



Key Intellectual Property Considerations for Collaborating with Chinese Partners

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Valentin de le Court has close to twenty years of experience in innovation-related intellectual property law, including four years of practice in China. His area of expertise covers contentious and non-contentious IP matters, with a focus on patent law, trade secrets protection and management, open innovation contracts, and China-related IP strategies. He has developed a diverse and original expertise in IP law, through years of practice at the Brussels bar, at a Shanghai based Chinese IP boutique, and within Belgium's largest IP firm. With a keen interest in innovation, he now focuses his practice on patent and trade secrets law matters, both as counsel and litigator. Valentin litigates patents in court, advises on R&D collaboration agreements and projects, performs trade secrets audits, and provides guidance on the protection and management of confidential information. His practice also covers trademark law (advice, contracts, and litigation).

THE TOPIC

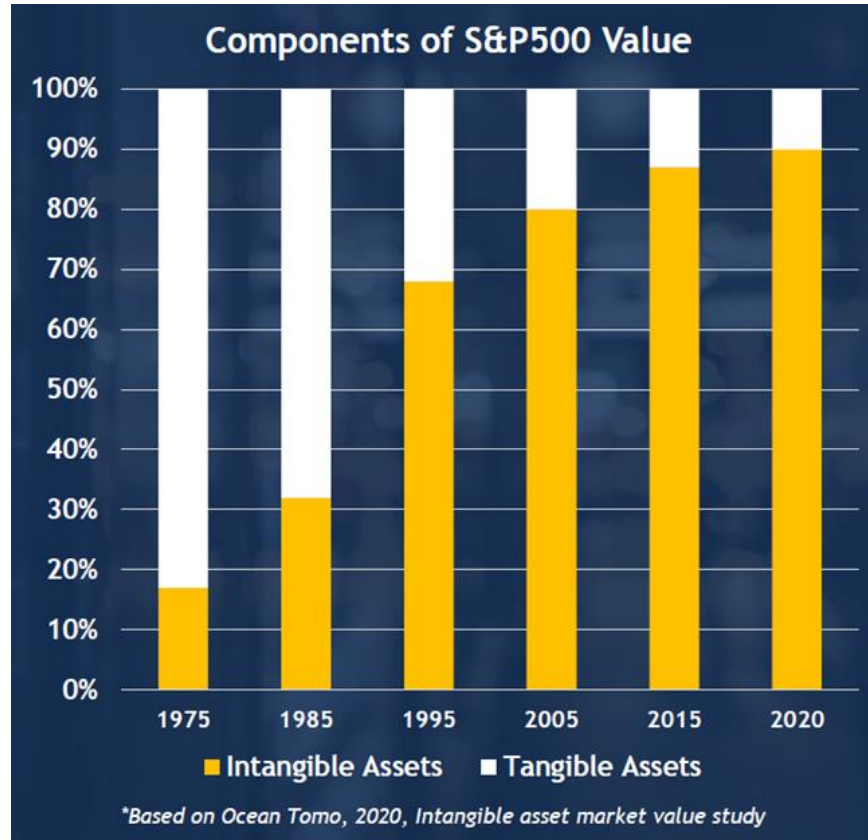
Key Intellectual Property Considerations for Collaborating with Chinese Partners

- SMEs' trade secrets and valuable know-how are often lost during the initial business meetings with potential new business partners or during trade fairs when introducing their products or services to potential new buyers.
- During this training webinar the lawyer and China IP expert Valentin de le Court will discuss how to design comprehensive IP protection strategy when meeting potential new cooperation partners in China.

