Introduction to IP protection in China and common IP mistakes SMEs make

- Matias Zubimendi 31 August 2021
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1. THE FACTS: Business in Mainland China for EU Companies

SIZE OF MARKET
EU exports to Mainland China: €175.5 billion
- EU exports to Mainland China (CIF) 2019: €175.5 billion
- China is the EU's 3rd largest trading partner, after the USA.
- China is the EU's largest trading partner.

WHAT EXACTLY CAN BE A TRADE SECRET
1. Something that is not publicly known.
2. Has economic value because it is kept secret.
3. Has been kept secret by the owner.

KEEP IT SECRET, KEEP IT SAFE
It is important to remember that once trade secrets become public knowledge, they can no longer be protected as trade secrets.

DEALING WITH THIRD PARTIES
Business dealings with third parties, including partners, suppliers, contractors, licensors, or customers.

https://eu.europa.eu/ip-helpdesk
Mr. Matias Zubimendi is the IP Business Advisor at China IP SME Helpdesk, 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 as well as a Master’s degree in Intellectual Property Law from Austral University in cooperation with the World Intellectual Property Organisation. Mr. Zubimendi has a strong background in both business development and intellectual property rights protection, having previously worked as a China Business and Legal Consultant at Terragene, where he focused on business development and as a Director of Legal Affairs at Conquer Europe. Previously, he has also worked as a Patent and Trademark Attorney at Phoebus Abogados and Mazzeo & Canet, where he represented SMEs as well as Fortune 500 companies.

Mr. Zubimendi has given lectures at various conferences including the Ibero-American Conference on Chinese Studies and published several articles including *The legal protection of intangibles in the video games industry*. As a Professor Assistant, he has also given lectures on Commercial Law and Procedural law, while focusing on Copyright and AI in his research. Mr. Zubimendi is a native Spanish speaker fluent in English.
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01 Intellectual property rights

- **Invention patents**
  - Innovative products
  - Innovative processes

- **Utility models**
  Functional aspects of a product

- **Design patents**
  Aesthetic aspects of a product

- **Trade marks**
  Signs that distinguish products from competitors

- **Copyright**
  Expression of an idea

- **Trade secret**
  Information that is not known by competitors, has commercial value and is kept protected
Main principles

- Registration
- Territoriality
- First to File
EU – China IP system comparison
- Main differences

<table>
<thead>
<tr>
<th>EU</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Registration</strong></td>
<td></td>
</tr>
<tr>
<td>Might be possible to enforce without registration</td>
<td>No enforcement is possible without registration</td>
</tr>
<tr>
<td><strong>Protection</strong></td>
<td></td>
</tr>
<tr>
<td>From filing (or publication for patents) - Conditional</td>
<td>From granting</td>
</tr>
<tr>
<td><strong>International agreements</strong></td>
<td></td>
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<tr>
<td>PCT – Madrid - Hague</td>
<td>PCT – Madrid (Mainland China)</td>
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</tbody>
</table>
EU – China IP system comparison

- Main differences

<table>
<thead>
<tr>
<th>Protection scope</th>
<th>EU</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Territorial (countries)</td>
<td></td>
<td>Territorial (4 jurisdictions)</td>
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</table>

<table>
<thead>
<tr>
<th>Registering license agreements</th>
<th>EU</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration is needed (not every country)</td>
<td></td>
<td>Not compulsory, but needed for remittance of royalties</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customs</th>
<th>EU</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>No registration of IP is needed</td>
<td></td>
<td>Registration of IP is needed</td>
</tr>
</tbody>
</table>
Invention patents & utility models

**Protection scope**
- Products
- Processes

**Requirements**
- Novelty
- Non-obviousness
- Industrial application

**Design patents**
- IP – 3 to 6 years approx.
- UM – 1 year approx.

**Registration methods**
- CNIPA
- PCT

**Parallel registration**
- Enforcement

**Open license system**
- Written request to CNIPA
- Revocable (not affect existing licenses)
05 Design patents

**Protection scope**
- Aesthetic aspects of a product

**Requirements**
- Novelty

**Registration time**
- 1 year approx.

**Registration methods**
- CNIPA
- Hague agreement?

**Partial designs**
- Graphical User Interface

**Differences**
- Functionality vs aesthetic
## Trade marks

<table>
<thead>
<tr>
<th>IPR Protection scope</th>
<th>IPR Registration methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Signs</td>
<td>• CNIPA</td>
</tr>
<tr>
<td>• Differentiation</td>
<td>• Madrid system</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IPR Classes</th>
<th>IPR Bad faith registrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 45 classes – Nice classification</td>
<td>• Nullity for bad faith registration</td>
</tr>
<tr>
<td>• Sub-classes</td>
<td>• Non-use cancellation action</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IPR Registration time</th>
<th>IPR Translation</th>
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</thead>
<tbody>
<tr>
<td>1 year approx.</td>
<td>The importance of a Chinese brand</td>
</tr>
</tbody>
</table>
07 Copyright

