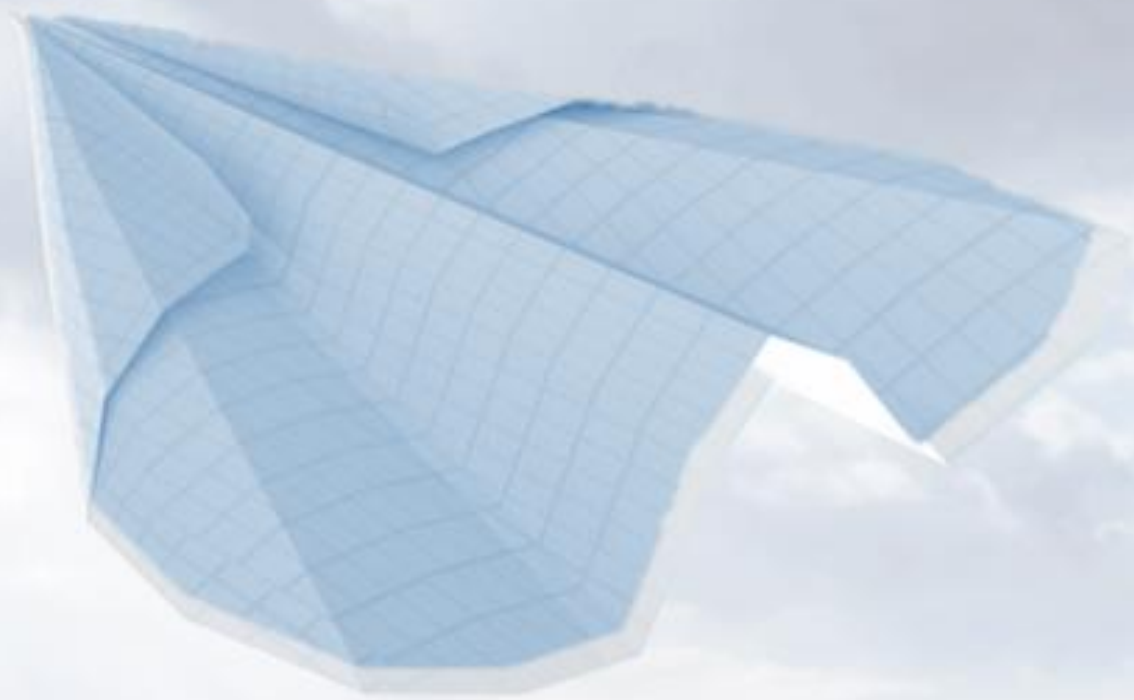


IP Protection Strategy in China

- Matias Zubimendi 11 March 2022





China IP SME Helpdesk

ABOUT US

Helpdesk Free Services

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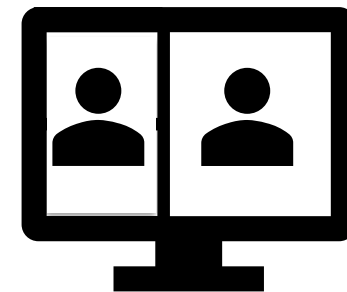


https://ec.europa.eu/ip-helpdesk

Guides & Factsheets



One-on-one Consultation Sessions



CHINA IPR SME HELPDESK
WWW.CHINA-IPRHELPDESK.EU

IP Factsheet: Mainland China



1. THE FACTS: Business in Mainland China for EU Companies
(Source: DG Trade)



SIZE of Market:

- EU exports to Mainland China: EUR 173.5 billion
- EU imports from Mainland China: EUR 299.9 billion
- Total trade in goods: EUR 473.4 billion

> Mainland China is the EU's second largest trading partner, after the USA.
 > The EU is China's largest trading partner.

Key INDUSTRY SECTORS:

- > EU exports to Mainland China are dominated by machinery and equipment, motor vehicles, aircraft, and chemicals.
- > Mainland China's key export items to the EU include machinery and equipment, footwear and clothing, furniture and lamps, and toys.

1 THE FACTS: Business in Mainland China for EU Companies
Key INDUSTRY SECTORS

2 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?