1

The importance of intangibles in today's economy

(1.) THE IMPORTANCE OF INTANGIBLE ASSETS IN TODAY'S ECONOMY



- 1975 → intangible assets = 17% of corporate value
- 2020 → intangible assets = 90% of corporate value
- Intangible assets are **protected through IP rights & trade secrets**

(2.) IP IS EXTENSIVELY USED BY THE LARGEST COMPANIES IN THE WORLD

WIPO

WORLD INTELLECTUAL PROPERTY ORGANIZATION

The Value of Intellectual Property, Intangible Assets and Goodwill

Kelvin King, founding partner of Valuation Consulting¹

Intellectual capital is recognized as the most important asset of many of the world's largest and most powerful companies; **it is the foundation for the market dominance and continuing profitability** of leading corporations. It is often the key objective in mergers and acquisitions and knowledgeable companies are increasingly using licensing routes to transfer these assets to low tax jurisdictions.

“the most important asset of the world’s largest and most powerful companies”

(3.) WHY SHOULD AN EU SME CARE ABOUT IP AND INVEST TO PROTECT ITS INTANGIBLE ASSETS?

- **Protect your competitive advantage** → get exclusive rights (monopoly)
- **Attract investments** → often, an absolute must for CN investors
- **FTO** → reduce risk linked to technology commercialization
- **Increased control and decreased risk when outsourcing** → manufacturing / sourcing / supply chain, e.g. for IoT solutions
- **Tax purposes** → IP box
- **Can be (the) key to enter new markets** → attractiveness to develop partnerships + secure your position on a new market - e.g. China JV

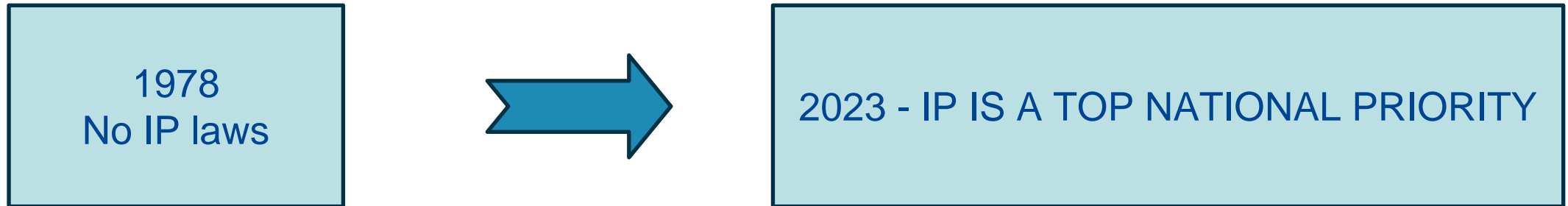
➔ IP will be at the heart of any internationalization strategy and will be key to succeed on the CN market

2

The importance of IP for China's economy

#1 – EVOLUTION OF IP LAWS IN CHINA

In **LESS THAN FOUR DECADES** → from no man's land to top national priority



A COMPLETE SET OF CHINESE IP LAWS IN PLACE

- Legislative dynamism
- Major amendments of all IP laws between 2017-2021
 - 4th amendment of CN patent law in effect on June 1, 2021
 - TM law under revision in 2023
- **IP → a central part of China's development strategy**
 - Ambition to become an IPR Powerhouse (15-year plan to develop the IP system → 2021–2035)
 - Announced in // with 14th 5y plan

#2 - China is the No. 1 country for PATENT applications

- 1.101.864 CN invention patent applications in **2015** (+18.7%)
>< 279 000 EP patent application in 2015 (+1,6%)
- ‘WIPO Indicators 2016’: China makes the headlines (FT Nov.24, 2016)

