



ZY Partners – A Boutique Litigation Firm in Beijing

# What SME must know about China Intellectual Property



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# Overview

- A Deeper Understanding of Patents in China
- The truth of Trademark Protection and Strategies
- Important Tips on Developing IP Portfolios
- Pay Attention to your designs and Trade Secrets
- Other Important Areas – Internet, License, Government Relations

## A Deeper Understanding of Patents in China

- There is some validity to be suspicious about the effectiveness of the patent system. But you may lose some opportunities if you insist on such views.
- Fast growing number of patent disputes and increasing efficiency of court adjudication of patent cases
- Increasing amount of damages in patent lawsuits
  - Strix (Isle of Man) won damages up to US\$ 1.4 million in Feb 2010 in its invention patent litigation
  - Neoplant (Germany) won a design patent case against a local auto maker and received damages close to US\$ 4 million
- Ongoing improvement of the Court System
  - A Maturing Body of IP judges that are keen to learn
  - Ongoing updated rules and regulations

## A Deeper Understanding of Patents in China – New Trend

- More foreign companies realize the importance of patent litigations for the purpose of winning the market
- Local Chinese firms are filing many more patents than ever
- Local firms are even aggressively relying on their own patents to sue foreign competitors in China
- In China, a patent owner may stop exports of products at the customs!

## A Deeper Understanding of Patents in China – Recommendations for SME

- Build your patent portfolio in China
  - If you don't, your competitors, Chinese or non-Chinese will.
- Consider analyzing the patents of your key competitors in China
- When appropriate, you have to enforce your own patent to set an example
- Your patents may become a huge leverage when dealing with big size competitors.

# The truth of Trademark Protection and Strategies

- The counterfeiting problem remains serious
- The Internet makes the problem much worse
- Three major ways for enforcement
  - Criminal (relying on police)
  - Civil (IP owners file the lawsuits)
  - Administrative (Requesting government authorities to raid)
- Criminal enforcement remains weak compared to the size of the problem
  - The total amount of criminal cases (about 700,000 cases) v. IP criminal cases (1,000-5,000)
- Civil Enforcement – Courts are becoming progressive
- Administrative Enforcement
  - Cost efficient
  - Lacking deterrence
  - Incompetent in dealing with large scale infringement

# The truth of Trademark Protection and Strategies

- It does take stamina and persistence to deal with counterfeiting and piracy
- Don't hope it can be resolved overnight
- It is part of the competition in the market
- You can never give it up though
- Select and win the cases you can win
- Group together to target at common problems

## Important Tips on Developing IP Portfolios

- Trademark Portfolio
  - File as early as possible
  - Bad faith “squatting” of Trademarks is a big headache
  - Courts are improving rules to strike at the squatting behavior
  - Protecting your marks in Chinese characters
  - Consider recording your trademarks with Chinese customs



# Important Tips on Developing IP Portfolios

- Patent
  - Translation, translation and translation
  - Be careful about the prosecution estoppel
  - Be mindful about what you did with the counterparts in US and EU
  - Software patents that produce technical results are allowable
  - There are some hopes to patent computerized icons and graphic user interface

# Pay Attention to Your Designs

- Three Ways to Protect Your Designs
  - Design patent
  - Copyright protection as “applied art”
  - Trade dress under the unfair competition law
- Expedited process to obtain design patent (3 months)
- The new patent law requires higher level of patentability for designs
  - Absolute novelty standard: good for foreign designers
  - Some degree of inventiveness is now required
- The trade dress protection can be a useful alternative

## Pay Attention to Your Trade Secrets

- Trade secrets are difficult to protect in China.
  - A problem equally applied to both foreign companies and local companies
- A common problem relates to senior ex-employees joining competitors
- It is critical to have proper and valid non-compete and confidentiality agreements in place
- It is possible to seek criminal enforcement to protect your trade secret

## The Internet related IP issues

- Internet shopping is thriving in China
- IP owners have been pressing large trading platform such as taobao.com through cease and desist letters and civil actions
- Online piracy is rampant, which has led to numerous copyright lawsuits
  - Half of IP litigations in China are copyright cases; Half of copyright cases relate to online copyright infringement.
- The government has had some success in symbolic cases, but the overall enforcement system remains weak on Internet cases
- New legal rules were issued earlier in 2011 to improve the enforcement. The actual impact is to be seen

## IP Licensing

- It is a very critical issue to deal with for SMEs
- You need to negotiate properly to protect yourself to fuller extent
- Dispute resolution mechanism must be practical and creative
  - We sometimes recommend litigations over arbitration

# Government Relationship

- It is important to have a proper understanding of the Chinese government
  - Distinguish between central government and local government
    - Local government may give you some more favorable treatment
  - Distinguish among different ministries and authorities
    - You may be regulated by multiple agencies that have conflicting policies
  - The government authorities are concerned about administrative lawsuits
- Conduct government lobbying through industry associations and governmental access