



## Is it Worth Filing in China?

Whether or not it is worth filing intellectual property rights IPRs in China is likely to be influenced by how you plan to develop your business. Are you planning to exit by selling your business, or assigning or licencing your product globally? Most investors and buyers will look for Chinese IPRs, and if you have none then this may affect the level of interest, or the price you can obtain. If on the other hand you are planning to grow your business yourself, then you should consider whether the cost of filing and maintaining an intellectual property right in China will be justified by the profit gained through licensing, or by a reduction in loss of profit achieved by enforcing that right and protecting your market.

The profit to be gained through licensing depends to a large extent on the enforceability of the right. If a right cannot be enforced then there is little incentive for a licensee to pay for a licence. So how enforceable are those rights?

Even if you never intend to sell nor licence in China, then IPRs may yet be relevant to protect the market elsewhere. If your product is successful, then in all likelihood it will be copied in China and sold domestically and around the world. In theory the best way to stop that is to cut off the source in China, using Chinese IPRs and the Chinese courts, but how well does that work in practice?

This briefing aims to set out broad guidelines and commentary on the intellectual property landscape in China. If you would like to know more about any aspect then please get in touch.

## What Can Patentees Expect to Achieve via the Chinese Courts?

China is a large and diverse country with a weak judiciary working in a civil law system. This is a recipe for inconsistent practice. Generally, trade marks or design patents, assuming the rights are valid, are enforceable in most courts around the country. More complex questions of validity and infringement of utility and invention patents are less predictable. Some courts, notably Beijing, Shanghai and Guangzhou, are gaining reputations as pro-intellectual property but, unfortunately, not all cases can be brought in the courts of one of those cities.

Some aspects are consistent across the country, though, and one point which is of concern to patentees is the remedies available to patentees following a successful infringement case. The two most important remedies in intellectual property litigation are injunctions and damages.

## Damages

The overall weakness of the legal system in China means that it is very difficult for the court to obtain accurate accounts and records of sales of infringing articles. If the court cannot obtain accurate records of sales made, then it cannot accurately calculate damages on the basis of profits made by the infringer or profit lost by the rights holder. This means the court almost always falls back on statutory damages, generally awarding around RMB 200,000 (£20,000) per patent infringement (notwithstanding that the allowable ceiling is RMB 1 million), and around half that for a trade mark infringement.

However, a recent development in the rules means that the court is permitted to rely on the Claimant's assessment of damages, without the usual strict evidential requirements, if the Defendant submits no evidence to counter the Claimant's. This has had the effect of increasing damages awards in some courts, but it is too early to tell how it will work across the country more generally.

## Injunctions

It is possible to obtain an injunction (by civil or by administrative litigation) and, contrary to public perception, injunctions are often complied with. Whether or not this will be the case in any particular instance rather depends on the company in question. Companies range on a spectrum: there are those which simply buy components from other suppliers and assemble products, and which have not invested any significant capital in the process. Such companies generally will exit a market once sued. At the other extreme, there are companies which have invested in plant and machinery to produce components for infringing products and will be commensurately more reluctant to exit the market. This latter type of company may fight the claims quite vigorously. Injunctions are not effective until after any appeal is completed (and losing parties can appeal as of right), so unfortunately infringers can continue manufacturing and selling infringing product for several years.

## An Alternative Approach: Target the Marketplaces

Notwithstanding these weaknesses, it is possible to stem the flow of infringing goods exported from China. In addition to closing down as many manufacturers as possible by injunction, IPR holders can target the marketing of infringing goods. Trade fairs and online marketplaces such as Alibaba are the two main marketing outlets for Chinese companies to the rest of the world. If you can disrupt the marketing of infringing products then you have gone some way to protecting your ex-China markets.

Alibaba has an online complaints system, similar to eBay or Amazon, and has signed (on 3 September 2015 ) a Memorandum of Understanding with the China Britain Business Council (CBBC) in which it agreed to work with CBBC member companies to remove product listings subject to takedown notices, and to hold an annual roundtable. As to trade fairs, the Ministry of Commerce (the ministry in charge of trade fairs) has made an effort over the past few years to improve IPR enforcement, and while it is not perfect it is nonetheless usually possible to have

exhibits of goods infringing trade marks or design patents taken down.

In addition, Chinese Customs are helpful and can be effective in seizing infringing goods as they are exported. A seizure by Customs together with follow-up litigation will deter companies from exporting more product.

## So, Can the Cost of Filing be Justified?

For those looking to license or assign an invention globally, then the answer to this question is likely to depend on the importance given to China by potential investors or buyers. China seems to be gradually moving up the list: but whether or not China can safely be dropped from a global filing strategy without damaging the chances of securing investment will vary dependent on the market.

More generally, it is worth noting that Chinese litigation is inexpensive relative to costs in the West. If you succeed in obtaining an injunction, or simply reducing the volume of exports, then you have saved yourself potentially significant legal fees around the rest of the world as well as protected your market share and profits. Nevertheless, you should bear in mind that the cost of filing, maintaining and enforcing intellectual property rights will not be covered by damages won, nor costs awarded, in Chinese litigation.

Irrespective of what the market and intellectual property enforcement regime looks like now, patents last for 10 years (design patents) or 20 years (invention patents). If the rate of progress made in the last ten years is replicated in the next ten, then China will have a well-functioning intellectual property regime by the time you come to enforce any IPRs currently being filed. If so, many of the issues discussed above may have been resolved, or significantly improved.

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