

FINANCIAL REVIEW

Penfolds suffers from China squatters

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Treasury Wine Estates failed to register the Chinese name for Penfolds and is now locked in a protracted legal battle with a notorious trademark squatter in an effort to regain ownership of the iconic name.

An investigation by *The Australian Financial Review* has found that a rival wine company has registered three variations of Penfolds' Chinese name, Ben Fu. This potentially leaves Treasury open to a hefty fine for trademark infringement and could also allow the rival to sell wine using the Chinese name for Penfolds.

"Treasury has little choice but to buy back the name at a hefty price or relaunch the brand in China," said wine consultant Andy Tan from Mad Wines. "Actually the Chinese company has done nothing wrong. In China the first person to register the name has the right to use it."

Electronics giant Apple, electric car maker Tesla and French winemaker Castel have all suffered similar problems in China, due to its so-called "first to file" rule.

New Chinese trademark laws which came into effect on May 1, should make this more difficult, but previous judgements have not been favourable for foreign companies. Last August a Chinese court ordered Castel to pay Yuan33.73 million (\$A5.8 million) for trademark infringement, after a rival wine company registered its Chinese name in 2000. Castel is appealing the judgement, but it has abandoned its well-known Chinese name and relaunched the brand.

Penfolds is up against the same trademark squatter, who won the record judgement against Castel.

Chinese names

In China many consumers can't read the Latin alphabet and therefore the Chinese name and associated characters are often far more important than the English or French brand name.

Penfolds is considered to have chosen a very good Chinese name, as Ben Fu roughly translates to "dashing towards wealth".

In a statement to the *Financial Review*, Treasury said it had been engaged in litigation to "ensure the integrity of the brand" in China for the past three years. Treasury said it won an initial court case, but the defendant has since appealed.

"This appeal is still pending and it will take time for the Chinese legal system to process this matter," it said without giving a timeframe. Treasury has not previously disclosed the lawsuit.

The trademark issue comes as Treasury suffers from falling sales in China and as it attempts to fend off a \$3 billion takeover bid from private equity firm Kohlberg Kravis Roberts.

According to the London-based, International Wine and Spirit Research, China edged out France as the biggest consumer of red wine in 2013. In all categories – white, red and sparkling wine – China is ranked number five, but is drinking twice as much wine as it did five years ago.

Notorious trademark squatter

Treasury's opponent in its Chinese dispute is the notorious trademark squatter Li Daozhi, who also uses the name Daniel Li.

Another man Li Shen, thought to be a relative of Daniel Li, is also involved.

A search of the China Trademarks office shows that Li Shen has the rights to use the Ben Fu name until July 2019 and a more artistic drawing of the characters until March 2024. Both of these are registered in the spirits and wine category.

The Ben Fu name in the hotels, bars and restaurants category is owned by Li Daozhi. He holds this until April 2021. Efforts to contact either of the Li's were unsuccessful.

Despite Castel appealing the adverse ruling against it in China, Li Doazhi is firmly in control of its Chinese brand name – Kasite.

He has even used the brand to sponsor the French Olympic fencing team and was the name sponsor of Wine Futures 2012, a major industry conference held in Hong Kong.

After winning the case against Castel last year, Li Daozhi said money was not his aim. Rather, he wanted to stop "trademark infringement" from those who "want to make money through copying famous brands".

The Kasite brand has since been awarded the title of "well-known imported wine brand" – the highest ranking given out by China's Trademark office.

Only five other foreign beverage brands in China have been given this status – Chivas, Remy Martin, Martell and Hennessy.

The most expensive trademark squatting payout in China was thought to be Apple's efforts to secure use of the iPad name.

In July 2012 it paid a reported \$US60 million to secure use of the name in China, after another company claimed ownership and sought to prevent Apple selling its tablet computer in China.

Last week a trademark squatter sought 23.9 million yuan in compensation from electric car maker Tesla, claiming it was illegally using its own name in China. The lawsuit also demanded Tesla shut down its Chinese showrooms and service centres.

The Australian Financial Review

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