3 IP Rights in Mainland China THE BASICS
A. Copyright
B. Patents
C. Trade Marks
D. Geographical Indications (GIs)
E. Trade Secrets

4 Using CUSTOMS to block counterfeits

5 Enforcing your IP
Administrative actions
Civil Litigation
Criminal Prosecution

6 RELATED LINKS and Additional Information

Co-funded by:

European Union

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Protecting Your Trade Secrets in China

Prevention is the key to protection.



WHAT EXACTLY CAN BE A TRADE SECRET

SOMETHING THAT

- 1 is not publicly known
- 2 has commercial value
- 3 you took measures to keep secret

expressions of ideas

know-hows, manufacturing or design techniques

status of products or services under development

valuable business information, lists, cost and price information

TRADE SECRETS

KEEP IT SECRET, KEEP IT SAFE

It is important to remember that once trade secrets become publicly known, they can no longer be protected as trade secrets.

CONFIDENTIAL

DON'T FORGET YOUR EMPLOYEES

- Limit access and copying rights to the personnel who actually need it.
- Require all employees to sign an employment agreement with strict confidentiality provisions.
- Be sure to hold exit-interviews and have them return documents, materials, computers, and files.
- Establish an internal management system for trade secrets. Training and clear written guidelines are essential.

DEALING WITH THIRD PARTIES

Business dealings or negotiations with third parties, potential partners, suppliers, contractors, licensees, or customers

monitor your partners, suppliers or licensees to make sure they are complying with your trade secrets protection policy

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

MATIAS ZUBIMENDI

IP BUSINESS ADVISOR

matias.zubimendi@china-iprhelpdesk.eu

Mr. Matias Zubimendi is the IP Business Advisor at China IP SME Helpdesk in Beijing, where he advises European SMEs on intellectual property rights matters.

Mr. Zubimendi holds a Master's degree in Chinese Civil and Commercial Law from Peking University and one Master's degree in Intellectual Property Law from Austral University. He has worked on IP-related matters in China and Latin America and is fluent in Spanish and English.

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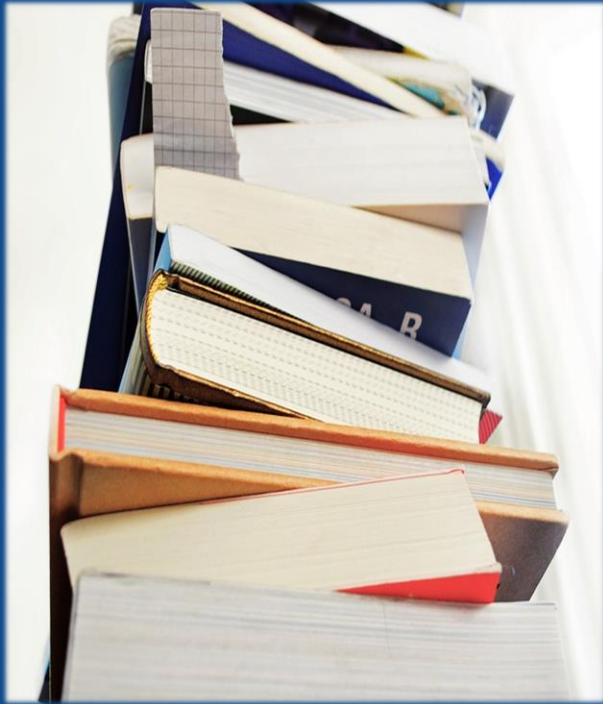
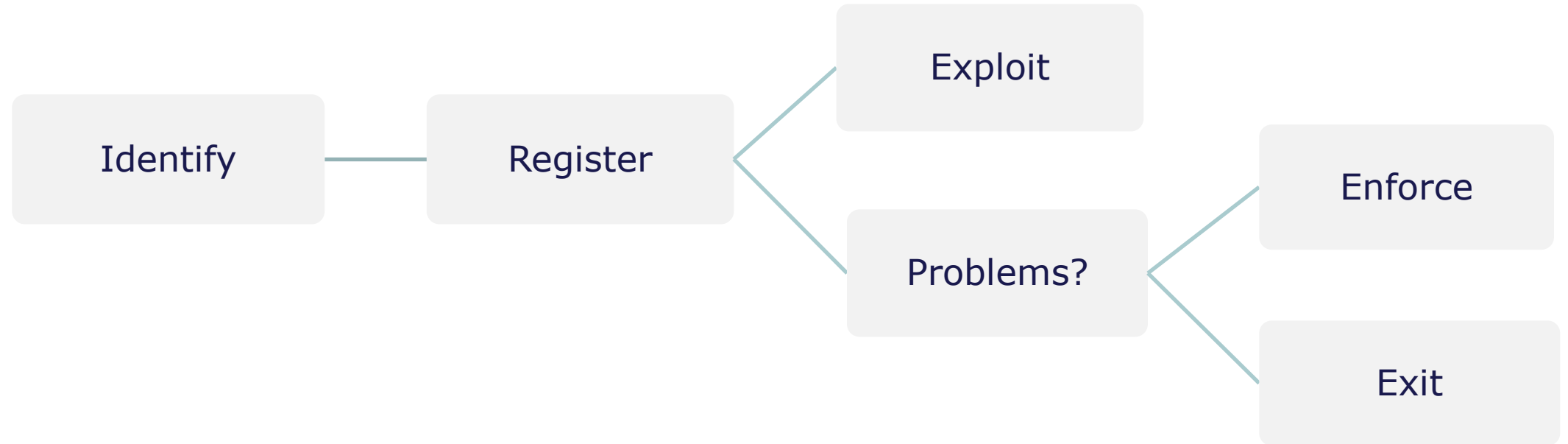