**Protection scope**
Expression of an idea

**Beginning of protection**
Creation vs registration

**Registration time**
1 – 2 months

**Registration methods**
Copyright Protection Center in China

**Online infringement**
- E-commerce
- Internet courts

**Software**
Copyright vs invention patents
## Trade secrets

### Protection scope
- Know-how
- Unregistered IP

### Requirements
- Secret
- Protective measures
- Value

### Law in China
- Anti-Unfair Competition Law

### Types of protective measures
- Physical
- Technological
- Legal

### Registration
- Not needed

### Invention patents
How to know when to register and when to protect your products with trade secrets
Enforcement
- Different jurisdictions

People’s Courts
- Not specialised in IP

IP Courts
- Specialised
- Advised for complex cases

Internet Courts
- Jurisdiction limited
- Digital evidence accepted

Arbitration
- Agreement needed

Copyright
- Notice and take-down

Administrative Actions
- CNIPA
- Customs
Common mistakes of EU SMEs
- Not registering your IP

Entering the Chinese market without IPR registration
• Trade fairs
• Negotiations
• Sales
• E-commerce
• Advertising

Possibility of being copied
• Bad-faith registration
• Reputation
• New competitor
• Exports to third countries

Potential consequences
• Costs for recovering the IP
• Loss of IP
• Company reputation
• Barriers to market entry

Common mistakes of EU SMEs
- Not registering your IP – Case Study

**Background**
- Portuguese company of women’s accessories
- No IP registration in China
- No activities in China

**Problem**
- Bad-faith registration

**Solutions**
- Litigate
- Rebrand (option chosen)
Common mistakes of EU SMEs
- Not having 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 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
### Common mistakes of EU SMEs

- Not having a Chinese trade mark – Case study

#### Background

- Spanish winery
- Exporting to China
- Selling in retail (supermarket)
- International brand registered

#### Problem

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

#### Solutions

- Assigned a new Chinese brand *(fame lost)*
## Common mistakes of EU SMEs

- Not protecting trade secrets

<table>
<thead>
<tr>
<th>Company doesn’t know that some information should be protected as a trade secret</th>
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</thead>
<tbody>
<tr>
<td>• Unregistered IP</td>
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<tr>
<td>• Know-how</td>
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<tr>
<td>• Commercial information (lists of clients / distributors / prices)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No protection is implemented</th>
<th>Trade secret is lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Physical</td>
<td></td>
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<tr>
<td>• Technological</td>
<td></td>
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<tr>
<td>• Legal (NDAs / NNNs)</td>
<td></td>
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<tr>
<td>• Need-to-know rule</td>
<td>• Loss of IP</td>
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<tr>
<td></td>
<td>• Loss of competitive advantage</td>
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<tr>
<td></td>
<td>• Possibility of getting a compensation?</td>
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</table>
Common mistakes of EU SMEs
- Not protecting trade secrets – Case study

Background
- Italian tractor company
- Trade fair coming up
- Invention patent not yet filed

Problem
- Engine was new and a future patent was to be sought
- Need to disclose the last version of the tractor

Solutions
- Display of non-novel parts
- Covered the engine and showed the aesthetic aspects of the tractor
Common mistakes of EU SMEs
- Not having enforceable contracts

Company signs contracts in English with the dispute jurisdiction in the EU

- No Chinese language version of the contract
- No legal dispute in China

Breach of contract
- Disputes over the language difference
- Difficulty over the recognition of foreign judicial resolutions
- Difficulties to obtain evidence

Consequences
- You won a case but you cannot enforce it
- No compensation
- Start a new case in China
- More costs
Common mistakes of EU SMEs
- Not having enforceable contracts—Case study

**Background**
- 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 main jurisdiction
- Sign a Chinese language contract
Questions?

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We appreciate if you could share your comments with us.