



WEBINAR

INTELLECTUAL PROPERTY PROTECTION IN CHINA: R&D ACTIVITIES

12 APRIL 2022, 10:00 CEST

CHINA
IP SME HELPDESK



**European
Commission**

**法蘭德斯
中國商會** **FCCC
VCKK**
FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL



**EU-China
Business Association**
欧盟中国贸易协会

CHINA IP SME HELPDESK



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Project Manager

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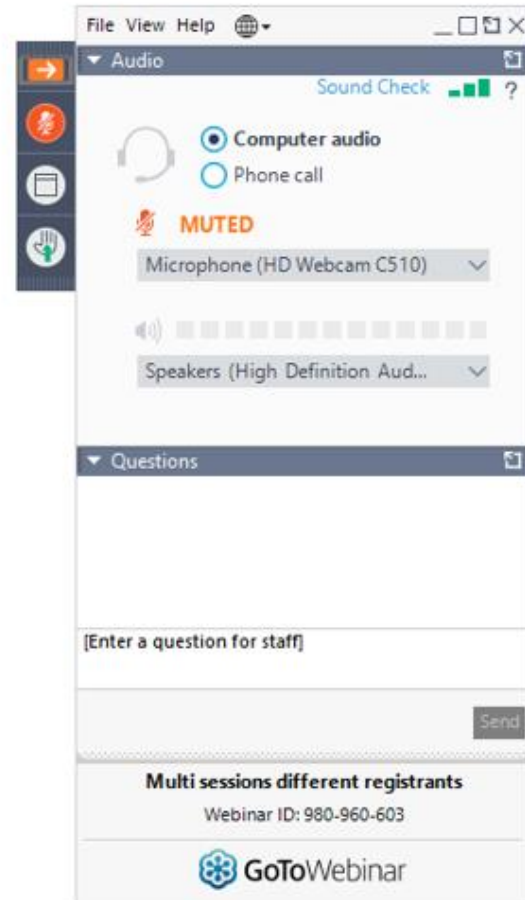
Turn on full screen



Write your IP related questions here



Webinar 24 hour technical support number:
<http://support.gotomeeting.com> 'Contact Us'
section



The Helpdesk in a nutshell

- Free initial advice to SMEs
- Geographic coverage:

- **China**
- **Hong Kong**
- **Macao**
- **Taiwan**



 100,000+ SMEs assisted to date

Helpdesk free services

Enquiry Helpline



Training Workshops



Webinars



Website & Blog



Guides & Factsheets





FACTSHEET

- THE FACTS: Business in Mainland China for EU Companies**
 - Size of Market
 - Key INDUSTRY SECTORS
- IPR in Mainland China for SMEs: BACKGROUND**
 - Intellectual Property Rights for SMEs: Why is this RELEVANT to you?
 - How does Mainland China's IP legal framework compare to INTERNATIONAL STANDARDS?
- IP Rights in Mainland China: THE BASICS**
 - Copyright
 - Patents
 - Trade Marks
 - Geographical indications (GI)
 - Trade Secrets
- Using CUSTOMS to block counterfeit**
- Enforcing of rights**
 - Administrative actions
 - Civil Litigation
 - Criminal Prosecution
- RELATED LINKS and Additional Information**




IP Factsheet: Mainland China

CHINA IPR SME HELPDESK




For free, confidential, business-focused IP advice within three working days E-mail: question@china-iphelpdesk.eu




Guide

- Technology Transfer to China
- Thinking of Transferring Technology?
- What Can Companies Do to Protect Themselves?
- SME Case Studies
- Technology Transfer Checklist
- Take-Away Messages
- Related Links



Technology Transfer to China: Guidance for Businesses

CHINA IPR SME HELPDESK



For free, confidential, business-focused IPR advice within three working days E-mail: question@china-iphelpdesk.eu

INTELLECTUAL PROPERTY ADVICE FOR YOUR BUSINESS



Six EU-funded helpdesks offer free resources to your small or medium-sized business to help you manage your intellectual property.

<https://ec.europa.eu/ip-helpdesk>

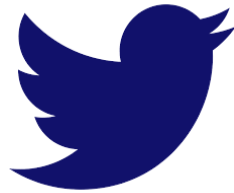


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Stay connected!



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@ChinaIPR-hd



China IP SME Helpdesk

Questions?

HELPLINE

free, fast & confidential

3 working
days

question@china-iprhelpdesk.eu

Speakers



Gwenn Sonck

Executive Director
Flanders-China Chamber
of Commerce / EU-China
Business Association



Jari Vepsäläinen

IP Expert
China IP SME Helpdesk



Introduction to the Flanders-China Chamber of Commerce / EU-China Business Association

Gwenn Sonck

gwenn.sonck@flanders-china.be

Flanders-China Chamber of Commerce (250 members)



FCCC FOUNDING MEMBERS



FCCC STRUCTURAL PARTNERS



IN COOPERATION WITH



- **Advice and expertise:** the FCCC tells you about the latest economic and trade developments via various publications and a weekly newsletter.
- **Meetings with Chinese delegations:** thanks to its extensive network the FCCC plays an important role in welcoming Chinese delegations to our country. We introduce Flemish entrepreneurs to non-traditional investment areas and help facilitate entering the Chinese market.
- **Exchange of experiences and sharing knowledge:** the FCCC regularly organizes conferences and round-tables on China so participants can exchange experiences, facilitate collaboration and create networking opportunities.
- **Privileged partner:** as the secretariat of the EU-China Business Association (EUCBA), the umbrella organization for all European China associations, the FCCC also plays an important role at a European level.

The membership fee for 2020 is:

Small and Middle enterprises: €420,00 (VAT excl.)

Large enterprises: €1.050,00 (VAT excl.)

Contact: http://www.flanders-china.be/en/about/join_fccc

EU-China Business Association



The EU-China Business Association (EUCBA) is the EU-wide federation of national non-profit business organizations in the European Union with specialization and particular expertise in exchange of knowledge on investments and trade with China. At current, EUCBA unites 19 members in 19 countries representing more than 20,000 companies – large, medium, and small, in all branches of industry, commerce and the service sector. At current, EUCBA unites 19 members in 19 countries representing more than 20,000 companies – large medium and small, in all branches of industry, commerce and the service sector.



