Common IP Mistakes SMEs make in China

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Neglecting to Register Your IP

**Entering the Chinese market without IP protection**
- Trade Fairs
- Negotiations
- Sales
- E-commerce
- Advertising

**Possibility of being copied**
- Bad-faith registration
- Reputation
- New competitor
- Exports to third countries

**Potential consequences**
- Costs for recovering the IP
- Loss of IP
- Company reputation
- Barriers to market entry
Insufficient or Incorrect Protection

Trade mark classes & subclasses
- 45 classes (34 for products – 11 for services)
- China has a subclass system

Design patents - GUI
- Partial design patents – useful when several devices
- Graphic User Interface

Utility models vs design patents
- Different scopes of protection
- Functionality vs aesthetic aspects
Insufficient or Incorrect Protection

**Customs**
- Registration of IP
- Trade marks are “more efficient” than invention patents

**E-commerce platforms**
- Proactivity
- Create a profile
- Join the IP protection programs
Case Study 1
- Insufficient or incorrect IP protection

**Problem**
- Many “fake” iPhone cases in the Chinese market
- Litigation was lost – Beijing Court ruled that the trade mark was not well-known at the time, thus it was a valid registration

**Solutions**
- Trade mark was bought
Letting Your ‘Partner’ Handle Your IP Registration

Importance of controlling the registration process

- Imported IP
- New IP generated
- **DON’T** sign documents in a foreign language without checking them first with your lawyer (Expert in Chinese law)
- **DON’T** give authorisation to register your IP under their name.

R&D agreements

- Rules about IP registration
- Compensation + consequences of one party registering under its own name

License vs ownership

- License will allow IP exploitation
- ‘Practical solution’ is not always the best solution

Not Having a Chinese Trade mark

Not having a Chinese name for your products and company

- Using only the international name

Chinese name assigned by distributors / sellers

- Products become famous under the Chinese name
- A new brand appears without it being registered

Chinese brand could be registered by a third party

- A third party appropriates your trade mark
- Difficulty to prove bad faith in case of a brand that never existed before
Case Study 2
- Not having a Chinese trade mark

Spanish toy car producer

• Exporting to China
• Selling in retail (supermarket & toy stores)
• International brand registered (Madrid protocol)

Problem

♦ No Chinese brand registered
♦ Supermarket phonetically translated the international name and used it on displays

Solutions

♦ Assigned a new Chinese brand (fame lost)
Invention Patents vs Utility Models

Parallel registration strategy

- Benefits – ‘Faster’ enforceability
- Disadvantage – delay in invention patent examination

MISTAKES

X Not going with parallel registration
- Short commercial life of products
- Easy to copy
- Copycats are highly expected

X Going with parallel registration
- Long commercial life products
- Hard-to-copy products
- Few copycats
Case Study 3
- Invention patents vs utility models

**Problem**
- Chinese company copied the machine and started producing its own cheese.
- French company was unable to enforce its rights since the patent was not yet granted.
- When the patent was granted and the case was filed, the Chinese company was already insolvent

**Solutions**
- Take into account the need of enforcing your rights.
- Avoid the PCT if parallel registration is needed
Drafting Unenforceable Contracts

SME signs contracts in English with dispute jurisdiction in the EU

- No Chinese language version of the contract
- No legal dispute in China

Breach of contract

- Disputes over the language difference
- Difficulty with the recognition of foreign judicial resolutions
- Difficulties to obtain evidence

Consequences

- You won the case but you cannot enforce it in China
- Start a new case in China
- No compensation
- More costs involved
Case Study 4
- Drafting unenforceable contracts

**Problem**
- License established limits that were not respected (territory)
- Litigation in Germany
- Disagreements in the contract translations

**Solutions**
- Designate China as the main jurisdiction
- Draft a Chinese language contract

- **German laser company** with IP registered in China
- Licensed the IP to a Chinese company to manufacture
- English language contract
- Germany as litigation jurisdiction
Insufficient Market Surveillance

Knowing the market
- Selling channels
  - the importance of sellers
- Social media
  - language barrier + access limitations

MISTAKES
× Not checking E-Commerce platforms
- Search by words
- Search by pictures
- Information of (bad faith) sellers
- IP protection programs
× Not reading the news
- China is a competitive and changing market
- Selling trends - role of the online sellers
- Changes of laws
Case Study 5
- Insufficient market surveillance

**Problem**
- With the pandemic, the SME was not able to send employees to China.
- Market monitoring became difficult, but their experts in China kept checking the e-commerce platforms
- Counterfeited products were found online

**Solutions**
- Legal actions were taken (breach of contract – compensation)
- Change of producing company
- Links from online platforms were taken down

**Estonian drone producer**
- Production was out-sourced to China.
- Invention patents were registered, and the producing company had a license with limitations.
- Company had hired experts in Chinese culture
Trade Fairs

Trade fairs onsite and online
- Regular trade fairs – Alternatives
- Online trade fairs – Equally important

MISTAKES
X Not protecting your trade secrets
- Unregistered IP
- Business plans
- Any trade fair is exposure
- Train your employees
- Know the IP rules in advance

X Not checking your competitors
- New products
- Competitor’s strategies
- Potential copies
- Online trade fairs
Case Study 6
- Trade fairs

**Problem**
- A Taiwanese company got interested in the new technology
- Taiwan is not part of PCT

**Solutions**
- Invention patent application needed to be submitted before the deadline
- Grace period for using the prior state of art
- High costs in lawyer fees due to the ‘urgent’ filing

**Danish wind power company**
- New model for their wind turbine (more efficient)
- Displayed in a trade fair
- Invention patent filed before the trade fair, PCT was part of the plan for international expansion

*Case Study 6 - Trade fairs*
Neglecting to Protect Trade Secrets

Company fails to understand that some information should be protected as trade secret

- Unregistered IP
- Know-how
- Commercial information (lists of clients / distributors / prices)
- Physical
- Technological
- Legal (NDAs / NNNs)
- Need-to-know rule

No protection is implemented

- Possibility of getting a compensation?
Case Study 7

- Neglecting to protect trade secrets

Problem

❖ Professor published several articles as part of his strategy to be promoted inside the university
❖ Some of those articles contained sensitive information (trade secret)
❖ Company had no rules forbidding the publishing of articles

Solutions

❖ Clear rules should be implemented
❖ Permission should be granted in advance by the company.

• Italian motorbike company
  • Developing new electric bike engines in cooperation with a Chinese company
  • Main engineer was a famous professor in a top university in China
Improper Trade Secret Protection

Importance of the labor laws
- Employee handbook
- IP management protocols
- How many protective measures are needed?

Strategies
- Detailed communication rules
- IP protection as part of KPIs
- Permissions before publishing

Compensations - punishment
- Details in the employee handbook
HELPLINE
free, fast & confidential
3 days working

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Questions?

Your feedback is very valuable info for us.
We appreciate if you could share your comments with us.