



CHINA: IPR and the changing Agenda for Innovation

Protecting IPR in China

Presenter:
John McMuldroy
Partner
Glaisyers LLP



Protecting your IP in China

- Background to Chinese Intellectual Property Law.
- Current IP protection available.
- The practical steps you need to consider in Protecting your IP.
- Conclusion.



1. Background to IPR in China

- Chinese IP Laws are relatively new with the first IP law drafted in 1982 (compared with the UK where the Statute of Monopolies was passed in 1623).
- 1985 first patent law in force.
- 1990 first modern copyright law.
- China joined the World Trade Organisation in 2001 which has led to rapid progress in Chinese IPR reform.



- Now has a world class legal framework for IPR, having benefited from earlier experience of best practice in other countries. It is a civil based system which is similar to the laws of Germany who provided most of the technical assistance in developing the law.
- The increasing interest of Chinese businesses in protecting their IPR is one of the main drivers in the progress. 80% of new patent applications come from Chinese companies and well over 90% of IPR court cases in China are between two or more Chinese parties.



However there are problems

1. Exacerbated by the sheer volume of IPR problems that arise in the fastest growing manufacturing economy in the world.
2. Foreign companies are sometimes ill prepared or not aware of the full legal protection available when entering the Chinese market.
3. Difficulties with the legal processes remain especially at a local level, particularly in the less developed inland regions.
4. The penalties applied by the courts and administrative authorities are perceived to be low. However, the rate of success of foreign companies winning court cases in China is several times higher than the US and is also cheaper and quicker.



2. Current IP Protection Available

- Patents

- This is the primary vehicle for protecting technology. The basic idea behind the patent system in China is the same as the UK. In exchange for publishing details of the invention the state grants the inventor a monopoly for a fixed period.
- The relevant law is the Patent Law of 1984 (as amended in 1992 and 2000) and Regulations for the Implementation of the Patent Law of 2001.
- The three main kinds of patents are:
 1. Invention Patents: (both products and processes) – 20 year protection.
 2. Utility Models: (creations or improvements to the form, construction or fitting of a product, but not processes – also known as minor patents) 10 year protection; and
 3. Designs: (the shape, pattern or the combination of the colour with the shape or pattern of a product)



- To contrast with UK legislation:
 - The UK has separate enactments dealing with patents (Patents Act 1997) and designs (copyright Designs and Patents Act 1988).
 - Article 22 of China's Patent Law provides that any invention/utility model for which a patent may be granted must be novel, inventive and have a practical application.
 - First to file system which is consistent with UK and Europe. This contrasts with the first to invent system used in the US.
 - The Patent Cooperation Treaty (PCT) applies to China but Article 20 of China's Patent law requires that any Chinese individual or entity (including foreign invested enterprises) who develop technology in China must file its first PCT application in China – (Design patents are not covered under PCT).



	Invention Patent	Utility Model Patent	Design Patent
Protects what?	<i>Novel, inventive technical ideas (products or processes)</i>	<i>Novel Technical inventions related to product shape and/or structure</i>	<i>Aesthetic aspects of shape or pattern and colour</i>
Requirements	<i>Prominent substantive features, notable progress</i>	<i>Substantive features, progress (but examined only for formal deficiencies)</i>	<i>Not identical or similar to prior design (but examined only for formal deficiencies...)</i>
Duration	<i>20 years</i>	<i>10 years</i>	<i>10 years</i>



Trade Marks

- In China a trade marks can be protected by registration under the Trade Mark Law of 1982, as revised in 1993 and 2001.
- China TM Law extends trade mark registration to words, designs, letters, numerals, three dimensional symbols, colours and colour combinations which are distinctive and not identical to an existing TM registration.
- Trade Mark protection lasts for 10 years and is renewable indefinitely for further 10 year periods.



- Trade Mark registration protection provides the same protection as the UK preventing others from making unauthorised use of trade marks that are identical with, or similar to, theirs, on identical or similar goods or services.
- China joined the Madrid Agreement concerning the International Registration of Marks and the Madrid Protocol in 1989. This allows an owner of a Trade Mark in a member country such as the UK to apply for Trade Mark rights in Madrid member countries with a single application. However acceptance of the mark in each member state is not automatic.



- Similar to the UK China operates a “first to register” system. This is subject to abuse particularly in relation to famous brands and foreign brand names who fail to register Chinese versions of their trademarks. The Chinese Trade Mark Office (CTMO) has cancelled such fraudulent trade mark registrations but such cancellation proceedings are lengthy.
- Foreign entities must instruct a Chinese Trade Mark Agent to apply. Applications are made to the CTMO in Beijing and may take up to 3 years to proceed to registration. During these three years the applicant may not be able to stop others using the mark. However if the mark is well known an action may be brought on the basis of unfair competition.
- Oppositions and Appeals Procedures as in UK and Europe. Appeals are to the Trademarks Review and Adjudication Board (TRAB).
- Assignment of Trade Marks must be approved by the CTMO and Trade Mark’s may be licensed as in the UK but the trade mark owner must continue to monitor. The Trade Mark Licence has to be registered with the CTMO before payment of Royalties. This whole process would typically take 6 to 8 months.



Unregistered Trade Marks

- It is possible to protect an unregistered trade mark in China under Chinese Anti Unfair Competition Law. (Equivalent to “passing off” in the UK) and under TM law if the trade mark has acquired well known status or reputation.