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2. Research & Development
3. Best practice of Distributor Agreements
4. Best practice of Licensing Agreements
5. E-commerce
6. Monitoring IP in China
7. Trade Fair

Key elements of an IP strategy for China

Basics



Key elements of an IP strategy for China

Identify

Invention
patents

Innovative products
Innovative processes

Trademarks

Signs that distinguish
products from competitors

Utility models

Functional aspects of a
product

Copyright

Expression of an idea

Design
patents

Aesthetic aspects of a
product

Trade secret

Information that is not
known by competitors, has
commercial value and is kept
protected.

Key elements of an IP strategy for China

Register

Invention
patents

CNIPA
PCT

Trademarks

CNIPA
Madrid System

Utility models

CNIPA
PCT

Copyright

CPCC
Others (Blockchain)

Design
patents

CNIPA
Hague

Trade secret

No registration

Hong Kong & Macau - Extension of IPRs



Case Study 1

- Insufficient or incorrect IP protection

- **Apple** registered the trade mark iPhone for phones
- Forgot to register it for leather products (which includes leather phone cases)
- Similar scenario with the trade mark iPad



Problem

- ☁ Many “fake” iPhone cases in the Chinese market
- ☁ Litigation was lost – Beijing Court ruled that the trade mark was not well-known at the time, thus it was a valid registration



Solutions



Trade mark was bought

Key elements of an IP strategy for China

Why you should have a Chinese Trade mark



Not having a Chinese name for your products and company

- Using only the international name



Chinese name assigned by distributors / sellers

- Products become famous under the Chinese name
- A new brand appears without it being registered



Chinese brand could be registered by a third party

- A third party appropriates your trade mark
- Difficulty to prove bad faith in case of a brand that never existed before





Case Study 2

- Not having a Chinese trade mark

Spanish toy car producer

- Exporting to China
- Selling in retail (supermarket & toy stores)
- International brand registered (Madrid protocol)



Problem

- ☁ No Chinese brand registered
- ☁ Supermarket phonetically translated the international name and used it on displays



Solutions

- ☂ Assigned a new Chinese brand (fame lost)

Key elements of an IP strategy for China

Invention Patents vs Utility Models



Parallel registration strategy

- Benefits – ‘Faster’ enforceability
- Disadvantage – delay in invention patent examination



MISTAKES

X Not going with parallel registration

- Short commercial life of products
- Easy to copy
- Copycats are highly expected

X Going with parallel registration

- Long commercial life of products
- Hard-to-copy products
- Few copycats



Case Study 3

- Invention patents vs utility models

- **French SME** of cheese processing machines
- Registration of their whole machine by PCT (invention patent)
- Registration of the smaller (and critical) parts of the machine by PCT (invention patent)