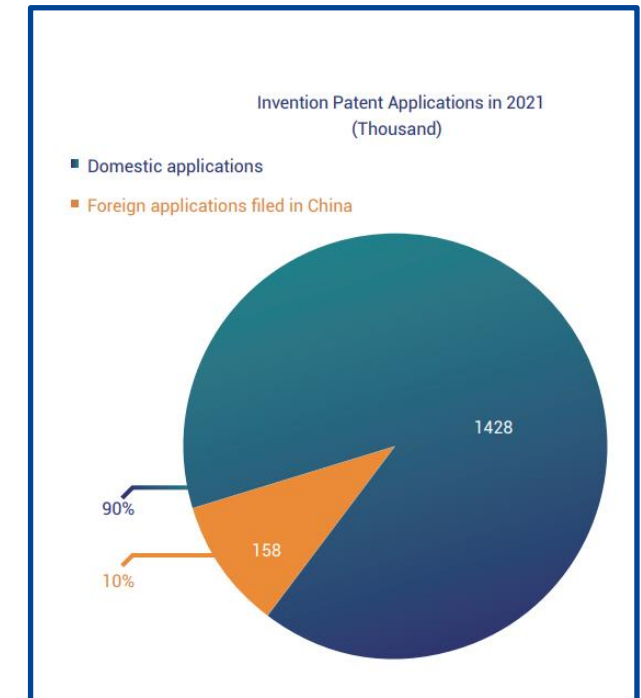


- **1.586.000 CN invention patent applications in 2021 (+5.9%) – domestic 90%**
- **Now → shift from quantity to quality**
 - Less utility models granted
 - Reduction in patent subsidies

Counsel: China IP plan affirms quality over quantity focus

Sam Sholli August 01, 2023

[Counsel: China IP plan affirms quality over quantity focus | Managing Intellectual Property \(managingip.com\)](https://www.managingip.com/news/counsel-china-ip-plan-affirms-quality-over-quantity-focus)

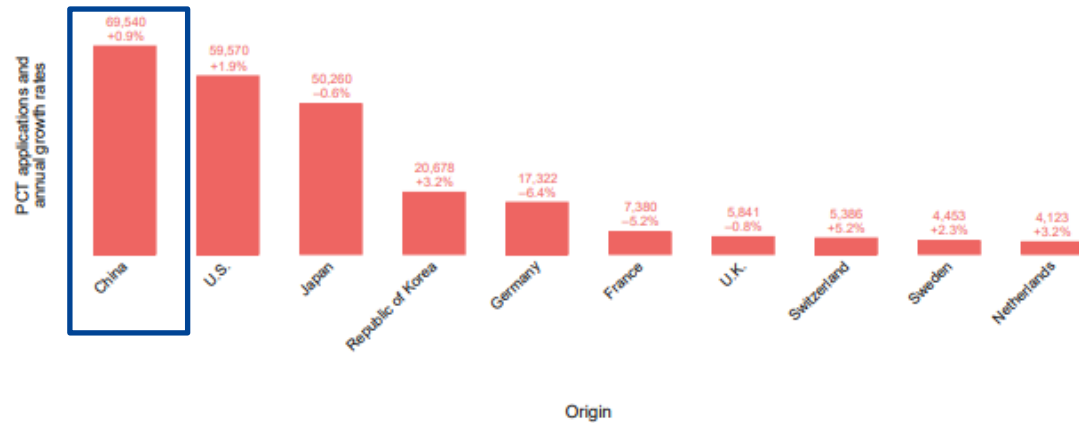


2021

#3 - China was (again) the No.1 PCT APPLICANT in 2021

Among the top 10 origins, Switzerland's growth was the sharpest recorded in 2021.

Figure 2. PCT applications for the top 10 origins, 2021



Source: WIPO Statistics Database, March 2022.

