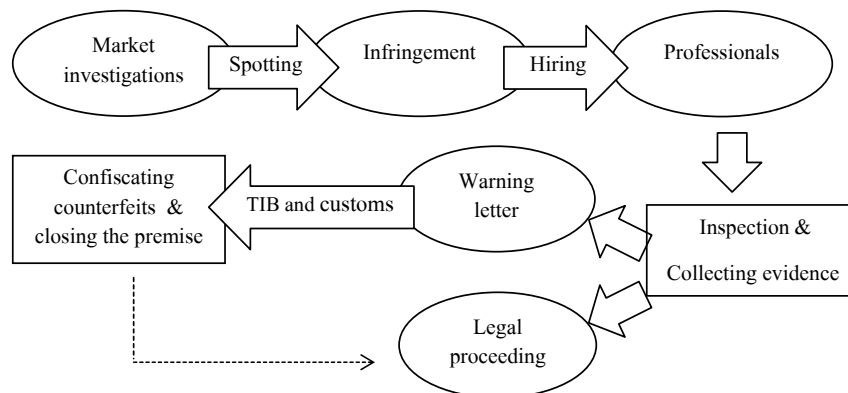


Figure 1
Legal Action Taken by Italian Enterprises for Rights Protection

Italy has been endeavoring to perfect its IP system which is already at the cutting edge in Europe. With a rather complete and mature set of theories and legal system, Italy has somewhat innovated its practices,

some of which are even world-leading. As a founder of the EU, the Italian government has made the best of its international status, improving the development of the international IP system and facilitating the formulation of

important international laws. The huge success of Italian businesses in China suggests that they should become the subject of our study and research.

With the ongoing economic globalization and facing increasingly intense competition, Chinese enterprises must step out of China and go global. Before entering the overseas market, they can learn from the successful experience of Italian businesses in China based on the needs of their corporate development. Defensive or anti-infringement measures can be taken to protect the intellectual property of their enterprises. For one thing, trademark registration and patent applications should be attached importance to. For another, it is advisable to develop anti-counterfeiting technologies and build up a positive brand image so as to get the upper hand in the international market.

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