Problem

- ☁ Chinese company copied the machine and started producing its own cheese.
- ☁ French company was unable to enforce its rights since the patent was not yet granted.
- ☁ When the patent was granted and the case was filed, the Chinese company was already insolvent



Solutions

- ☂ Take into account the need of enforcing your rights.
- ☂ Avoid the PCT if parallel registration is needed

Key elements of an IP strategy for China

Exploit

By IP owner

- Manufacture
- Commercialisation
- Export / import

By third parties

- License
- Distribution
- Joint Ventures

Key elements of an IP strategy for China

Enforce

People's
Courts

Not specialised in IP

Arbitration

Agreement needed

IP Courts

Specialised
Advised for complex
cases

Copyright

Notice and take-down

Internet
Courts

Jurisdiction limited
Digital evidence
accepted

Administrative
Actions

CNIPA
Customs

Key elements of an IP strategy for China

Exit strategies

Contractual solutions

- Surveillance
- Exit clauses - notification
- Compensation clauses
- Register under your name

Unplanned exit

- Negotiate

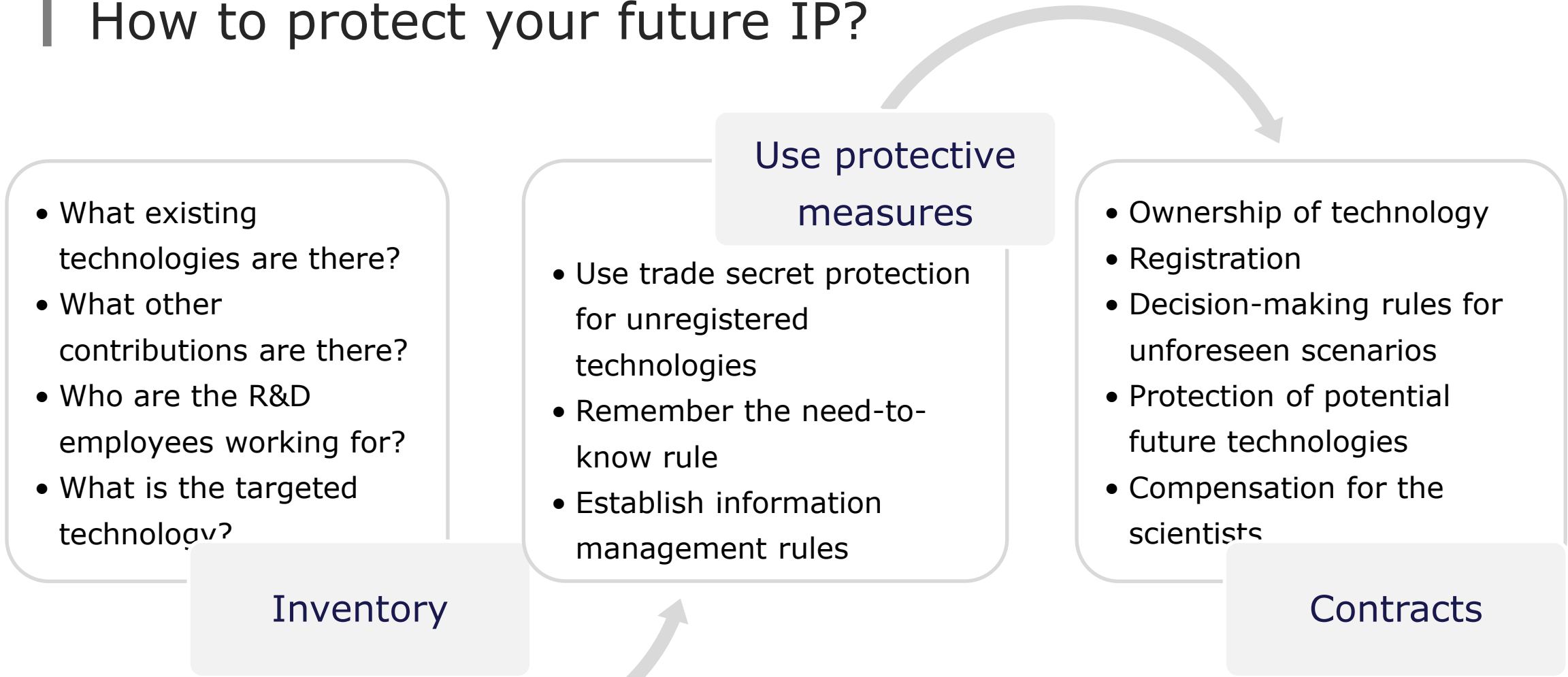
Non-competence

- Trade secrets
- Previous partners and employees

1
2
3
4
5
6
7

Research & development

How to protect your future IP?