- EUCBA **supports the China business interests** of its members and **acts as a channel of communication with government institutions of the EU and China.**
- The EUCBA adds value to the work of its members **by EXTENDING national work to a European level**
- The EUCBA aims to **facilitate the exchange of information**, views and experiences among its member organisations

www.eucba.org – contact: gwenn.sonck@eucba.org



Flanders-China Chamber of Commerce and the EU- China Business Association

12 April 2022

IP Protection for R&D Activities in China

Fintrade-Mercer

Mr Jari Vepsäläinen

Speaker's Bio



Name **Jari Vepsäläinen**

Company **Fintrade-Mercer**

Email **jari@fintrade.com.hk**

Education

People's University of China, Beijing

Licentiate degree

Company Law, Taxation and Contract Law

1985 – 1987

Zhongshan University, Guangzhou

Doctoral Candidate and Visiting Scholar

Chinese Corporate Law

1987-1988

People's University of China, Beijing

Doctoral Candidate and Visiting Scholar

Chinese Contract Law

1985 - 1987

Speaker's Bio

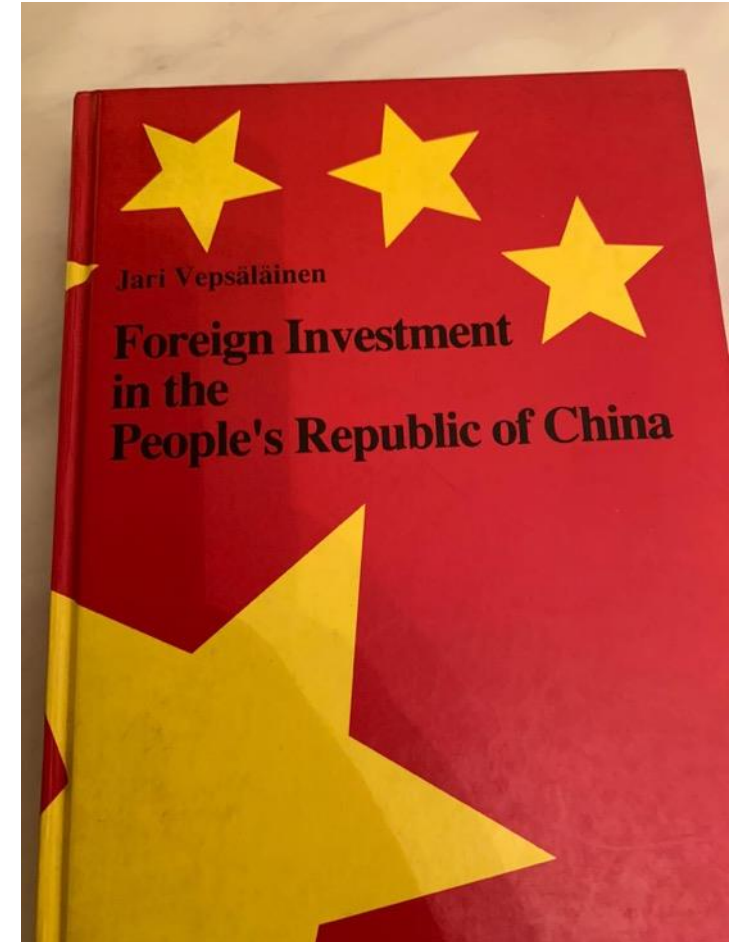


Name **Jari Vepsäläinen**
Company **Fintrade-Mercer**
Email **jari@fintrade.com.hk**

Publications

Foreign Investment in the People's Republic of China: A Detailed Legal and Practical Analysis of Permissible Forms of Investment and Commercial Transactions

1989



Speaker's Bio



Name **Jari Vepsäläinen**

Company **Fintrade-Mercer**

Email **jari@fintrade.com.hk**

EU Chamber Work

1996-1997 Negotiating Establishment of European Chamber of Commerce in Hong Kong

1997-1998 Chairman of Finland Chamber of Commerce in Hong Kong

2014-2015 Vice-Chairman of Europe Chamber of Commerce in Hong Kong



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Case: Norsepower - SST

Summary

IPR Protection Legal Regime

Administration for Different Types of IPR

IPR	Administrative Office	Lifespan
Patent	China National Intellectual Property Administration	20 years
Software	National Copyright Administration	10 years
Copyright	National Copyright Administration	50 years
Trademark	China National Intellectual Property Administration	10 years

IPR Protection Legal Regime

Types of Patent Models – Similar to Europe

	Invention	Utility Model	Design
Subject matters	Technical solution relating to a product, a method or an improvement thereof	Technical solution relating to a product's shape, structure, or a combination thereof	Design of a product's shape, pattern or a combination thereof, as well as its combination with the color
Requirements on inventiveness	Possesses prominent substantive features and indicates remarkable advancements	Possesses substantive features and indicates advancements	Distinctly different from the existing designs or the combinations of the features of existing designs
Period of Prosecution	3 ~ 5 yr	3 ~ 9 months	3 ~ 9 months
Term of Protection	20 yr	10 yr	15 yr

IPR Protection Legal Regime

Most Recent Betterment in China IPR Protection Environment

- Amendment of Trademark Law → In effect from November 1st, 2019
- Amendment of Patent Law → In effect from June 1st, 2021
- Amendment of Copyright Law → In effect from June 1st, 2021
- Guidelines for Building a Powerful Intellectual Property Nation → In effect from September 2021
- China National Intellectual Property Administration standard for the determination of general violations → In effect from January 1st, 2022

IPR Protection Legal Regime

The positive effects of changed legislation on EU firms: Patent Protection Extended, Damages Increased, and Burden of Proof Changed



Extension of the industrial design patents terms of protection from 10 years to 15 years



Extension of patents to compensate for unreasonable delays not related to the patentee



The maximum amount for statutory damages increased from the range of RMB10,000 – RMB1 million to the range of RMB30,000 – RMB5 million



Partial design can be patented and commitment towards higher quality patents



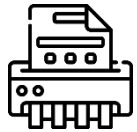
The infringer now has to prove its innocence, not the IPR holder i.e burden of proof changed

IPR Protection Legal Regime

The positive effects of changed legislation on EU firms: Copyright Protection and Burden of Proof



Burden of proof shifting to the infringer at Court actions



The copies infringing on the copyright will be destroyed without compensation



The equipment and materials used to produce the infringing copies will be destroyed without compensation

IPR Protection Legal Regime

The positive effects of changed legislation on EU firms: Trademark Protection and Bad Faith Trademark Squatters



Prohibition of bad faith trademark registrations



Prohibition of trademark squatters – Chinese companies registering foreign trademarks with the purpose of using them for blackmail, extortion and trademark piracy.

IPR Protection Legal Regime

Utility Model Patent Protection Strong in China

Similar model to minor inventions in Germany, Japan, Korea, Australia or Petty Patents in USA.