Applicants from China filed almost 70,000 PCT applications in 2021

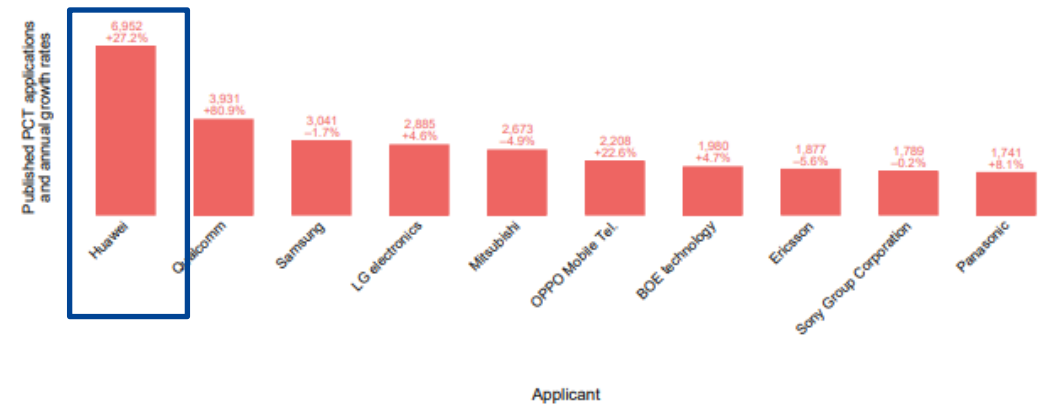
China is the country with the most applicants to feature in the top 50 university list

The Shenzhen Institute of Advanced Technology became the top PCT applicant in the government and PRO sector

(source: PCT Yearly Review 2022)

For a fifth consecutive year, Huawei Technologies ranked top PCT applicant in 2021.

Figure 4. Top 10 PCT applicants, 2021



Source: WIPO Statistics Database, March 2022.

With Huawei as the top PCT applicant

#4 - R&D spending in China grew tenfold between 2000 and 2016

➤ China has become an important innovation center

China / Science

China set to pass US on research and development spending by 2025

- China has been increasing expenditure at an annual rate of 16 per cent while the US has stagnated, according to a US think tank
- Chinese premier Li Keqiang has vowed to boost spending on basic research and there are also plans to develop fields such as AI and quantum information



Holly Chik + FOLLOW

Published: 6:00am, 16 Jul, 2021

Why you can trust SCMP



Source: The Economist 12-18 Jan.2019

#5 – IP is now ESSENTIAL FOR CHINESE BUSINESSES

- IP aware & IP rich (IP = competitive advantage = value)
- China's stake in the IP system has grown and is now significant



MERICS

Analysis

Experts

Events

Services



1. China ramps up IP protection to defend interests of Chinese firms

At a glance: The Central Committee of the Communist Party of China and the State Council issued guidelines to build a powerful intellectual property rights (IPR) country. The plan outlines policies and laws to be fleshed out by government ministries and numerical goals for 2025. Specific targets include:

Oct 05, 2021

<https://merics.org/en/merics-briefs/intellectual-property-rights-energy-consumption-transport-sector>

**CN
businesses
are strong IP
competitors**

3

*How to protect your IP
when meeting potential new partners or
during trade fairs*

3.1 – PLAN AHEAD:

protecting your IP requires preparation BEFORE meeting partners and BEFORE the trade fair

STEP 1 - KNOW YOUR IP: perform an IP audit & due diligence and understand WHAT TO PROTECT

Intangible assets are non-physical (difficulty to identify)

- SMEs often lack an overview of their IP assets

Conduct an IP audit → map your IP assets

- Have a comprehensive overview of IP assets for products / technology to be presented
- Ascertain their legal status, territorial coverage, value, related risks

What IP assets are essential to achieve your business goals?

- Are your products / technologies protected?
- Are they protected in China?
- How? IP or trade secrets?
- Is the protection relevant businesswise (revenue streams)?