Research & development

Don't Neglect Trade Secrets



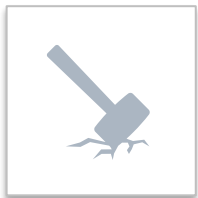
Company fails to understand that some information should be protected as trade secret

- Unregistered IP
- Know-how
- Commercial information (lists of clients / distributors / prices)



No protection is implemented

- Physical
- Technological
- Legal (NDAs / NNNs)
- Need-to-know rule



Trade secret is lost

- Loss of IP
- Loss of competitive advantage
- Possibility of getting a compensation?



Case Study 4

- Neglecting to protect trade secrets

- Italian motorbike company
- Developing new electric bike engines in cooperation with a Chinese company
- Main engineer was a famous professor in a top university in China



Problem

- ☁ Professor published several articles as part of his strategy to be promoted inside the university
- ☁ Some of those articles contained sensitive information (trade secret)
- ☁ Company had no rules forbidding the publishing of articles

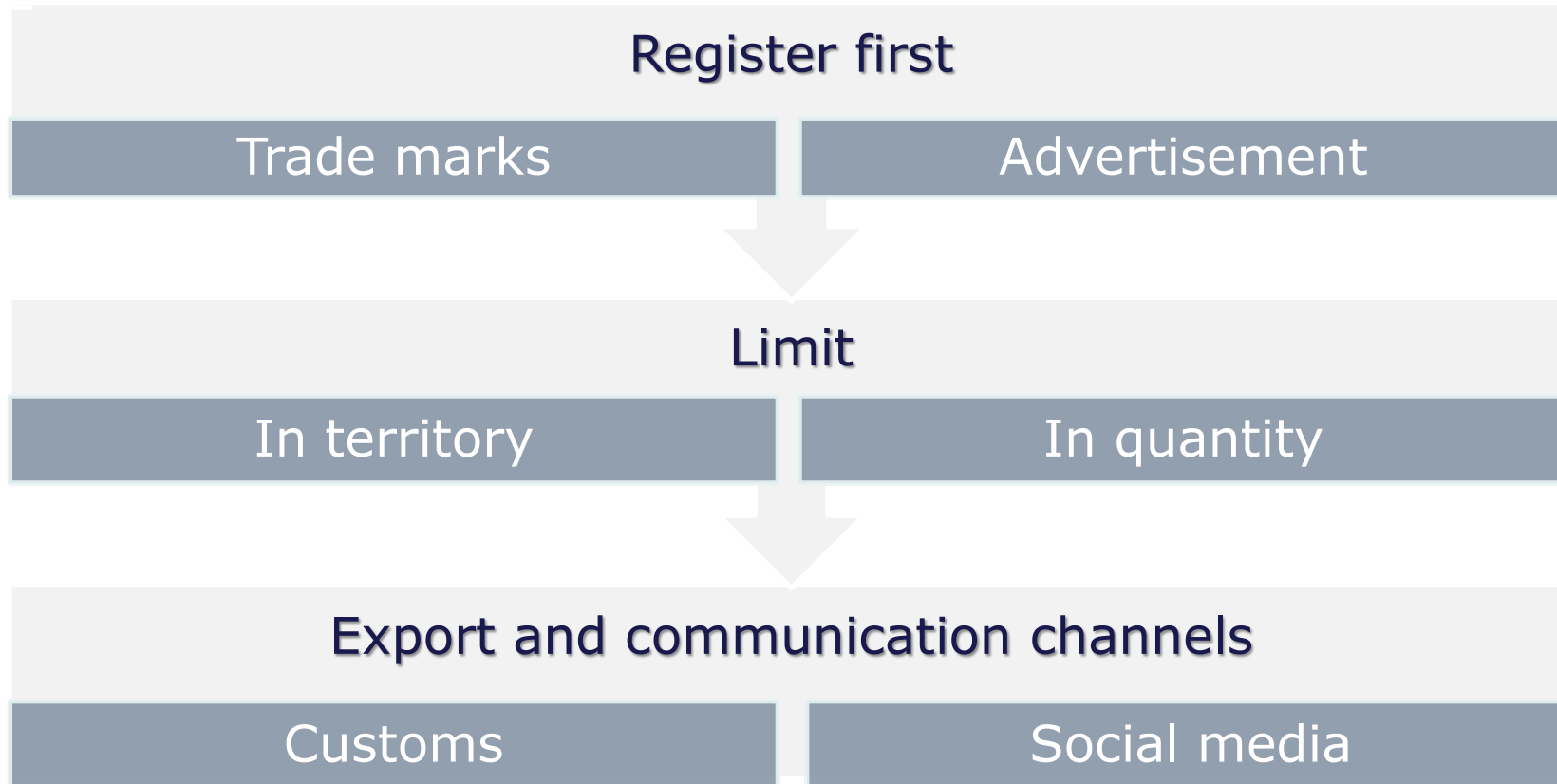


Solutions

- ☂ Clear rules should be implemented
- ☂ Permission should be granted in advance by the company.

