

IP management in the era of Chinese IP offensive

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The Empire of the Center

I believe you must have heard the expression that China, the "Easter Sleeping Lion", has already woken up and is seizing back his position as "The Empire of the Center". Not too long ago, the Chinese government was still criticizing the Western media for their "China Threat Theory". Now, China has stopped being humble and is telling the world that there is no need to be skeptical; it is time for China to become the number one!

The Chinese offensive has multiple facets. One of them is Intellectual Property. The former Prime Minister of China, Wen Jiabao, once stated: Future Competition is IP Competition. With this statement he showed China the direction. Now, we see the results:

The Ocean of Patents

In the past year China applied for 13.8 million invention patents and has been the number one of the world for seven years. This number might be higher than the total number of applications in the USA, Europe, Japan, and Korea.

But how about the quality of the patents? According to my experience, we could divide the Chinese patents into four groups.

- The first group of patents targets for financial support and meets the requirements of the Chinese government. Companies with a certain number of patents are seen as high-tech companies and enjoy diverse benefits from the Chinese government. These patents are mostly trash.
- The second group of Chinese patents comes from companies who actually develop new technologies but are not willing to invest much money. They pay for example only 500 EUR to the patent attorney to draft a patent. It is clear that the quality of this IPR is questionable. Most of them have a low quality.
- The third group of patents stems from companies who invest less in R&D but want to own patents anyway. They look for Western patents, translate them into Chinese, make small modifications and apply for a patent as a new technology. Such patents are not stable.
- The fourth group, the really good patents, come from Chinese companies which invest a lot in R&D and are willing to cooperate with a qualified patent attorney. However, these patents occupy a very small proportion of all the Chinese patent applications.

Intellectual Property Competitive Intelligence

In this ocean of patents, the most important thing to do is to monitor and filter Chinese patent registrations in your technology area and in Chinese language. The keyword is Intellectual Property Competitive Intelligence – short: IPCI.

Particularly for industries with intensive IP competition it is a MUST to monitor the competitors. Today all the big Chinese players in the household appliances market – like Haier, Midea, or Gree – have their own sophisticated monitoring systems. And in the Chinese telecommunication industry, IPCI is standard. A company without IPCI has already lost at the starting line.

For IPCI, we need to use Chinese tools and search in Chinese language – Western tools fail in the Chinese business world. Although translation tools are becoming more and more powerful with the development of machine learning technology, they are still not strong enough to deal with the complexity of Chinese language.

IPCI against Chinese competitors is not restricted to China. You should investigate on a global scale because Chinese companies are applying IPR all over the world. The Chinese government encourages Chinese companies to apply patents in foreign countries by promising an express examination priority.

According to a new regulation of the State Intellectual Property Office SIPO, patents which are applied in China and also used for an international application enjoy a privileged examination. If such a privileged examination were permitted, the domestic application must be completed in one year. The result is 48,000 PCT applications in the year 2017 – that means a growth rate of 12.5%. This number will definitely grow faster in the coming years.

Chinese companies are also registering patents in the "One-Belt-One-Road" related developing countries. In the last year, the number of application was 5,608 – a growth of 16%.

The Patent War

Some one used the phrase "patent war" to describe the situation. I would rather say it is a "patent world war" with China.

In industries where the Chinese Government needs a technological breakthrough or wants to have leadership in the world, the relevant Chinese companies are supported to analyze the key patents of Western companies which block the free use of the technology. They will develop a new patent which can bypass this Western patent or make every effort to make it invalid. What is your chance in this game?

My suggestion is, even if you know you could lose the battle, you should at least make your opponent difficult to win. A proper method is to use the strategy of "IP overlapping ". For the key technologies of your company you should register not only invention patents, but also utility models and industrial designs. If your industrial design has a certain aesthetical character of art, you can also try to register a copyright as work of art, also a 3D trademark. By using this combination of IPR registration, you might have a better chance to win the battle.

Trademark Competitive Intelligence

Patent is not the only example of the Chinese IP offensive. Let us take a look at the trademark applications. In the year 2017, we had 5.7 Million of trademark applications in China, which means a growth of 55.7%. But 30% of the trademarks in China will not be used at all, they are registered by Trademark Investment Firms which aim to sell them later. This narrows the space for Western trademark applications in China.

The most common strategy of these firms is a registration of the Chinese translation or Chinese nickname of your original trademark in Latin letters. In China, every trademark has a Chinese name, which will be used by Chinese consumers. If you do not have a Chinese name yet, I am quite sure that Chinese consumers have already created one for you.

Last week I got a new case. One distributor of a German company intends to extend the period of its distribution contract and asked for an exclusive licensing of its trademark. It looked like a very simple licensing contract. But after checking the trademark registration of this distributor I found that this distributor is clean regarding the registration of the Latin trademark of this German partner, but it registered exactly the Chinese translation of my client's trademark!

If you have only registered your Latin trademark in China, you should check the trademark registration situation of your Chinese trademark. I could almost guarantee that you will be surprised. According to my

experience, 80% of the Western companies who operate in China actively find a Chinese double which was previously unknown.

You might be curious: is the Chinese version of trademark really so important and valuable? If you want to do serious business in China – yes, definitely! Many of our clients did not know that and now have to spend a lot of money to buy their Chinese trademark back or resort to enormous resources and energy to get all the pre-emptive registered trademarks invalid.

The latest trend: Chinese companies register trademarks with Chinese characters in foreign countries. In one of our trademark infringement cases, a Chinese company used the modified version of our client's trademark in China and stated that their products are also made in Germany. During the hearing they showed a trademark certificate from the German Patent and Trademark Office. By registering their illegally copied trademark for example in Germany, they intend to legalize their infringement in China. Luckily we could prove the malicious intention of this company in registering this trademark and that the German Patent and Trademark Office do not look up for similar previous registrations before issuing the trademark certificate.

Positive prospects regarding IP protection

Of course, there are also some positive prospects regarding IP protection. The Chinese Government is paying more attention to IP protection because more and more Chinese companies are innovative and own high valued IPRs, which also need protection. In industries which are not so critical, foreign companies will not be discriminated regarding IPR-protection.

The Chinese Government is strengthening the administrative power of IPR-protection. Therefore, except litigation, there will be more flanking methods to protect IPR.

In China there is a saying: "A business field is like a battlefield". So let me quote one sentence from Master Sun's "The Art of War" to finish my speech. "If you know both yourself and your enemy, you can win a hundred battles without jeopardy. If you only know yourself, but not your opponent, you may win or may lose. If you know neither yourself nor your enemy, you will always endanger yourself."