

Common IP Mistakes SMEs make in China

Matias Zubimendi 11th January 2022

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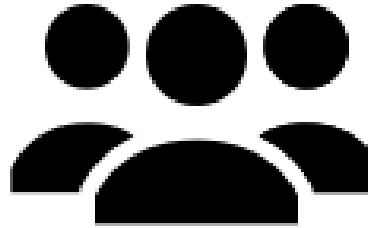
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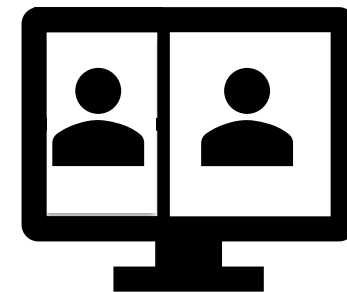


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Guides & Factsheets



One-on-one Consultation Sessions



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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

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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

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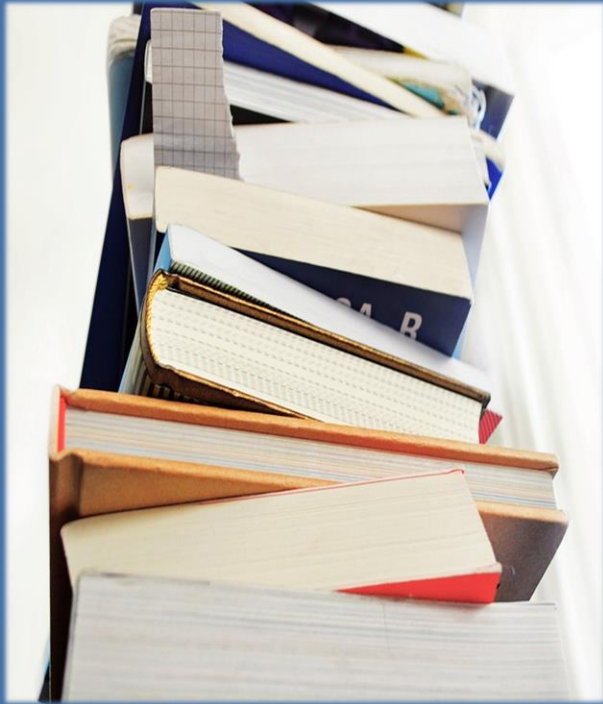
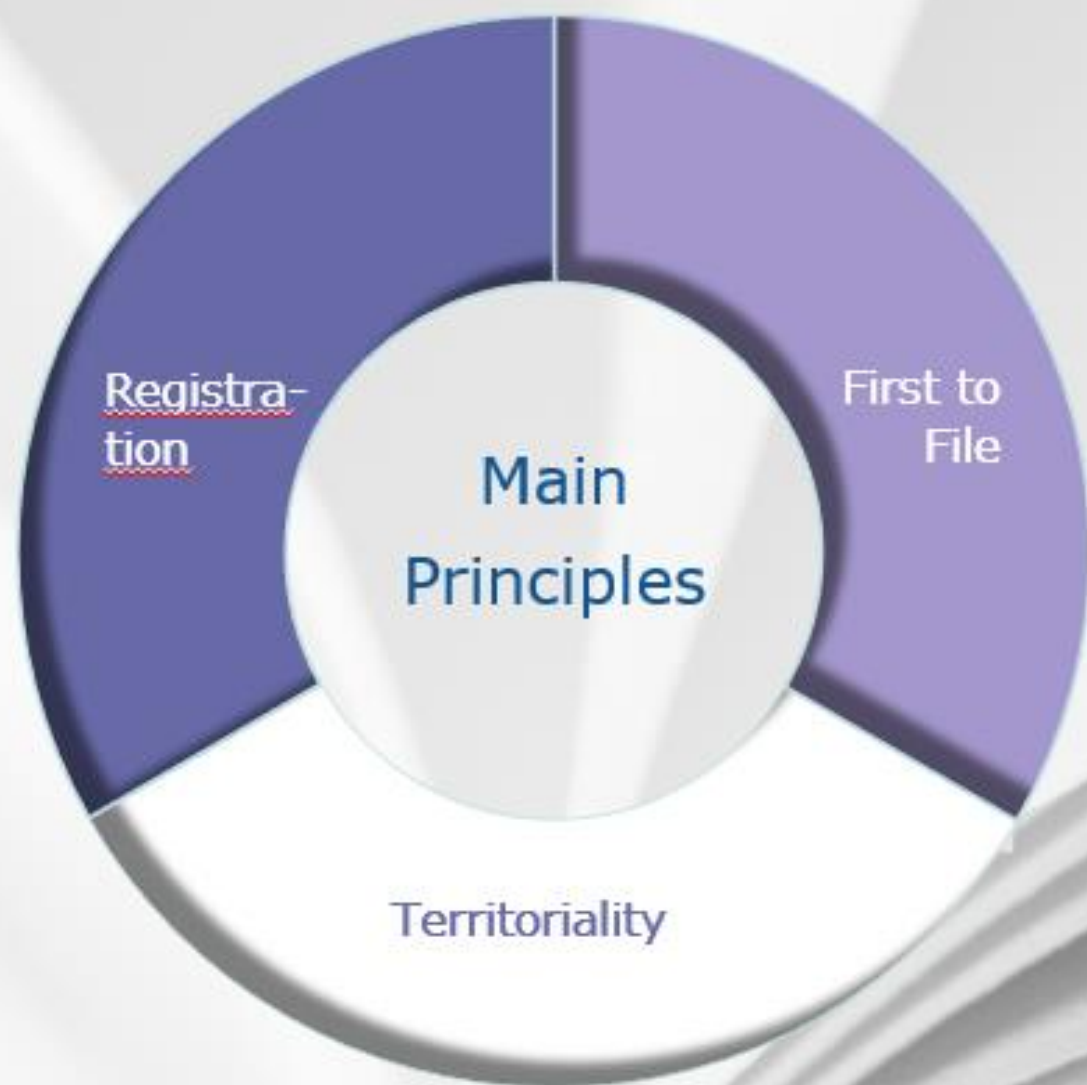