Understand what to protect and how

STEP 2 – Understand HOW TO PROTECT your competitive advantage

Two ways to protect the results of your innovation

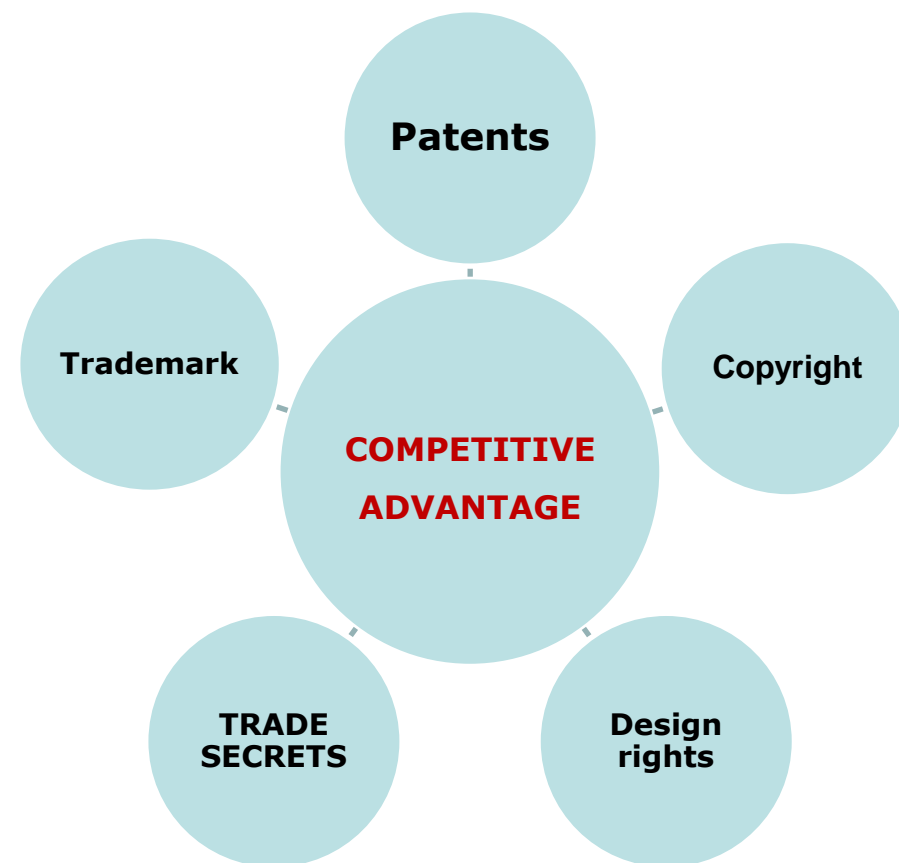
1. Intellectual Property Rights ('IP')

- **Exclusive right** granted (monopoly)
- DIFFERENT IPRs SERVE DIFFERENT GOALS
 - ❖ **Trademarks** - protect indication of **origin** of goods/services
 - ❖ **Patents** - protect **technical features** of a product/process
 - ❖ **Designs** - protect the **external aspect** of products
 - ❖ **Copyright** - **creative works** (broad variety of works protected)

2. Trade secrets ('TS')

- Protection based on the nature of the information + the way the information is handled by the holder
- Protection against unlawful acts

Create a **BUNDLE of RIGHTS:** different IPRs serve different goals [Complementarity]



STEP 3 - Have ENFORCEABLE IP rights

Be proactive!

➤ TERRITORIALITY of IPR

- ❖ Cover countries where you trade, manufacture, exhibit (trade fairs)
- ❖ Countries of competitors + possible investors
- ❖ Countries of your possible partners



➤ REGISTRATION is needed (!)

- ❖ No automatic protection
- ❖ Register on time (anticipate, plan early)
- ❖ Not applying in China = FREE LICENSE to use your inventions



➤ ADAPT to the specificities of the CN IP system

- ❖ E.g. Chinese utility model underused by foreign companies
- ❖ Work with people who master the system

STEP 4 – Use **CONTRACTS** to protect your IP

- **Key for successfully protecting your IP in China**
- **IP + confidentiality** (trade secrets protection)
 - Right to use / IP ownership / Scope of protection
- **IP is relevant to numerous contracts**
 - Technology contracts ((co-)development, tech transfer, consultancy and service agreements)
 - TM and copyright licensing
 - Manufacturing agreements (OEM, outsourcing, etc.)
 - Distribution and sales contracts
 - Employment agreements
 - Consultancy agreements
 - ...