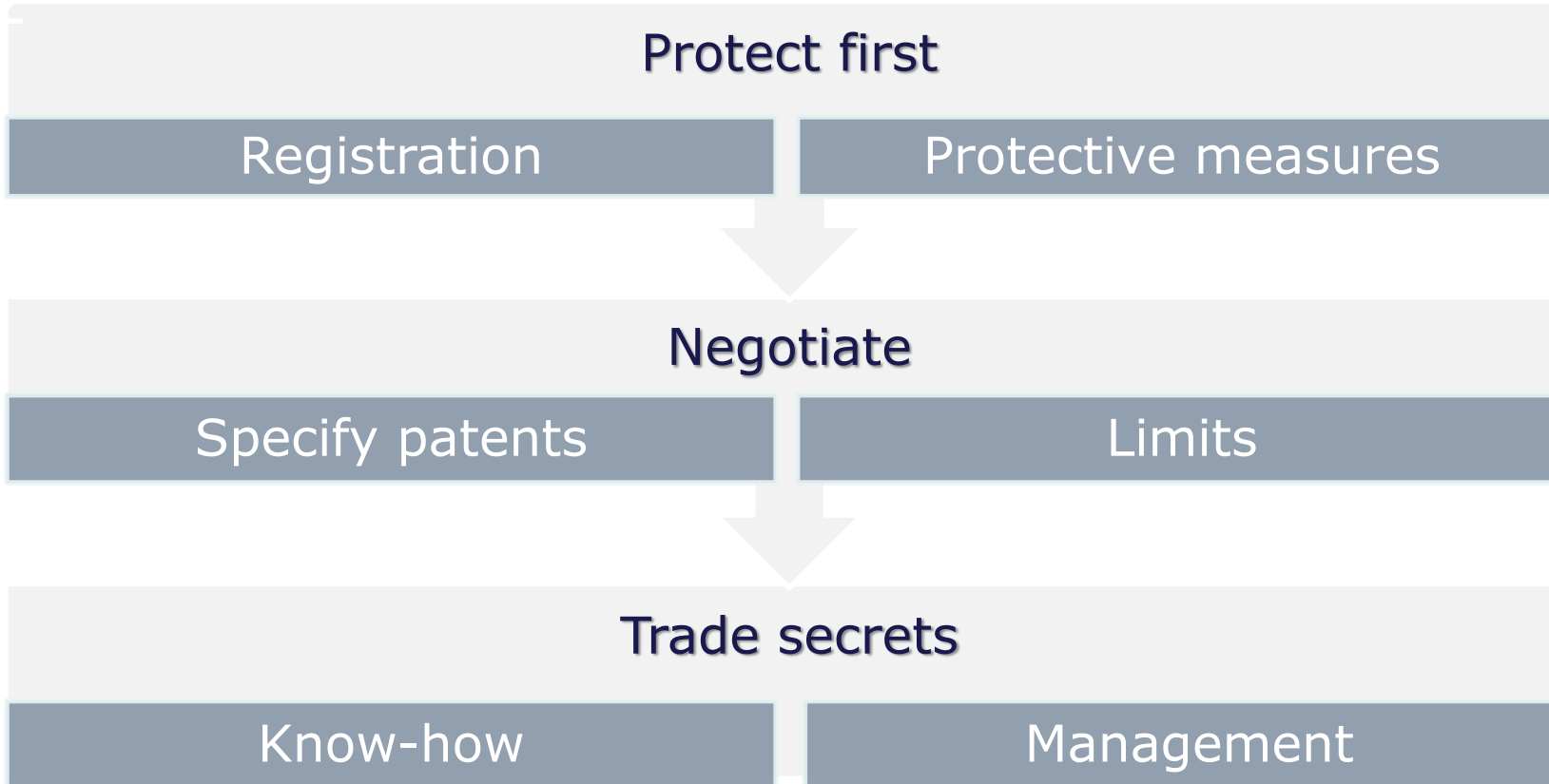
Best practice of Distributor Agreements

Tips



Best practice of Licensing Agreements

Tips



Best practice of Licensing Agreements

Common clauses

Limits

Territory
Time
Exclusivity (or not)

Jurisdiction

Arbitration
Judicial

Costs

Fees
Market access
Enforcement

Termination

Reasons
Communication
Consequences

R&D

Authorisation (or not)

Royalties

Fees



Case Study 5

- Drafting unenforceable contracts

- German laser company with IP registered in China
- Licensed the IP to a Chinese company to manufacture
