IPR protection strategies in business with China

Michal Klaczynski
External Expert / China IPR SME Helpdesk

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Michał Kłaczyński

Lawyer and expert with China IPR SME Helpdesk and ASEAN IPR SME Helpdesk. Educated in USA (Harvard Law School), China (Sichuan University) and Poland (Jagiellonian University). Experience includes several commercial and investment projects in China, South-East Asia and Central Asia (also in Europe and USA) and IPR and regulatory matters in several jurisdictions.

Firm: Klaczynski Legal Consulting
Location: Warsaw, Poland
Email: michal@klaczynski.pl
Agenda

• Intellectual Property Rights (IPR): concept, role, protection
• Chinese legal system
• Protection of IPR in China
• No direct presence in China - specific issues
• Case studies
• Strategies for European SMEs in China
What are Intellectual Property Rights?

• Exclusive Rights + Intangible Property + Intellectual Component
  – Arts (copyright) | Science/Technology (patent) | Know-how (trade secrets, competition) | Market identity (trademark)

• What can/should be registered?
  – Trademark, Patent (invention), Utility Model, Design

• What is not registered?
  – Copyrights, Trade Secrets

• Registration & protection is territorial
Legal system in China

- **Historical context** – original legal traditions (Confucianism v. Legalism), Western legal implants, 1949 – 1978 - 2004
- **Cultural issues**, law as framework for free market economy – what are interests of the state and of foreign investors
- **Misleading similarities** to Western legal systems – constitutional aspects (judicial review, dominant role of executive power) and cultural framework
- How to adapt to **Chinese legal reality** – contract negotiations, legal research, dispute resolution
Presence in China

• No corporate presence, but
  – Trade fairs, direct negotiations, manufacturing, distribution

• Identify risks
  – Disclosure of technology, prototypes, samples, trademarks (problem for substantiating novelty in patent application)

• Strategy on IPR protection - think ahead
  – Register patents and trademarks, consider using trade secrets
  – Seeking partners – contractual protection in place (NDA, non-compete)
  – Gather evidence of infringements (samples, pictures)
  – Cease and desist letter, formal complaints with authorities
Copyright: China

- Copyright Act (1990, revised in 2002):
- "works of literature, art, natural science, social science, engineering technology and the like which are expressed" in **written form**, or musical, dramatic, fine art, photography, cinematography and videographic works, **drawings of engineering designs and product designs**, maps, sketches and other graphic works, **computer software**
- Some tangible form required
- Registration of copyright - not required but widely adopted
- Creator's exclusive right to use (and benefit from) original work;
- Computer software protectable under copyright law and a separate regime (Computer Software Protection Rules 1991)
Trademarks in China

• Recognizable sign, design or expression to identify products/services on the market;

• Territorial and temporary protection (but can be extended without limitation)

• China is a “first to file” jurisdiction
  – (i.e., no protection for the “well-known” but unregistered trademarks)
  – BEWARE of bad-faith trademark registration in China
    • How to protect our trademark if registered already by a third-party?

• Localization of trademarks
  - Common practice of „translating” brand names and trademarks
Choosing a Chinese Trade Mark

- **Literal translation**
  - Ping Guo [苹果] Apple
  - Zhong Lan [棕榄] Palmolive
  - Tong Yong Qi Che [通用汽车] General Motors

- **Phonetic translation**
  - Mai Dang Lao [麦当劳] McDonalds
  - Xi Men Zi [西门子] Siemens
  - Ao Di [奥迪] Audi
  - Suo Ni [索尼] Sony

- **Combined meaning and phonetic translation**
  - Ke Kou Ke Le [可口可乐]
  - Naike [耐克]
Technology Protection: China – Inventions

- **Inventions** – registration required
  - Territorial and temporary protection (exclusive use)
    - 10 years for utility models and design patents
    - 20 years for invention patents
  - In exchange for full disclosure to the public (after the protection expires everyone can use it)
  - **China is a “first to file” jurisdiction**
Protection of Technology - Trade Secrets

- Any valuable information (commercial or technical nature) **not available to the public** (deliberately kept secret);
  - No registration, no time limits for protection
  - Not-exclusive (can be circumvented)
  - Once discovered may be used by others
  - No infringement claims towards third parties
  - Could be patentable but even technology doesn’t need to be novel

- **Reverse engineering** and independent development allowed

- Importance of **contractual measures**
  - Non-disclosure of confidential information is not the only concern
  - **Key issues:** competitive activity usage or circumvention our IPR
Trade Secrets – China

• **Unfair Competition Prevention Act** (1993)
  – only misappropriation of trade secrets by competitors covered (does not apply to employees)
• Reliance on **contractual provisions**
  – usually a standard NDA will not be sufficient – competitive activities and circumvention of IPR need to be eliminated

• Criminal **liability** for theft of trade secrets

• **Civil procedure** – limited discovery

• **Administrative enforcement** – AIC (Administration for Industry and Commerce) may order to stop sales of infringing product and/or a penalty
Trade secrets – contractual safeguards

Standard NDA will not be sufficient!