→ Execute an **enforceable NDA** before disclosing anything of value



Actions to take to Protect your IP BEFORE meeting a possible partner or attending a trade fair

- 1 - **KNOW YOUR IP**: perform an IP audit
- 2 - **KNOW WHAT TO PROTECT** and how
- 3 - **Create a BUNDLE OF RIGHTS**: different IPRs serve different goals
- 4 - **Have ENFORCEABLE IP RIGHTS**
- 5 - **Use enforceable CONTRACTS**

3.2 – PROTECT your competitive advantage: a focus on patents and trade secrets in China

1. Chinese patents in a nutshell

TWO TYPES of Chinese patents to protect innovations in the field of TECHNOLOGY

1. **Invention patents** can cover a **product, process or combination** of both (Art.2 PRC Patent Law)
2. **Utility models** only cover **products** (Art.2 PRC Patent Law)

THREE CONDITIONS for patent protection (Art.22 PRC Patent Law)

1. **Absolute Novelty** - "*the invention or utility model does not form part of the prior art*"
2. **Inventiveness** – "*the invention has prominent substantive features and represents an obvious progress, and that the utility model has substantive features and represents a progress"*
3. **Practical use** – "*the invention or utility model can be manufactured or used and can produce positive results"*

EXCLUSIVE RIGHTS are granted: a right to exclude others from

- manufacturing, using, offering to sell, selling or importing, the patented product
- using the patented process
- using, offering to sell, selling or importing the product directly obtained by the patented process
- **without the patentee's authorization**

Patent rights are granted for a LIMITED TERM (Art.42 PRC Patent Law)

- Invention patent: **20 years** < filing date
- Utility model: **10 years** < filing date

The Chinese Utility Model

| UTILITY MODELS |
|---|
| Cover smaller technical improvements of products |
| Inventiveness requirement is lower and low |
| No substantive examination (only formal) |
| Quickly registered: 6 to 12 months |
| Term of protection: 10 year from the date of filing (vs. 20y) |
| Same rights as an invention patent |
| Easy to get, difficult to invalidate |

- Easy, cheap and quick to obtain
- Take advantage of CN utility models

Invention Patents:
Foreign/CN
~ ratio of 1 to 9

Utility Models:
Foreign/CN
~ ratio of 1 to 382

Source: CNIPA Statistics Database

| Number of Chinese Invention Applications Filed (T - Total Applicants; D - Domestic Applicants; F - Foreign Applicants) | | | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Jan.-Nov. |
| T | 314,573 | 391,177 | 526,412 | 652,777 | 825,136 | 928,177 | 1,101,864 | 1,338,503 | 1,381,594 | 1,542,002 | 1,400,661 | 1,402,698 |
| D | 229,096 | 293,066 | 415,829 | 535,313 | 704,936 | 801,135 | 968,251 | 1,204,981 | 1,245,709 | 1,393,815 | 1,243,568 | 1,263,695 |
| F | 85,477 | 98,111 | 110,583 | 117,464 | 120,200 | 127,042 | 133,613 | 133,522 | 135,885 | 148,187 | 157,093 | 139,003 |

Source: CNIPA Statistics Database

| Number of Chinese Utility Model Applications Filed (T - Total Applicants; D - Domestic Applicants; F - Foreign Applicants) | | | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Jan.-Nov. |
| T | 310,771 | 409,836 | 585,467 | 740,290 | 892,362 | 868,511 | 1,127,577 | 1,475,977 | 1,687,593 | 2,072,311 | 2,268,190 | 2,726,211 |
| D | 308,861 | 407,238 | 581,303 | 734,437 | 885,226 | 861,053 | 1,119,714 | 1,468,295 | 1,679,807 | 2,063,860 | 2,259,765 | 2,719,099 |
| F | 1,910 | 2,598 | 4,164 | 5,853 | 7,136 | 7,458 | 7,863 | 7,682 | 7,786 | 8,451 | 8,425 | 7,112 |

**CN Utility Models are
massively underused
by foreign companies**

2. Trade secrets in a nutshell

Trade secrets = crown jewels of many companies

WHAT can be protected?

