

Professional Perspective

Protecting Intellectual Property in China

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Protecting Intellectual Property in China

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As the poverty rate in China continues to decline, and annual income per capita surpassed the \$10,000 mark in 2019, the Chinese market has grown into the second-largest export market, second only to the U.S.

The Chinese market is increasingly appealing to all producers and suppliers worldwide, including U.S. companies. According to the [U.S. Census Bureau](#), exports from the U.S. to China from January 2021 through March 2021 totaled \$34.8 billion, which is a 58.2% increase over the same period in the previous year.

When U.S. companies plan to export products to China, intellectual property rights (IPR), primarily patents, trademarks, and copyrights, should be prioritized. This article discusses Chinese IPR laws and practices and provides practitioner tips to avoid infringing other's IPRs while also protecting their own.

A Trademark Search is Essential

Before entering China or any other markets, U.S. companies should be aware of what IPRs are already in existence in those markets. A prior full clearance trademark search is beneficial to foresee the potential risks of conflict as well as the chances of successful registration of the company's own IPR.

Practitioner Tip

The General Administration of Customs China (GACC) and China National Intellectual Property Administration's databases are the recommended search engines to determine whether others have recorded their IPR with Chinese customs.

It should be noted that the CNIPA's official database is not always timely updated. It is best practice to have counsel review the search results and provide a professional opinion on the likelihood of registration success prior to proceeding with the registration.

Potential Obstacles Prior to Exporting

If search results reveal another company's IPR is protected, it is possible to seek consent to coexist, negotiate a license agreement, and potentially negotiate an acquisition.

The most infamous case in China regarding a prior IPR protection barring registration was about the iPad trademark, which had been registered by Proview in China. Apple did not successfully clear the obstacle prior to making and selling iPad tablets in China. Proview filed a lawsuit, as well as many complaints against Apple, leading to Apple settling with Proview for \$60 million in exchange for acquiring the brand to sell its tablet products in China smoothly.

Design a Chinese Trademark for the Chinese Market

Many U.S. companies pay the price from a lack of proper planning when attempting to register a Chinese trademark, where other companies pay close attention to newly registered marks for the purpose of squatting and acquiring the marks' actual translation.

A famous example is the New Balance trademark case. The exact English transliteration of New Balance was previously registered in China by a competitor. A proactive trademark search at the onset would have found this trademark, which included classes of footwear, clothing, and headgear. New Balance ultimately lost the battle and was ordered to pay the previously registered Chinese brand damages of 5 million RMB (over \$750,000). New Balance had to re-design a Chinese version of its trademark and re-invest in marketing the new trademark.

Practitioner Tip

It is strongly recommended that U.S. companies take the initiative to design a Chinese version of their brand to make it easier for local consumers to remember. A more memorable brand will increase the likelihood that Chinese consumers will purchase the product or service.

A failure to create a Chinese version of a brand could even result in a competitor creating their own Chinese version of your brand, which has the potential of being registered and protected by your competitor.

Register IPRs as Early as Possible

As noted from the New Balance case, China adopts the first-to-file principle for patents and trademarks to determine ownership. In other words, the first party to file has the first right. This differs from the U.S., where a first-to-use principle for trademark ownership is used.

An exception to China's first-to-file principle exists when a trademark is influential or well-known for at least three years in mainland China before a conflicting trademark's filing date. Because this is an extremely high threshold, it is strongly advised to file one's own trademarks as early as possible in China.

The U.S. and China are both members of the Berne Convention, wherein China is obliged to grant automatic protection to a U.S. company's copyright for 50 years beginning the date of initial publication, or a U.S. citizen's copyright during his lifetime plus 50 years after death. Thanks to the Berne Convention, it is a relatively cost-efficient and expeditious process to register a copyright in China that was initially published in the U.S.

Register Trademarks in Both Actual Classes and Associated Subclasses

In the U.S., companies are advised to register trademarks narrowly based upon the actual international classes their products currently use. In China, however, companies are encouraged to use both the actual and associated subclasses to prevent competitors from using or registering similar or identical trademarks on similar or identical goods or services. This also helps registrants should they choose to expand product lines in the future.

Monitor Aggressive Actions Against Infringers & Squatters

After successful registration of one's own IPRs, it is still essential to monitor the [CNIPA's database](#) independently and/or through professional monitoring service providers to quickly spot any infringers and squatters and take appropriate legal action. After successful registration of one's own IPRs, it is still essential to monitor the CNIPA'S database and professional monitoring service providers to quickly spot any infringers and squatters and take appropriate legal action.

Practitioner Tip

When an intellectual property holder identifies any infringers or squatters, the IPR owner could consider sending a cease-and-desist letter to the infringing party demanding voluntary withdrawal.

Additionally, IPR holders may consider the following actions: filing a complaint if the squatted trademark was identified within the statute of limitations, filing an invalidation if the squatted mark is registered, or filing a non-use cancellation request if the intellectual property has not been used for three consecutive years by the infringing, or squatting, party since registration.

Use the Trademark Registration Symbol (®) Properly

In the U.S., the misuse or incorrect use of the symbol ® is a common occurrence without repercussion. In China, however, the symbol is only applicable to trademarks registered in China.

The misuse, namely incorrect annexation of the symbol to a pending trademark or not-applied-for trademark, will be regarded as false representation of registered trademarks and may be penalized by a fine. The calculation of the fine is based upon the amount of illegal business revenue. If it is over CNY 50,000 (about \$7,755), a fine up to 20% of such revenue may be imposed. In the event of no illegal business revenue or illegal business revenue of less than CNY 50,000, a fine up to CNY 10,000 (about \$1,550) may be imposed.

According to China's latest available data, 2,408 penalties were issued in 2016, and 1,828 penalties were issued in 2017. The Chinese authorities have not released recent itemized data, but it is believed that thousands of such penalties may have been issued in recent years.

A typical case is the mark UNISCAN, which was filed and simultaneously used by a well-known Chinese company. As the application could not be registered immediately, the applicant was fined CNY 130,351 (about \$20,000) for the misuse of the trademark registration symbol.

Practitioner Tip

When a U.S. company is exporting products to China, but has not proactively registered its trademark in China, it is strongly advisable to remove the trademark registration symbol ® to avoid this fine. Competitors are known to report the misuse to the authorities. Reporting is done via the Administration for Market Regulation, a special enforcement agency in China.

As is common in the U.S., it is recommended to have counsel assist in reporting alleged infringers in China. The Administration for Market Regulation has a strong presence throughout China and employs more than half a million officials. The agency's many functions include investigation of IP infringement, the ability to order the infringer to cease and desist, and the authority to confiscate and destroy infringing product. The agency is responsive to complaints of IP misuse.

Conclusion

It is clear the U.S. and Chinese IPR laws are vastly different in both procedure and enforcement. U.S. businesses seeking to do business in China should be proactive in their pre-compliance by having a meaningful understanding of both U.S. and Chinese IPR laws and how they are enforced. Doing so proactively can help ensure both market access and avoid costly litigation and fines.