The system is meant to protect minor improvements to an already existing technology.

BUT! It is a powerful tool for patentees.



Fast registration

6-12 months compared to 2-5 years for an invention patent



Same protection

as an invention patent with the same basis for claiming damages and available remedies



Lower standard for inventiveness requirements

'advancement' vs 'remarkable advancement'



Cheaper

Application fees and maintenance costs, no-discovery

IPR Protection Legal Regime



Utility Model Patent Protection as First Remedy

RECOMMENDATIONS

Duo Filing of Invention and Utility Model in China

It is possible to file both an Invention Patent and a Utility Model applications. The Utility Model Patent will be granted quickly.

The patentee is able to enjoy the benefits of fast issuance of the utility model and early protection.

Utility Model Application Based on Foreign First Filing

In 12 months, a UM application can be filed in China claiming priority on an early filed foreign patent application of invention OR utility model.

IPR Protection Legal Regime

Invention Patent and Utility Model Filing Strategies

Simultaneous filing of invention patents and utility model patents

- **Most beneficial when a product is close to launch, but has fundamental features which will be valuable for a long time**
- Applicants may file both applications for the same subject matter on the same day.
- The utility model patent will normally be granted quickly.
- When the invention patent is subsequently granted for the same subject matter, the applicant will have to abandon the corresponding utility model patent.

Earlier publication of patent

- **Most beneficial when the product to be protected is close to launch and ready to go public**
- A patent application is published 18 months after its filing date or the earliest priority date. However, applicants for invention patents may request earlier publication on filing the application at no additional cost.
- If such a request is filed, the patent application will be published as soon as it passes the preliminary examination, which may be as early as two months from the filing date.

Using the Patent Prosecution Highway

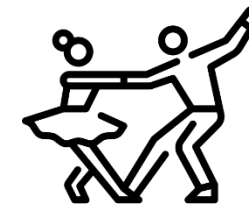
- **Most beneficial when it is needed to register as soon as possible**
- Most patent applicants use the PPH to expedite examination of a Chinese patent application based on the prior registration with another patent office
- A first official action for a PPH patent may be issued 12 months earlier than for a normal patent application
- Lower costs

IPR Protection Legal Regime

Importance of China Software Copyright Registration

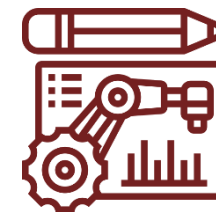
Most types of creative works protectable by copyright in Europe are protectable by copyright in China

Traditional types of creative works such as books, music, recordings, plays, films, paintings, sculptures, photographs, etc., enjoy copyright protection in China. Other works such as works of choreography, acrobatics, calligraphy, quyi (a traditional Chinese performance art form), model works, and databases and compilations as to the selection and arrangement of content also enjoy copyright protection in China. The basic principle for copyright eligibility is that the work be original and reproducible.



Computer software and industrial designs

Unlike Europe where computer software is protected by algorithm patents and Berne Convention, software source codes are expressly protected under copyright in China. Industrial and graphic designs, applied art, architectural buildings are also protected by copyright.



IPR Protection Legal Regime

China Software Copyright for Source Code

In respect of a work in which the **copyright is enjoyed by an individual**, the term of protection of the property rights is the **'life plus 50 years'**, expiring on December 31 of the 50th year after the author's death. For works in which the **copyright is owned by a legal entity**, the term of protection shall be **50 years**, expiring on December 31 of the 50th year after the first publication of the work.

Needed Documents for Software Copyright Registration

- Application form, which shall be filled through the online system of CPCC;
- Sample of the work/source program of the software;
- Description of the work/instructions of the software in Chinese;
- Proof of identity of applicant. If the applicant is an individual, a copy of the ID or passport shall be provided; if the applicant is an entity, a copy of the certificate of incorporation/business registration shall be provided. For copyright registration for software, the copy of the certificate of incorporation/business registration of a foreign entity shall be notarized by the notary or legalized by the Chinese Embassy in the foreign country;
- Proof of ownership, such as a copy of the contract between the author and the applicant in the case that the author is not the copyright owner, or other relevant documents, such as a statement made by the author; and
- Power of attorney, which shall be provided if the copyright registration is filed through an agent.

IPR Protection Legal Regime

China Software Copyright for Source Code

Identification materials

Normally, the first 30 pages and last 30 pages of the source code, each page should contain no less than 50 lines; or

Alternatively (for exceptional cases),

1. the first 30 pages and last 30 pages of the source code, with no greater than 50 percent being covered by thick black lines; or
2. the first 10 pages and consecutive 50 pages from any other part of the source code; or
3. the first 30 pages and last 30 pages of the object code, plus consecutive 20 pages from any part of the source code.

The applicant may request to have the source programs, files or samples sealed. No person other than the applicant or a judicial body can open the seal stored at China Copyright Centre.

IPR Protection Legal Regime

China Software Copyright Registration Certificate

China is a signatory country of the Berne Convention the Universal Copyright Convention, and several other important international treaties in respect of intellectual property rights.

Berne Convention provides minimal Copyright Protection for 50 years. As China is member of Berne Convention, there is not need for registration.

BUT!



! Copyright registration is a precondition for filing a Lawsuit



! Non-registered software is without any substantial protection. Copyright is a preliminary proof of the registered information. Unless there is contrary evidence, the registered facts or deeds are deemed true.

IPR Protection Legal Regime

Member of International IP Conventions

China is a **member of all of the major international IP conventions:**

- the World Intellectual Property Organization
- Patent Cooperation Treaty
- Agreement on Trade-Related Aspects of Intellectual Property Rights
- Universal Copyright Convention; Paris Convention for the Protection of Industrial Property (patent and trademark)
- Berne Convention for Protection of Literary and Artistic Works (copyright)
- Madrid Agreement for the International Registration of Trademarks



IMPORTANT TO CONSIDER!

- **Registration of trademarks and patents in China is a must** to be protected under international conventions.
- Intellectual property is automatically protected under the copyright law. However, the registration of copyright is a prerequisite for arbitration
- There is a presumption of ownership and validity if the copyright is registered with the National Copyright Administration.

Joint R&D Program / IPR in China

Joint R&D in China can be performed by:

- **JVC company/wholly-owned subsidiary** (a wholly foreign owned enterprise that operates as an R&D center);
- **Chinese Partner/s or third party** such as for outsourced software development services or contract research



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IPR ownership options in patent applications can be:

- ownership of all IPR **by European company**
- ownership of all IPR **by its Chinese Business Company with business partners**
- **co-ownership** between European company and its Chinese business partners without legal entity

IMPORTANT TO CONSIDER!