- The goods must be well known in China.
- The name, packaging and decoration of the goods must be unique.
- The use by another person of the allegedly infringing name, packaging, or decoration is likely to cause confusion.
 - Decoration includes decoration of a place of business.



- Copyright

- China's copyright law is set out in the Copyright Law 1990 (as amended in 2001).
- Copyright protects original works – literary works, photographic works, drawings, computer software.
- As under the UK the author of the work will be the first owner.
- Since China is a member of the Berne Convention for the Protection of Literary and Artistic Works, works of foreign individuals and entities of member countries are also protected. Registration in the Copyright Administrations Copyright Protection Centre is recommended in the event of a dispute. This isn't suitable for material of a confidential nature.
- Software registration is specifically covered by the Regulations of the Protection of Computer Software – The Copyright Administrations Computer Software Protection Centre in Beijing. The process takes approximately 40 to 60 days after submission of the application. It helps in enforcing copyright but also has difficulties in the event of confidentiality – Source code has to be provided and software user manuals.



Domain Names

- The China Internet Network Information Centre (CNNIC) administers the management and registration of the top level domain name <cn>. The first to file is entitled to the name whether or not the applicant has any prior rights.
- However a trade mark owner is able to challenge a domain name that is the same as or similar to its trade mark through the domain name dispute procedure or through civil actions.

Layout Designs and Integrated Circuits

- These are protected by the Protection of Layout Design of Integrated Circuits regulations effective since 2001. Similar to the UK's "Design Right (Semiconductor Topographies) Regulation 1989. Main difference in UK protection is automatic. In China you have to register and pay a fee.



Commercial Secrets

- The main form of protection is to keep the information confidential.
- If it is leaked then protection is lost although there is some statutory protection for commercial secrets such as the Anti-Unfair Competition Law and the Regulation Prohibiting Commercial Secrets Infringement.
- Confidentiality and non compete provisions are enforceable subject to the same protection and there is potential criminal liability.



Enforcement

- There is a greater variety of routes of enforcement in China than the UK
 - **Administrative Enforcement** – a complaint can be filed with various enforcement authorities.
 - The Administration for Industry and Commerce (AIC) in the case of retailers/distributors.
 - The Quality Technology Supervision Bureau (TSB) – in the case of factories/manufacturing sites for TM infringement and unfair competition cases.
 - The local offices of the National Copyright Administration or the Ministry of Culture in the cases of copyright infringement.
 - SIPO (State Intellectual Property Office) in the case of patent infringement.
It is up to the authority to decide if it accepts the complaint. The level of cooperation varies greatly. The AIC and TSB tend to be the best.
 - The authorities have various powers including removing infringing goods/moulds and imposing fines. There is no compensation.



Civil Litigation

The Peoples Courts have the powers to order the infringer to cease the infringing act, publish an apology and pay damages. The level of damages however is considered low.

Criminal Prosecution

Subject to certain thresholds.

Border Control

Chinese customs have the authority to detain and investigate goods suspected of infringing copyright. They can be destroyed.

Copyright Infringement over the Internet

Unauthorised uploading, storing, connection and searching of copyright works by Internet Content Providers.



3. Practical Steps you need to consider in protecting your IP

Main Risks

- Copying of trade marked goods, packaging, logos and designs also known as “piracy” or “counterfeiting”;
A uniquely Chinese variant of trademark piracy is the use of a product name that sounds like a trademark but is written with different characters than those used in registering the trade mark. The nature of the Chinese language makes this very easy.
- Leakage of trade secrets.



Actions

- Identify and clarify what your IP and trade secrets are.
- Register IP in China – copyright as mentioned can be registered on a voluntary basis but it may be impossible to sue for damages if it is not registered – costs of registration are not materially different from other jurisdictions. Most companies prioritise the important products and services for this type of expenditure. Registers need to be searched to find out if someone else has already registered your marks.
- Consider what form of vehicle you need in China and local representation and relationships. Having a good Chinese partner is essential and good relations with the local authorities also helps.
- Conduct a risk assessment and audit your IP regularly.



- Contractual aspects – note restrictions on licensing, confidentiality clauses, employment contracts re confidentiality and ownership of IP.

Whilst negotiating and drafting contracts bear in mind your own IPR. If you are transferring know how or technology, is there a way to supply it that produces tell-tale signs if illicit parts or products are used? Can a product be manufactured with key elements being “black box”. Remember if a contract is terminated to ensure that all tooling is destroyed or returned as well as any dies, technical materials, packaging or labelling to prevent any future infringement.

- IPR risk assessment and due diligence – vet candidates for employment.
- Set up an intelligence network with suppliers and distributors.



4. Conclusion

- The existing Chinese System is not perfect but it provides adequate IP protection. Get to know the system and work it to your advantage. A good Chinese IP attorney is invaluable.
- Be very clear about what IP you have and the practical measures you can take to protect it particularly through well drafted contracts.
- Work with partners you can trust and develop strong relationships. This is probably the key to doing business in China.
- Don't let the myths prevent you from entering the market but have your eyes wide open.



John McMuldroy
Corporate/Commercial Partner
Glaisyers LLP
One St James's Square
Manchester M2 6DN

Telephone: 0161 833 5653
Mobile: 07896 000705
Email: jjm@glaisyers.com