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7. Drafting unenforceable contracts
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11. Improper trade secret protection



02 | Neglecting to Register Your IP



Entering the Chinese market without IP protection

- 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



03

Insufficient or Incorrect Protection



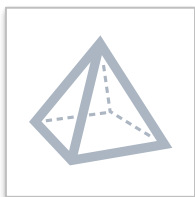
Trade mark classes & subclasses

- 45 classes (*34 for products – 11 for services*)
- China has a subclass system



Design patents - GUI

- Partial design patents – useful when several devices
- Graphic User Interface



Utility models vs design patents

- Different scopes of protection
- Functionality vs aesthetic aspects



03

Insufficient or Incorrect Protection



Customs

- Registration of IP
- Trade marks are “more efficient” than invention patents



E-commerce platforms

- Proactivity
- Create a profile
- Join the IP protection programs



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

04

Letting Your 'Partner' Handle Your IP Registration



Importance of controlling the registration process

- Imported IP
- New IP generated
- DON'T sign documents in a foreign language without checking them first with your lawyer (Expert in Chinese law)
- DON'T give authorisation to register your IP under their name.



R&D agreements

- Rules about IP registration
- Compensation + consequences of one party registering under its own name



License vs ownership

- License will allow IP exploitation
- 'Practical solution' is not always the best solution

05

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 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)

06

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 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

07 | Drafting Unenforceable Contracts



SME signs contracts in English with 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 with the recognition of foreign judicial resolutions
- Difficulties to obtain evidence



Consequences

- You won the case but you cannot enforce it in China
- No compensation
- Start a new case in China
- More costs involved



Case Study 4

- 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

08

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 5

- 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

09 | 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 6

- 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

10

Neglecting to Protect 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 7

- 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.

11

Improper Trade Secret Protection



Importance of the labor laws

- Employee handbook
- IP management protocols
- How many protective measures are needed?



Strategies

- Detailed communication rules
- IP protection as part of KPIs
- Permissions before publishing



Compensations - punishment

- Details in the employee handbook

Questions?

HELPLINE

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3 days working

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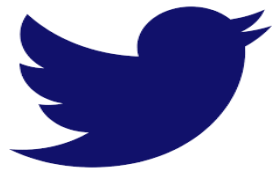
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