Not only having laboratories or research facilities counts as engaging in R&D in China. For example, using engineers of another company for the purpose of creating a commercial prototype is also considered R&D in China.

In case of filing IP in the name of the Chinese WFOE, there are **Government Subsidies for China and Foreign Patent Filings**.

There are also Reduced Corporate Tax Rates available via “high and new technology enterprises” status, **HNTE Enterprises**



Part 1

How to Prepare before Going to China

Before Going to China

Prior Art Search and Other Preparations

To ensure success of the R&D in China, European companies must:

Conduct a Prior Art Search

- **Determining the patentability of an invention**, in particular whether an invention meets the novelty and the inventive step or non-obviousness criteria for patentability.
- Prior art does not need to exist physically or be commercially available. It is enough that someone, somewhere, sometime previously has described or shown or made something that contains a use of technology that is very similar to your invention.
 - **China formulation of "Prior Art"**: Technology known to the public before the filing date (priority date) in China or abroad.
 - **Hong Kong formulation of "Prior Art"**: 1. Everything made available to the public by means of a written or oral description, by use, or in any other way before the filing date (priority date); 2. Contents of any Hong Kong patent application and designated patent applications as filed in the designated patent offices with an earlier filing date (priority date) published on or after the filing date of the application (or filing date of the corresponding designated patent application) or the priority date.

Conduct a Competing Art Search

- Competing art includes creations and ideas that might not be the same as yours, but they **accomplish the same goals**. Most inventions are created to solve a problem, and, therefore, searching for competing art can show you other solutions that may be more helpful than the one you're bringing to market.
- In addition, it's always wise to know what the competition has to offer in order to best market your idea in an increasingly crowded marketplace.

Before Going to China

Restricted Technologies and Exports

To ensure the success of the R&D in China, European companies must:

Check the Catalogue for Prohibited and Restricted Technology Imports

- Technology imports in China are divided into **'freely importable', 'restricted', and 'prohibited' technology**. Restricted and prohibited technologies are specifically enumerated in the Technology Import Catalogue, while technologies not listed in the Technology Import Catalogue are deemed freely importable.
- In most cases, technology is deemed freely importable, with only certain technologies related to economic policy development or national security classified as restricted or prohibited.
- If technology will be later exported, SMEs also need to check the corresponding **Catalogue for Prohibited and Restricted Technology Exports** and whether there are any relevant regulations in the destination country.

Check the Foreign Investment Catalogue

- Where the technology is to be brought into China via foreign direct investment (FDI), such as with the **establishment of a joint-venture or wholly foreign-owned enterprise**, it is important to consider the Foreign Investment Catalogue to determine what restrictions, if any, apply to the establishment of the Chinese entity.
- For technology transfers in the form of a FDI, the permitted form of FDI will be critical in determining what **contractual and non-contractual solutions** you will need to protect your SMEs' IP.

Partner Selection

Partner Selections, Screening and Company Search

Different Types of Potential Partners in R&D Deals

- State-owned Companies
- Listed Companies
- Private Companies
- Foreign Investment Companies



IMPORTANT TO CONSIDER!

- It is expected that companies of different types will have different attitude towards IPR and IPR management practices.
- In whichever case, it is incredibly important to choose the **Governing Law and Place of Arbitration** wisely.
- When dealing with **China-owned Hong Kong Companies**, it is advised to use Hongkong Law and Court system for handing disputes.

Blacklist and Court Records

Partner Selections, Screening and Company Search

Potential partners shall be carefully investigated on the basis of



background check and reference check on management and key employees



internal physical, electronic and other security controls for protecting IP and confidential information



company search reports, social credit and reputation



clearly communicated policy on protecting IP



financial standing, employee retention rates



its track record in IP protection and contract performance

Company Search Report

Partner Selections, Screening and Company Search

(performed by Fintrade)

COMPANY SEARCH REPORT

Date of Search:	15 July, 2021
Requested Company Name:	Juno Carbon Investment Environmental Technology (Beijing) Co., Ltd 金诺碳投环保科技有限公司 (北京) 有限公司
Requested Company Registration No.:	110105024258020

SEARCH RECORD

Company Name:	Juno Carbon Investment Environmental Technology (Beijing) Co., Ltd
Company Registration No.:	110105024258020
Unified Social Credit Code:	91440300735324364T
Organization Code:	735324364

DETAILS OF COMPANY

Company Name in English:	Juno Carbon Investment Environmental Technology (Beijing) Co., Ltd
Company Name in Chinese:	金诺碳投环保科技有限公司 (北京) 有限公司
Date of Registration (dd/mm/yyyy):	02/27/2002
Country of Incorporation:	China
Date of Change of Name:	--
Former Name:	--
Type of Company:	Limited liability company (invested or holding by natural person)
Industry:	Science and Technology Extension and Application Services
Registered Office Address:	8311, Xiju Hongye Hotel, East Building, Block B, East Meilianjushang, Shilihe Village, Shibalidian Township, Chaoyang District, Beijing(北京市朝阳区十八里店乡十里河村东美联居尚 B 座东楼熙居宏业酒店内 8311)
Date of Change of Address:	--
Workforce:	--

Principal Activity(ies):

Carbon asset management consulting; Enterprise management consulting; Economic and trade consulting; Investment consulting; Corporate image planning; Organize cultural exchange activities (except performances); Technology import and export (commodities involving quota license administration and special regulations shall be handled in accordance with relevant state regulations); Energy saving service consultation; Import and export of goods; Agent import and export; Import and export of goods; Acting import and export agency(碳资产管理咨询; 企业管理咨询; 经济贸易咨询; 投资咨询; 企业形象策划; 组织文化交流活动(演出除外); 技术进出口(涉及配额许可证管理、专项规定管理的商品按照国家有关规定办理); 节能服务咨询; 货物进出口; 代理进出口; 货物进出口; 代理进出口)

REGISTERED CAPITAL/ SHAREHOLDER(S) STRUCTURE

	Name of Shareholder	Capital Contribution (%)	Subscribed capital contribution (RMB)
1	Wang Kelei (王克雷)	59%	59 million
2	Sun Qi (孙琦)	15%	15 million
3	Wang Xiaohong (王小红)	12%	12 million
4	Wang Xiaoqing (王小青)	9%	9 million
5	Li Xiaonan (李笑楠)	5%	5 million
Registered Capital:			100 million
Paid-up Capital:			21 million

OFFICER(S)

