

# The world's toughest IP regulations... are in China

By **Robert Snoep**, patent attorney

**C**hina is, and will remain, a critical export market for New Zealand; experts have suggested it could outpace Australia and become our largest trading partner in coming years.

The country has long been renowned as a land of rampant copying and disregard for intellectual property (IP) rights, but that's rapidly changing as the Chinese make bold moves to strengthen requirements around IP law. While extensive pressure is being applied from other countries, fast growth among local exporters like ZTE and Huawei has likely helped too – they are numbers one and three respectively on the latest list of top international patent filing companies.

Two recent changes in particular have placed more of an onus on holders of IP rights to ensure their rights are universally clear, and they are among the toughest in the world today.

## Providing registration certificates

If you plan to have products manufactured in China and exported elsewhere, it is advisable to have your rights registered in the end markets. Chinese manufacturers are now asking for proof of IP rights ownership in the destination countries before they will manufacture the goods.

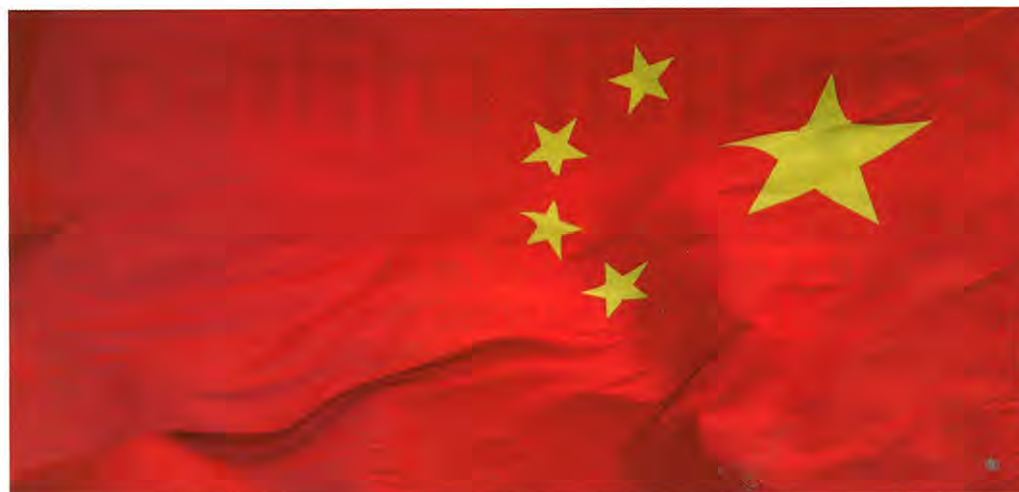
We have had two recent cases where our client needed to provide their China-based manufacturer with copies of their New Zealand and Australian trade mark certificates to prove ownership before marks could be added to the products.

## Patent marking

Marking products with terms such as “patented” or “patent pending” is common and a good idea not only to promote your successes, but also to potentially stall competitors. It can also make a big difference to any compensation obtained in litigation as the infringer cannot argue innocence.

In 2012, the Chinese patent law on marking, *State Intellectual Property Office Order No 63*, the *Patent Identification Marking Procedures*, became one of the most stringent regimes worldwide. Marking of products in China is now a requirement, and the product itself, as well as the product packaging or product manual should be marked *in Chinese*. For maximum protection and if practical, it is advisable to mark all three.

Also, bear in mind the distinction between a patent pending in China versus a granted patent. Granted patents should refer to the correct Chinese right designation (invention patent, utility model or design patent) and should state the related patent number. Pending applications again indicate the type of patent application (invention, utility model, design), the application number (not publication number) and must include characters indicating ‘patent applied for; not granted yet’.



Is it a big deal if you get it wrong? The rules state that improper marking constitutes passing off – improper marking is:

- marking a product as being patented which has not been granted a patent;
- marking a product as patented when the patent right has lapsed or has been revoked;
- marking a product as being patented without authorisation;
- counterfeiting or transforming any patent certificate, patent document or patent application document.

If vendors unknowingly sell an incorrectly patent-marked product, and can prove the product was obtained from a legitimate source, they may still be forced to stop sales but can avoid being fined.

If passing off is established, correction is required along with payment of any illegal earnings and a fine of up to four times the illegal profits. If the earnings are not illegal, a fine may still be imposed of up to USD\$32,000. These are major fines especially when compared to other countries.

## What does it mean to you? Act quickly...

Many exporters do not realise that the China trademark and domain name system are first to file and prior use makes little difference.

What does this mean practically? File trade mark applications and reserve .cn or .com.cn domain names early, to ensure a distributor or other third parties don't get there ahead of you.

If you're beaten to the punch, getting your mark or domain name back can be difficult, plus it means dealing with the various curve balls that IP enforcement in China can produce.

## ... And use utility models

China offers a lower-tier patent option termed a utility model. Recent statistics show that utility models are frequently used by China-based companies while foreign companies tend to forget this right.


Utility models have some major advantages over their big brother invention patents – speed in particular (they can be granted in as little as three months). In contrast, invention patents can take up to two years to simply be examined with few ways to accelerate examination, meaning infringing parties cannot be pursued. The utility model process offers a rapid way of enforcing your rights.

A utility model may be restricted in terms of breadth of protection, but our experience at present is that Chinese infringements tend to be direct knock offs – even to the point where the copier does not even bother to remove the original logos. The utility model provides a perfect platform to stop counterfeit goods.

Is it enforceable? Yes. One Christchurch-based manufacturer went into battle in China alleging that a local company was infringing two of their utility models and a design patent. The infringing company's 'Baidu' account (Chinese equivalent to Trademe™) and their company website were immediately erased – proving that despite all the bad press, Chinese IP protection can be effective.

## Chinese IP law reform: it's only the beginning

It's clear these significant changes are having an impact, and the Chinese government isn't done yet. In March the State Intellectual Property Office released the *Promotion Plan for the Implementation of 2013 National Intellectual Property Strategy*, with 84 new measures to further strengthen IP law.

In summary, the world is rapidly changing especially in one of our key export markets – China. Companies venturing into the IP rights arena in China need to be careful and realise that the words IP and China are no longer a 'Yeah, right' ad campaign for a local beer. 

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