- Broad range of technical/commercial/operational **information**
- ✓ processes, methods or steps thereof
- ✓ algorithms, data, computer programs
- ✓ Strategies, client lists, supply chain



Any type of info if meets the protection requirements

REQUIREMENTS - Art.9 CN AUCL

The information must be

1. SECRET - “*not known to the public*”
2. COMMERCIAL VALUE because it is secret - “*has commercial value*”
3. REASONABLE STEPS to keep it secret - “*reasonable efforts to maintain secrecy*”



Chinese Anti-Unfair Competition Law
revised in 2017 and 2019 (Art.9 CN AUCL)

Strengthening of the TS protection regime

- **More information** may qualify as TS
- **More acts** qualify as misappropriation
- **More people** may be held liable

REASONABLE STEPS to keep information secret are KEY... And require more than signing an NDA

- **Legal requirement:** “*has adopted secret-keeping measures*” (Art.9 CN AUCL)
- **Need to take proactive measures to protect secrecy**
- No reasonable steps = information is no trade secret → **loss/absence of protection**
- **Variety of measures** to be taken: legal, HR, IT, organizational,...

WHAT reasonable steps to implement?

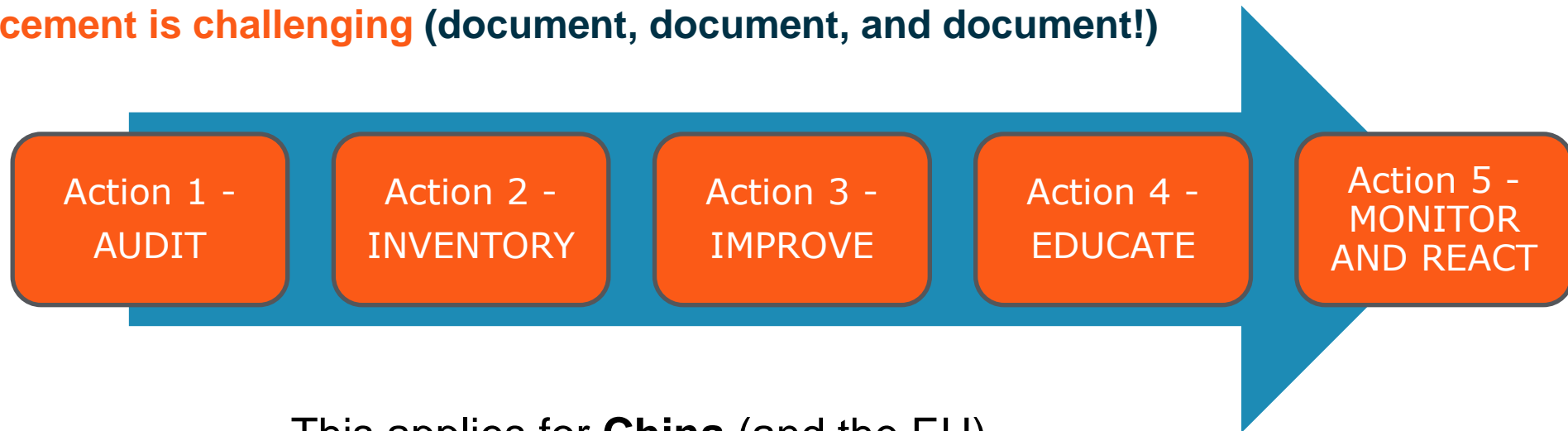
Art.7 SPC JI 2020: Non-exhaustive list of confidentiality measures