Name	Nationality	Position
0 Wang Kelei (王克雷)		Legal Representative
1 Wang Kelei (王克雷)		Managing Director, Manager
2 Wang Xiaoqing (王小青)		Supervisor

EXTERNAL INVESTMENTS(10), ONE OF THESE IS 芬碳资产管理咨询 (北京) 有限公司(Fen Carbon Asset Management Consulting (Beijing) Co., Ltd)

Name of Shareholder	Capital Contribution (%)	Subscribed capital contribution (HKD)
1 金诺碳投环保科技 (北京) 有限公司(Juno Carbon Investment Environmental Technology (Beijing) Co., Ltd)	87%	5.655 million
2 GreenStream China Holdings Limited	13%	0.845 million
	Registered Capital:	6.5 million
	Paid-up Capital:	6.5 million

OPERATION STATUS

1. Domain Name Record

Date of Review	Website Name	Domain Name	License Number
N/A			

2. INTELLECTUAL PROPERTY

(1) Trademarks

No	Application Date	Trademarks	Trademark Name	Registration No.	Class/ Status
N/A					

(2) Patents

No	Application Date	Application No.	Patent Name	Public Notice Date
N/A				

(3) Copyrights

No	Application Date	Application No.	Patent Name	Public Notice Date
N/A				

Physical Visits to Address

Company Existence and Address Verification

Company Search Report (performed by Fintrade): additional information examples

Historical business information

Historical registered address 1

2020-08-13

Room 103A14, 1st floor, Building 2, No. 338, South Meigui Road, China (Shanghai)
Pilot Free Trade Zone



Company Officials

Partner Selections, Screening and Company Search

Company Search Report (performed by Fintrade): additional information examples

History of Executive Positions:

- Who was assigned?
- Which position?
- When?
- When they quit the position?

历史高管镜像 ②		
姓名	< 2021-12-07	2021-12-03 >
JUSSIL MARINY K&AUM L:NEN	再次任职 职位 执行董事	退出 职位 执行董事
VEPSAL AINENJ ARIERK KITAPA	职位 监事	首次任职 职位 监事
HARRIM ATIASR OTO	-	退出 职位 监事
JUSSIL MARINY KÄNEN	-	-

Licenses and IPR Granted

Partner Selections, Screening and Company Search

Company Search Report (performed by Fintrade): additional information examples

Details of certification and business licenses

- Number of the certificate
- Status
- Date of issue
- Date of Expiration



海雷节能科技（上海）有限公司 的资质证书详情	
证书编号	04119Q30312R0S
证书状态	暂停
颁证日期	2019-11-12
证书到期日期	2022-11-11
初次获证日期	

Other Business Details

Partner Selections, Screening and Company Search

Company Search Report (performed by Fintrade): additional information examples

Import and Export Credit Details

- Customs Registration Code
- Administrative area
- Business Category
- Registration date
- Special Trade Area
- Registered Customs
- Rating
- Validity period of customs declaration

进出口信用详情	
注册信息	
海关注册编码 3122447917	注册海关 外高桥关
行政区划 上海市浦东新区	经济区划 保税区
经营类别 进出口货物收发货人	行业种类 工业设计服务
海关注销标志 正常	年报情况 未报送
注册日期 2014-07-21	报关有效期 2018-07-31
特殊贸易区域 外高桥保税区	信用等级 一般信用企业
跨境贸易电子商务类型 -	

China Market Entry Strategy

Expect the Unexpected

Every company that desires to have R&D done in China should establish a corporate IP protection strategy and apply best business practices. Most of these business practices are helpful for IP protection generally not just in China. Continuing due diligence will help reduce the risk of IP leakage.

- Prepare an extensive **IP Protection plan** and Risk Management procedures beforehand
- Consult China **IP advisors and Corporate Lawyers**
- **Separate** components of key R&D work between several research groups and establish the “need to know” levels of access to IP
- Plan **regular audits** of the R&D center ahead and **record milestones in writing**
- Keep track of the **departing employees** of the R&D center; monitor new and prior employee Patent Filings; implement HR practices for the departing employees: written reminders of the continuing confidentiality obligations, departing interviews, and Non-Competition Agreements, maximum validity 2 years.
- **Register IP rights** in China. No patent or trademark protection is available until the patent or trademark is issued in China or Hongkong.



Part 2

Managing R&D and Partners in China

China Contract Management

Contract and Risk Management

European company must create a **services contract** with the service provider when using either the JVC / WFOE or the third-party model for tax and insulation from liability purposes as well as for ownership of IP. **NDA is not enough.**



IMPORTANT TO CONSIDER!

JVC or WFOE is a **separate legal entity!** Therefore, the parent does not have ownership of IP merely because it owns the WFOE.

The parent company needs to make sure it owns the results even when the service provider is its WFOE.

China IPR Protection

Non-Competition and Secrecy Contracts

Things to take into account and include in the services contract:

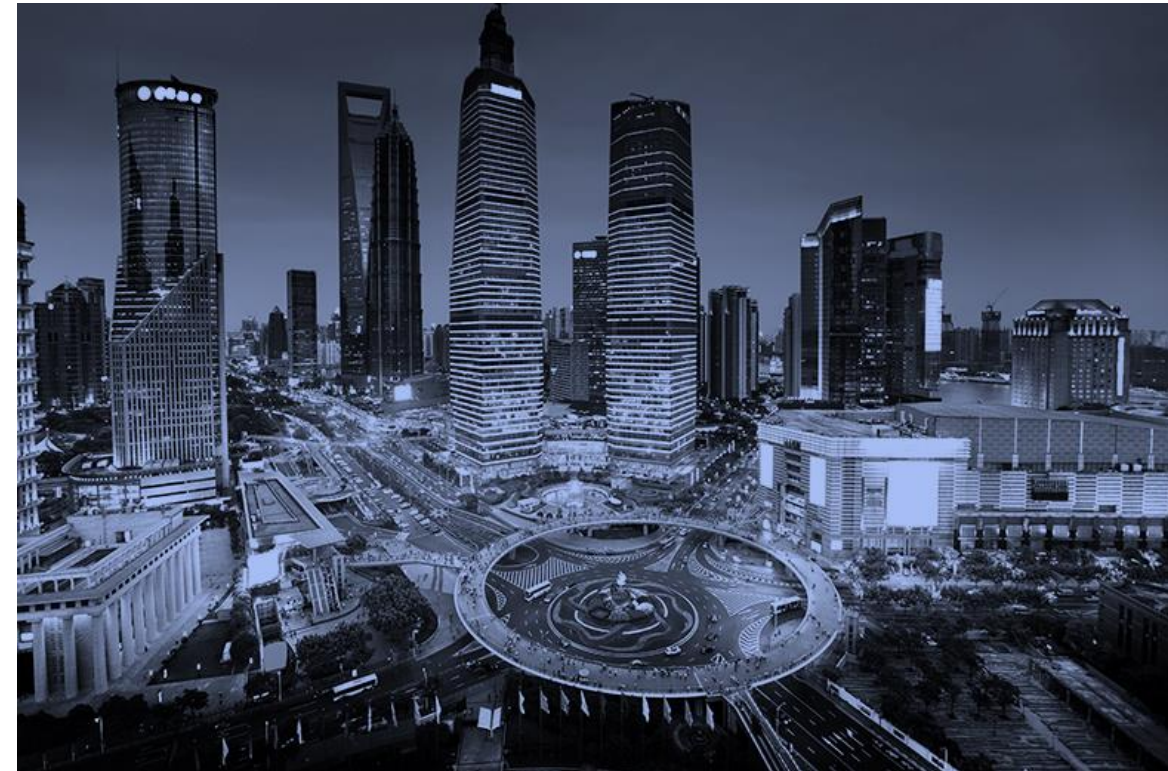
The obligations in the services contract must also flow down into contracts with the service provider's **employees and subcontractors**