- English language contract
- Germany as litigation jurisdiction



Problem

- ☁ License established limits that were not respected (territory)
- ☁ Litigation in Germany
- ☁ Disagreements in the contract translations



Solutions

- ☂ Designate China as the main jurisdiction
- ☂ Draft a Chinese language contract

Best practice of Licensing Agreements

Open license method for patents and utility models

Request

- Written
- CNIPA
- Non-exclusive

Withdraw

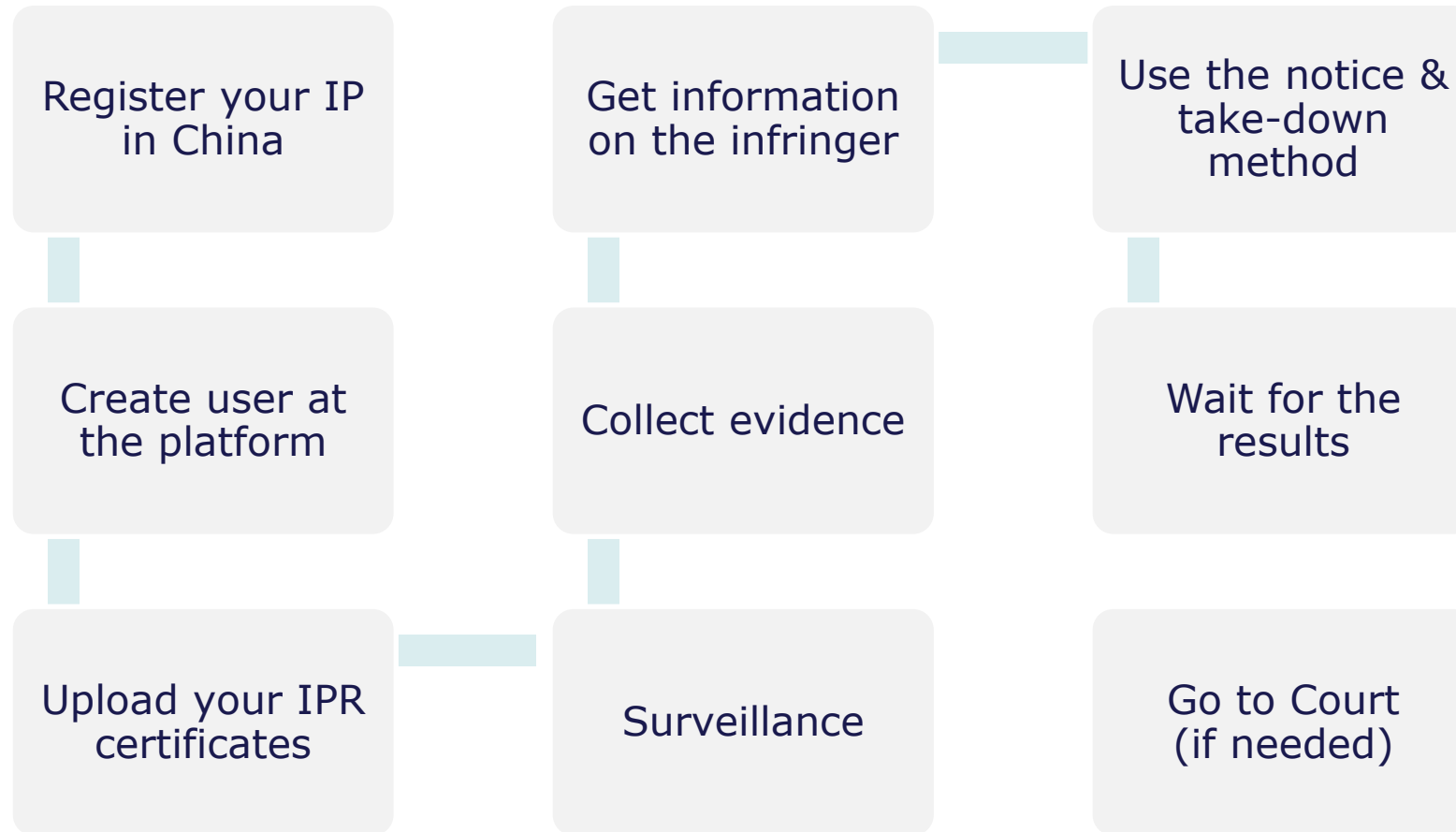
- Written
- Do not affect existing licenses