→ Useful guidance

- (I) *Signing a confidentiality agreement or stipulating confidentiality obligation in the contract;*
(contracts)
- (II) *Providing confidentiality requirements through articles of association, trainings, rules and regulations, written communication, etc., providing confidentiality requirements on employees, former employees, suppliers, customers, visitors, etc. who can access or obtain trade secrets;*
(training and regulations)
- (III) *Restricting visitors to or providing segregated management to confidential production and business premises such as factories and workshops;*
(physical barriers – access control)
- (IV) *Distinguishing and managing trade secrets and carriers thereof by means of marking, classification, separation, encryption, sealing and restricting the scope of persons who can be reached or access,*
etc.; (access management!)
- (V) *Taking measures of prohibition or restriction of using, access, storage, duplication, etc. on computer equipment, electronic equipment, network equipment, storage equipment, software, etc. that can access or obtain trade secrets.*
(IT measures)
- (VI) *Requiring employees about to leave their jobs to register, return, clear and destroy any trade secrets and the carriers thereof that they have accessed or obtained and to continue to bear the confidentiality obligation;*
(HR management)
- (VII) *Other reasonable measures of confidentiality*
(open notion)

Trade secrets = crown jewels of many innovative companies

- **Trade secrets Protection requires proactivity** → have a TS management strategy (no automatic protection)
- Audit & improve **protection measures** (an **NDA is a good start... but is not enough**)
- **Document** all transfers and your **confidentiality measures**
- **Main risks come from the business** ((ex-)employees; consultants; business partners)
- **Enforcement is challenging** (document, document, and document!)



This applies for **China** (and the EU)

3. Why patents, why secrecy?

| The Benefits of Secrecy | The Drawbacks of Secrecy |
|--|---|
| No disclosure, no sharing of your technology | No exclusive right (reverse engineering; independent development) |
| No limited duration | Less robust (once out, protection lost) |
| No granting procedure | Difficult to enforce (evidence) |
| Broad scope of protection | No tax advantages |
| No direct costs (but costs of maintaining secrecy (!)) | More complex / risky to transfer / monetize |

- **Can the technology be patented?**
- **Can patent infringement be identified?**
- **What are the risks if the information becomes public?**

| The Benefits of Patenting | The Drawbacks of Patenting |
|---|--|
| Exclusive right / monopoly | Disclosure (your competitors get to know your invention) |
| Clear title, scope of protection, strong rights | Protection limited in time |
| Easier to enforce | Granting procedure (length; costs) |
| IP box | Object limited to patentable inventions |
| Ease to collaborate (sharing) | Risk of design around |

- **Ease of reverse engineering?**
- **Will the information be shared?**
- **Employee mobility in the sector / company?**
- **Regulatory disclosures?**

4. Don't forget your other IP rights... especially your trademarks

Register sooner than later and BEFORE engaging with Chinese partners

- China is a first to file country
- Many filings in bad faith
- Changes in CN TM law and case law
- But still... 'prevention is better than cure'

3.3 – Protecting your IP and trade secrets when meeting with potential partners

1. Execute an NDA

- **+ other confidentiality measures** such as confidential marking

2. Organize what you share - disclose only what is needed

➤ **How much of my IP should I disclose?**

- ❖ Review and consider what you will be disclosing / displaying and distributing → carefully prepare
- ❖ At trade fairs → avoid novelty destroying publications (patents/designs)
- Be aware of risks of **trade secrets disclosure & misappropriation**
- **Track what you share** (evidence!)

3. Perform background checks

- **Select your targets / your leads**

4. Carefully follow up and monitor

4

TO CONCLUDE

Key Intellectual Property Considerations for Collaborating with Chinese Partners



1° Be **PROACTIVE** and have a tailor-made **China IP STRATEGY**

- Start early: plan ahead & anticipate → define your strategy
- Know your IP (audit): Identify what you need to protect & prioritize (seek help)
- Build relevant IP portfolio (register & layer your IP)
- Pay attention to trade secrets (reasonable steps)
- Negotiate contracts in great detail
- Don't forget your trademarks

2° **Sign NDAs** (+ implement other confidentiality measures such as confidentiality marking)

3° **Organize what you share** (disclosure selection, and evidence of what is shared)

4° **Select your leads and perform background checks** (vet your partners)

Any question? Drop me a line!

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QUESTIONS?

HELPLINE

free, fast & confidential

3 ^{working} *days*

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**CHINA
IP SME HELPDISK**

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