Intellectual property **warranty and indemnification** contractual provisions

Choice of **Governing Law and Place of Arbitration**

Non-use and non-disclosure of confidential information and the results of the services for effective protection of IP

Assigning ownership of **all** intellectual property (data, processes, methods, etc) developed or created under the contract to the party paying for it



Supervision and Audit Rights

Contract and Risk Management

Things to take into account and include in the services contract:

No cap for monetary liability for IP infringement

The service provider (including its employees) shall irrevocably **waive**

and agree to never assert moral

rights: the right of publication, to retain the integrity of the work, and to claim authorship of the work

Explicitly provided permission to obtain **injunctive relief** for IP leakage as the most realistic official/legal remedy in China

Audit rights (when, under what circumstances, and the extent to which the party paying for the work can inspect the R&D operations in China)



Use Your Own Contract Bases

Reverse Engineering – Software Source Code Renewals

Creation of improvements and the ownership of improvements made by the Chinese party is one of the most negotiated provisions in the contracts. The improvements to the transferred technology are extremely valuable and form the basis for the cooperation.

The points to consider under Chinese law on improvements:

- **Commissioned IP belongs to the commissioned party, unless the contract states the commissioning party owns the IP.** This means that it is important that the contract states clearly what IP is to be developed and who will own it.
- Improvements are owned by the party that makes the improvements and **cannot be automatically 'granted-back' to the other party without some form of compensation** or without reciprocation such as granting a license to the other party's improvements. This means that the typical automatic ownership of improvements being owned by the foreign party will be unenforceable.
- **A Chinese party cannot be restricted from making improvements to transferred technology and using the improvements.** This means that a Chinese party can make improvements and any such restrictions will be unenforceable.

IMPORTANT TO CONSIDER!

Reverse engineering is permitted under Chinese law and not considered a theft of trade secrets.

Well-drafted technology transfer contracts should include a provision limiting or prohibiting the Chinese party from engaging in reverse engineering.

Licenses and Royalties

Court Prefer Chinese Parties and their Lice

IMPORTANT TO CONSIDER!

An IP license is a contract to permit where, when and how IP can be used by another party. This can be done for free, for royalties, or in exchange for other services.

In most R&D contracts, licensing is key. The greater the leverage a Chinese business partner has in marketing and executing a product, the more consideration is given when considering licensing options.

Licensing has to be registered with appropriate Chinese authorities to be enforceable in China.

Common types of licenses, including exclusive and non-exclusive, are permitted. Parties can negotiate and reach a mutual agreement on the following key terms:

- **Territory of the license:** Does the license cover a certain specified geographical area in China, entire China, or applicable worldwide?
- **Duration of the license:** When does the license expire? How should it be renewed? Can the license be terminated under certain clearly-defined circumstances?
- **Licensed IP:** Are you only patents will be licensed out? Will copyrights, trademarks, or other less familiar types of IP (IP that deals with graphical user interfaces, sensitive client information or special skills) be also licensed out?
- **Royalties:** lump-sum payment, running royalties, royalty-free for a limited period of time? Tax and auditing issues also have to be addressed.
- **Limitations of the license:** Do you have to give a warranty or indemnify everything asked for by your Chinese partner? Think of ways to limit your exposure to liabilities.

Technology-to-Equity Transaction

Structuring Technology Transfer Contracts

Once European SMEs have selected the right partner, structuring technology transfer is critical to effectively protecting IP assets. The IP risk associated with a particular technology transfer will vary depending on whether SMEs are licensing, setting up a JV, or setting up a WFOE.

Licensing the technology to an unrelated Chinese company

- When licensing to unrelated Chinese companies (contract manufacturing), SMEs normally have the least control over their IP. The best strategy is to use multiple Chinese suppliers to source different components of SME's product so that **no single Chinese supplier can make the product**.
- Furthermore, phased implementation is often used to test out the Chinese partner before transferring additional technology.

Setting up a Joint Venture

- For JVs, there is an **increased risk of the company's IP leaking to the Chinese JV partner**.
- It is extremely important to **define the roles of both the JV and the Chinese JV partner**. Many companies keep critical design work or the manufacturer of critical components in a separate wholly-owned subsidiary or completely off-shore. A Chinese JV partner with strong local contacts and sales networks can be structured as an authorized distributor of the JV's products but being otherwise limited in the activities of the JV.