– **Non-disclosure** is not our only/main concern
  
  • Rather - using confidential information to for competitive activity or to circumvent our IPR
  
  • Secure all three aspects: Non-Disclosure, Non-Circumvention, and Non-Competition

– **Prevent IPR** being used for other party:
  
  • Independent business activity
  
  • Creating and developing own products, technology, production methods or management of their company

  • Creating and registering any IPR

– **Secure that no supplier/manufacturer, distributor, consultant** (and their employees, managers, shareholders, subcontractors) will establish a business relationship with such entities, that were contacted or introduced to him in relation to providing services to us.
Case Study I: New Balance v. "新百伦" (Xin Bailun)

- Recent (2015) decision of Guangzhou Intermediate Court
- NB infringed rights of a Chinese holder of Xin Bailun trademark, by using it on Chinese market for NB products
- NB had to pay RMB 98 million (approximately EUR 13.5 million) in damages, issue a public apology and was not allowed to use the Chinese name "新百伦" anymore
- Lessons:
  - Always necessary to check if our Chinese brand name is still available for registration in China, and register the trade mark early on.
  - In the case our brand name is taken:
    - try to invalidate registration or rebrand for the Chinese market
    - Do not use the trademark you have not registered!
Case Study II: infringement of IPR in China

AMSC v. Sinovel Wind Group – dispute over proprietary product for wind turbines

– Background
  • Key components and software developed in USA
  • No patents in China (not available for software)
  • Reliance on effective protection of trade secrets (control of production)
  • Vulnerable for industrial espionage, corrupted employees
  • Some remedies available (criminal and contractual), but not against third parties

– Outcome
  • Litigation since 2011 (US$1.2 billion damages), so far AMSC loosing, now pending before the Chinese Supreme Court
  • AMSC successful in bringing criminal charges against corrupt employees
Civil and Criminal Enforcement

- **Civil litigation against the infringing party**
  - Damages and/or injunctions

- **Preliminary measures**
  - Preliminary injunction, evidence and/or rights preservation

- **Criminal measures**
  - Private prosecution
  - Public prosecution
Administrative Enforcement

• Several government agencies
  – The State IP Office (patents)
  – The Administration for Industry and Commerce (trademarks, trade secrets)
  – The Technology and Science Bureau (trademarks)
  – The National Copyright Administration (copyright)
  – The Ministry of Culture (copyright)
  – The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)
Administrative Enforcement

• **Public security agencies:**
  – The Ministry of Public Security (MPS), and
  – The General Administration of Customs (GAC)

• **IPR can be registered with the General Administration of Customs**
  – Protection is granted for 10 years (can be renewed)
  – Customs rides available (production facilities, warehouses) – China controls also exports
Enforcement path - pros and cons

• **Administrative enforcement**
  – Inexpensive and quick,
  – Fines, and/or business license revocation
  – Lack of clear criteria, no damages available

• **Criminal enforcement**
  – Potentially most detrimental (penalties)
  – Lack of control over the process, burden of proof
  – Most effective in high stake counterfeiting and piracy
Enforcement path - pros and cons

• **Civil litigation**
  – Damages and preliminary measures available
  – High costs, low damages available
  – Effective if we know whom to sue

• **Customs**
  – Effective against counterfeited imports to Europe, but not if concerned about the Chinese market
  – The more we know about the infringing party, the more effective raids will be
Take – Away messages

✓ First: prevent infringements
  – Register your trademarks and patents (also with customs administration)
  – Due diligence
  – Enforceable contracts (non-disclosure, non-compete)
✓ Cost-benefit analysis before litigation
✓ Enforcement: what are the best measures?
✓ Monitoring the market (early detection of infringements)
✓ Use different ways to protect the same IPR (assets)
✓ Manage confidential information appropriately
✓ Control key components, production or marketing stages
China and South-East Asia IPR SME Helpdesks

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Website www.ipr-hub.eu
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Information & Materials

- Library of publications:
  - **IP specific guides**, incl. patents & trade marks
  - **Industry specific guides**, incl. textiles, machinery etc.
  - **Business guides**, incl. technology transfer
  - **Hong Kong and Macao Factsheets**

- Quarterly Helpdesk newsletters
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The China IPR SME Helpdesk provides free, confidential, business-focused advice to European Small and Medium Enterprises (SMEs) relating to IPR in China.

To learn about any aspect of intellectual property rights in China, including
✓ Local partners
✓ Due diligence
✓ IP audits
✓ Or to simply learn about the local landscape and adapt your IP plan accordingly – something which can save you EUR in the long term

Contact us on question@china-iprhelpdesk.eu
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