Benefits

- Publicity
- Fees reduction - exception

E-commerce

Notice and take-down



Monitoring IP in China

Keeping track of the market

Competitors

- Trade fairs
- E-commerce
- Advertisement

IP Databases

- CNIPA
- WIPO
- TMView

Legislation

- IPR laws
- Catalogue and Negative Lists for Foreign Investment 2020

Monitoring IP in China

Insufficient Market Surveillance



Knowing the market

- Selling channels
 - the importance of sellers
- Social media
 - language barrier + access limitations



MISTAKES

X Not checking E-commerce platforms

- Search by words
- Search by pictures
- Information of (bad faith) sellers
- IP protection programs

X Not reading the news

- China is a competitive and changing market
- Selling trends - role of the online sellers
- Changes of laws



Case Study 6

- Insufficient market surveillance

- Estonian drone producer
- Production was out-sourced to China.
- Invention patents were registered, and the producing company had a license with limitations.
- Company had hired experts in Chinese culture



Problem

- ☛ With the pandemic, the SME was not able to send employees to China.
- ☛ Market monitoring became difficult, but their experts in China kept checking the e-commerce platforms
- ☛ Counterfeited products were found online



Solutions

- ☛ Legal actions were taken (breach of contract – compensation)
- ☛ Change of producing company
- ☛ Links from online platforms were taken down

Trade fairs



Trade fairs onsite and online

- Regular trade fairs – Alternatives
- Online trade fairs – Equally important



MISTAKES

X Not protecting your trade secrets

- Unregistered IP
- Business plans
- Any trade fair is exposure
- Train your employees
- Know the IP rules in advance

X Not checking your competitors

- New products
- Competitor's strategies
- Potential copies
- Online trade fairs



Case Study 7

- Trade fairs

- Danish wind power company
- New model for their wind turbine (more efficient)
- Displayed in a trade fair
- Invention patent filed before the trade fair, PCT was part of the plan for international expansion



Problem

- ☁ A Taiwanese company got interested in the new technology
- ☁ Taiwan is not part of PCT



Solutions

- ☂ Invention patent application needed to be submitted before the deadline
- ☂ Grace period for using the prior state of art
- ☂ High costs in lawyer fees due to the 'urgent' filing

Questions?

HELPLINE

free, fast & confidential

3 working
days

question@china-iprhelpdesk.eu



Your feedback is very valuable info for us.

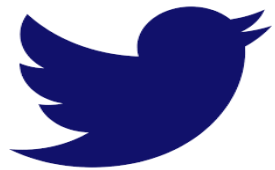
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