Setting up a WFOE

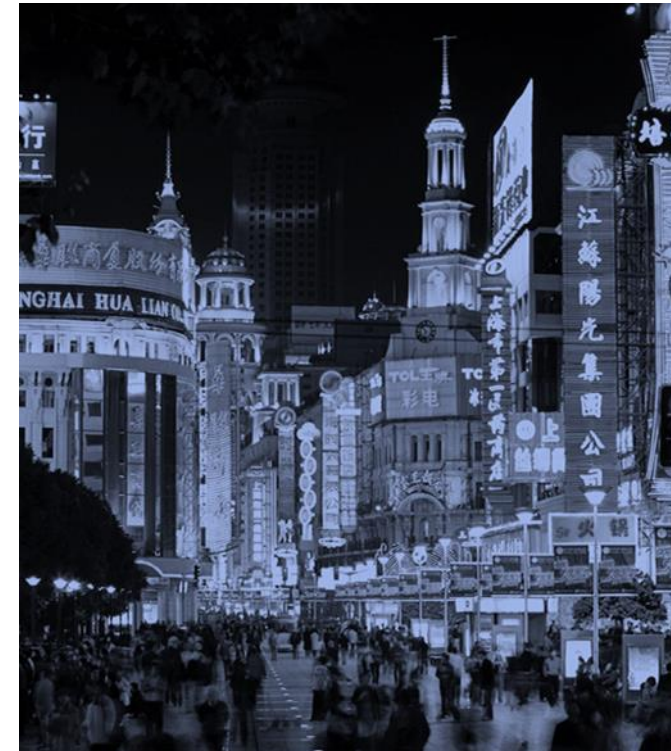
- **Less IP risk** because European SMEs have the greatest amount of control over their wholly-owned subsidiary.
- The focus is on on reducing/preventing IP leakage by **employees and business partners**.
- For R&D centers, it is important to ensure that **employee-inventors are properly remunerated** and developed **IP is routinely captured and managed** (filing patents and registering copyrights).
- Use of **confidentiality agreements and non-compete agreements** for employees who are knowledgeable about the business and technology is crucial.

Chinese Court Practices

Legal Regime Prefers Chinese Inventors

In case the primary inventors are Chinese citizens:

- According to Article 16 of China Patent Law, the **inventors will have to be sufficiently compensated** if the ownership is transferred from the inventors. This compensation could be in the form of cash, shared profits, equity interest, or some other form of IPR.
- Articles 76-78 of the Rules of Implementing the Patent Law provide a **minimum of 3000 RMB** to be paid within three months of invention patent grant and **not less than 2% of profits** from exploitation of the patent (or 10% of royalties if the patent is licensed). The rule does allow the employer to instead contract the amount to be paid as one-time payment.
- It is important to monitor the **existing legal obligations of the inventors** towards various organizations, for example, research institutes or another employment place with an obligation to transfer created IP to the employer.



Chinese Export Control

Restricted Technologies and Confidential Examination

According to the Chinese patent regulations, **inventions wholly or partially created in China are subject to confidential examination before being filed abroad**. The regulation was created to prevent inventions affecting national security to be disclosed outside of China.

For companies undertaking R&D in China, it is important to take notice of this regulation and account in its IPR protection strategy for the **additional time** before it is possible to register the IP in the home country.

For international Patent Cooperation Treaty patent applications filed with SIPO, the applicant need not file a separate request for the confidentiality examination.

IMPORTANT TO CONSIDER!

The confidential examination takes 4 to 6 months unless SIPO considers the national interests to be contravened





Part 3

Handling of Disputes and Problems

R&D IP Infringement Resolution

Resolution Options

- **Negotiations and Mediation**
 - Win-win solution
- **Administrative channel**
 - Earlier injunction for Stoppage
 - Evidence gathering for further legal action
- **Judicial action**
 - Stronger penalties
 - Stronger deterrent
 - Give rights holders opportunities to claim monetary damages

Period of limitation for legal action: 2 years for domestic cases, 4 years for foreign related cases (from the date when the plaintiff knows or should have known of the infringement)

R&D IP Infringement Resolution

Institutional Support



Belt and Road International
Commercial Mediation Center



Intellectual Property Rights
Mediation Center of
Guangdong - Hong Kong -
Macao Greater Bay Area



Hong Kong International
Arbitration Centre



香港和解中心
Hong Kong Mediation Centre

Hong Kong International
Mediation Centre



中国社会科学院
Chinese Academy of Social Sciences

Chinese Academy of Social
Sciences



Chinese Academy of Sciences



Part 4

Case Norsepower - SST:

Contract Manufacturer IPR Infringement

Case Norsepower - SST



NORSEPOWER

- **Norsepower Rotor Sails** provide a reliable and easy-to-operate auxiliary wind propulsion system with a proven savings record.
- Norsepower Rotor Sails can typically reduce fuel consumption by 5-20%.



CHINA
IP SME HELPDESK



- **Shandong Shuangyi Technology Co., Ltd.** is a listed company that manufactures and distributes industrial machinery products.
- The Company produces non metallic molds, wind turbine covers, construction machinery covers, agricultural machinery covers, ship shells, medical device shells, and other products.



Case Norsepower - SST



Max. 5 months

Timeline of the IPR Infringement Case

- January 25th, 2018 – **NDA signed** between NP Oy and SST
- March 9th, 2019 - **SST received drawings of a panel by email**. That panel has same structure as parts in SST patent application. The email was accompanied by the following notion: "All the documentation is sent under NDA, please treat these documents confidentially."
- May 6 - 10, 2019 – Paper copies of drawings received by SST at the in-person meeting
- May 14th, 2019 - SST received Bill of Materials for every rotor part by email
- June 7th, 2019 - Email sent to SST explaining the production concept
- August 1st, 2019 – **SST Invention Patent application** for the disputed know-how/technology that belongs to Norsepower
- December 10th, 2019 – **Publication date of the Invention Patent application** (key engineers are exactly those who had communication with NP Oy engineers)
- December 19th, 2019 - SST and NP Oy enter "Equipment Manufacture" and "Production and Supply" Agreements



Case Norsepower - SST

Field Investigation Facts

- Fintrade's China Employee visited two offices of Tianjin Dealfeng New Energy Technology - the first visit was to the official address registered at Chinese Registry (Office One), while the second visit was to the address (Office Two) presented at its company website.
- The information on the Chinese and English website of the company was different, with English version having noticeably better design overall. However, **they Photoshopped their logo onto pictures of ships downloaded from the internet** and publish news on their website about other companies (including Norsepower) **to create an image of working together with those companies.**
- The official address in the registry have changed several times, the latest being on October 11th, 2021.



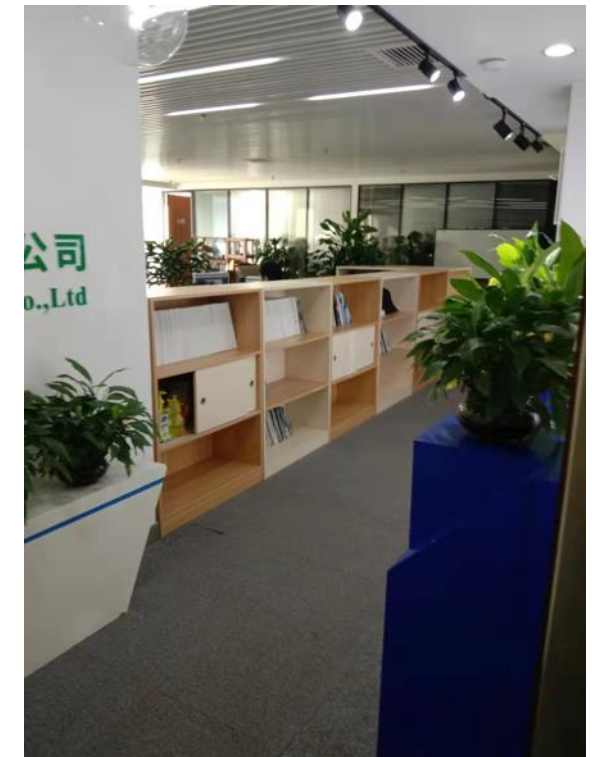
Norsepower's first
installation of
spinning sails on bulk
carriers

05-21
2021

Case Norsepower - SST

Field Investigation Facts

- Office One was in a very remote area near the seaport of Tianjin that offices would not be placed in. There were no company signs. The people our investigator met at the office looked “strange” and unprofessional, based on their mannerisms and language style.
- Office Two was a typical office with company brochures on shelf display and three or four Patent Certificates on the walls. Our investigator met the same person he met in Office One. That person brought him to another employee who looked well-educated. Office Two had 6 workers total – all very young employees.



Case Norsepower - SST

Field Investigation Facts

- Our experienced investigator's final verdict:
- "After visiting the company and seeing both locations of the company, as well as contacting them directly, it is very clear that they have something to hide. They have been changing their registered offices several time, and their English and Chinese website information does not match.
- Marketing materials and the patents on the wall do not show a clear evidence of Norsepower IPR.
- The contact person very clearly had something to hide, but during the short visit it was impossible to gather stronger evidence."



Case Norsepower - SST

Contract Clauses to Protect Yourself Against Such Infringements

Sample Clause 1. All Intellectual Property Rights that arise in connection with:

- a. Norsepower's performance of its rights and obligations under this Agreement;
- b. b. the Products or the manufacture of the Products by the Supplier; or
- c. c. any feedback in relation to the Product and/or Rotor System provided by the Supplier to Norsepower;
- d. d. or otherwise in the performance of the Parties' obligations under this Agreement,

((a) – (d) jointly Arising IPR) shall vest in and be the exclusive property of Norsepower.

Sample Clause 2. The Supplier shall promptly disclose any (i) innovation, idea or other invention which, if perfected, could be subject to Arising IPR and (ii) Arising IPR to Norsepower in writing and take all actions as may be reasonably requested by Norsepower to perfect Norsepower's right in the Arising IPR.



Case Norsepower - SST

Contract Clauses to Protect Yourself Against Such Infringements

Sample Clause 3. Solely for the purposes of the performance of this Agreement, Norsepower hereby grants the Supplier a royalty-free, non-exclusive, non-transferable and revocable limited license to use, to the extent necessary, in its internal business operations, Norsepower's Pre-Existing IPR and Arising IPR.

Sample Clause 4. Nothing herein grants the Supplier the right (or implies a license under any patent) to:

- (a) manufacture, or cause to have manufactured; or
- (b) reverse engineer or cause or permit to have reverse engineered, any designs, materials, equipment and/or any other items of Norsepower in connection with this Agreement.

Sample Clause 5. All design, manufacturing, drawing or other similar information relating to the Product or its manufacture created by either Party prior or subsequent to the formation of the Agreement (i) **shall be the property of Norsepower**, (ii) shall not, without the written consent of Norsepower, be used for any other purpose than that for which they are provided or created, or otherwise be used or copied, reproduced, transmitted or communicated to a third party.



Case Norsepower - SST

Contract Clauses to Protect Yourself Against Such Infringements

Sample Clause 6. Both Parties agree to treat strictly confidential all materials, documents, communications and other information, whether commercial, technical or otherwise, obtained or received by them from the other Party as a result of negotiating or entering into this Contract or performing their respective obligations hereunder (hereinafter referred to as "Confidential Information") and use Confidential Information **solely for the purposes of this Contract.**

Sample Clause 7. The Parties shall disclose the Confidential Information only to those of their employees who need to have access to it for the purposes of this Contract and who have undertaken the confidential obligations as mentioned in Clause 13.1. in writing in advance, and such confidential obligations shall survive after their employment as far as legally permissible.



Case Norsepower - SST

Contract Clauses to Protect Yourself Against Such Infringements

Sample Clause 8. In the case of a breach of the confidentiality obligations herein Norsepower shall be entitled to whatever remedies it may have under the applicable law, including without limitation to seek interim injunction and other precautionary measures to protect its interest. The Supplier shall be liable to pay to **Norsepower liquidated damages amounting to EUR 100,000.00 for each separate breach of its confidentiality obligations hereunder which may cause irreparable harm to Norsepower.**

Sample Clause 9. The Parties agree that Norsepower's Confidential Information includes without limitation the terms and conditions of this Agreement, any pricing information, its Intellectual Property Rights and know-how, and any other information concerning Norsepower's business (e.g. its clients or financial details).



Case Norsepower - SST

Contract Clauses to Protect Yourself Against Such Infringements

Sample Clause 10. The parties desire that all disputes between them arising from or in connection with this Contract shall be settled promptly through friendly negotiations.

If a settlement or conclusion cannot be reached by the Parties within thirty (30) days from the date on which the dispute arises, then either Party may submit the dispute to the **Arbitration Institute of the Finland Chamber of Commerce under the Law of Finland**. The seat of arbitration shall be in Finland, held in the **English language**, and the number of arbitrators shall be one (1).



Summary

- **PRE-REGISTRATION OF EVERY IPR BEFORE GOING TO China** is a must to **GET PROTECTED** under international conventions and **CHINESE LAW** in order to be able to seek injunctive relief for patent infringement
- Conduct **Prior Art search, Register Utility Model as soon as possible, Register Your Software Source Code**
- Selecting a **trusted partner** with the right IP business practices and security infrastructure is a practical means of protecting IP in an R&D services relationship in China.
- **Careful Contract Management** is a must even when dealing with your own JVC, WFOE and Personnel
- **The best way to manage IPR issues is negotiations and mediation, AVOID COURTS**
- **Injunctive relief** to stop IP leakage rather than monetary damages is the most realistic official/legal remedy in China. Injunctive relief is more quickly available for patent or trademark infringement than breach of contract.

While doing business in China has IP risks, the risks need to be weighed against the economic benefits. China is a market that cannot be ignored. European SMEs who do not think carefully about how to **guard against IP risk** when doing R&D in China may unwillingly suffer a loss of competitiveness and market share.

Questions?

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