A GUIDE TO PROTECTING INTELLECTUAL PROPERTY AND KNOW-HOW IN CHINA

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INTELLECTUAL PROPERTY RIGHT PROTECTION IN CHINA

In the last decades a growing number of foreign companies have found their way to China, both as a market for their products and for production or assembly purposes. Attracted by high growth numbers, low manufacturing costs and thriving cities like Shanghai and Guangzhou, a large number of foreign companies are planning to enter the vast Chinese market. Partly for a lack of reliable and unbiased information about Chinese law and the enforcement of intellectual property laws, a major concern for many foreign companies is how to effectively protect their intellectual property and proprietary know-how when entering the Chinese market. This article explores the different intellectual property (IP) rights recognized by Chinese law, and sets out how to acquire and effectively enforce IP rights, and how to protect proprietary know-how.

Intellectual Property Rights

The commercially most important Chinese IP rights are (i) patents, (ii) trademarks and (iii) copyrights. Also, under the Chinese Patent Law (Patent Law), it is possible to register design rights for industrial designs.

Patents

Enacted in 1984, China's Patent Law entered into force on 1 April 1985. The Patent Law was amended in 1992, 2000 and 2008 to extend the scope of protection. The draft of the fourth amendment (Fourth Amendment) has been published for public comments in December, 2015 and it is believed to take effect soon.

Individuals as well as companies and other legal entities may file for patent protection. Enforceability in China requires patents to be filed with the National Intellectual Property Administration (CNIPA) ('http://www.cnipa.gov.cn/') in Beijing. Applicants may also file their patents with the local CNIPA offices in major economic centres such as: Shanghai, Guangzhou and Nanjing. The local CNIPA offices are also responsible for the administrative enforcement of registered patents.

On 2 August 1993 China became a party to the Patent Cooperation Treaty (PCT). As a signatory to the PCT, China performs international patent searches and preliminary examinations of patent applications. In 2016, the CNIPA accepted 4.5 million international applications filed according to the PCT. Under the current Patent Law, foreign patent applications by individuals or companies without a business office in China must be filed through an authorised patent agent. However, the Fourth Amendment will provide a possibility to allow a foreign applicant to handle some procedural matters before the CNIPA by itself.

Like the European Patent Convention, China's Patent Law follows 'the first to file' system. Therefore, for companies wishing to enter the Chinese market, whether for the sale of their products or for production or assembly purposes, it is of vital importance to first file their relevant patents with CNIPA.

Since the 1992 amendment of the Patent Law, chemical and pharmaceutical products, as well as food, beverages, and flavourings are all patentable. Since the 2000 amendment of the Patent Law the duration of patent protection is 20 years from the date of filing a patent application.

Designs

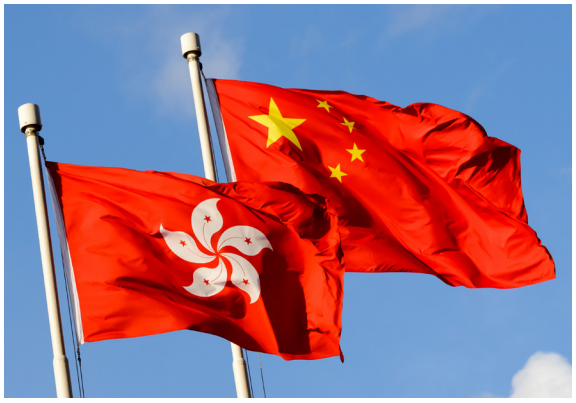
Designs are protected under the Patent Law. Any new design for the shape or pattern of a product, their combination or combination of colours, which is aesthetic and industrially applicable, may be registered for patent protection.

Unlike patented inventions, designs currently qualify for 10 years' protection. Under the Fourth Amendment this time period will be extended to 15 years. It should be noted, however, that 15 years is not a long period compared to 25 years maximum under the Benelux Treaty on Intellectual Property (Benelux verdrag inzake de intellectuele eigendom) and the EC Council Regulation on Community Designs.

The current Patent Law only provides protection for the overall design of a product. Yet, partial design can be easily simulated by another party in a manner such as simple put-together or substitution, and therefore cannot be protected effectively. To follow the international trend and encourage healthy development of China's design innovation industry, partial design becomes patentable under the Fourth Amendment.

Trademarks

China's Trademark Law was first enacted in 1982 and entered into force on 1 March 1983. After an earlier amendment in 1993, China's Trademark Law was substantially revised in 2001 to comply with the requirements of the TRIPs (trade-related aspects of intellectual property rights) Treaty of the World Trade Organisation (WTO). Since the latest 2013 amendment, trademark protection extends to collective marks, certification marks, three-dimensional symbols, combinations of colours and sounds.



Enforceability in China requires trademarks to be filed with the Chinese Trademark Office in Beijing, a department of the State Administration of Market Regulation ('SAMR') ('http://sbj.saic.gov.cn'). SAMR and its offices at the provincial and municipal level is the government agency responsible for the registration of companies, trademark registration and protection, consumer protection, advertisement control and unfair competition cases.

Like the EU Community Trademark and China's Patent Law, China's Trademark Law follows 'the first to file' system. Therefore, with trademarks, too, it is imperative for companies wishing to enter the Chinese market to first file their trademarks with the Chinese Trademark Office.

No evidence of prior use or ownership has to be provided, which leaves the registration of popular foreign marks open to a third party. However, for the protection of well-known trademarks, the Trademark Law stipulates that a third party filing a trademark that is a reproduction, imitation or translation of another person's well-known trademark not registered in China, misleads the public and is likely to prejudice the interests of the owner of the well-known trademark. Such trademark will be rejected for registration and prohibited from use. Also, the Chinese Trademark Office has cancelled trademarks that had been unfairly registered. More in particular the Trademark Law provides:

> Article 13
> Holders of trademarks known to the public may seek for protection of well-known trademarks in accordance with the provisions hereof, when they believe that their rights have been infringed.
>
> Where a mark is a reproduction, imitation, or translation of a third party's well-known trademark that has not been registered in China in respect of identical or similar goods, which is likely to lead to confusion, such mark shall not be registered and shall be prohibited from being used. Where a mark is a reproduction, imitation, or translation of a third party's well-known trademark that has been registered in China in respect of different or other types of goods, which may mislead the public and damage the interests of the registrant of the well-known trademark, such mark shall not be registered and shall be prohibited from being used.

and

> Article 14
> Well-known trademarks shall be, as requested by the party involved, determined as those facts that are required to be determined when handling trademark-related cases. The following factors shall be considered in determining a well-known trademark:
> 1. The popularity degree of the trademark in its trading areas;
> 2. The duration the trademark has been in use;
> 3. The duration, extent and geographical range of advertising and publicity of the trademark;
> 4. The records on the protection of the trademark as a well-known trademark; and
> 5. Other reasons for the reputation of the trademark.

As with patent registration, foreign parties must use the services of approved Chinese agents when submitting a trademark application in China.

In 1989, China joined the Madrid Agreement Concerning the International Registration of Marks ('Madrid Agreement') and in 1995 the Protocol Relating to the Madrid Agreement Concerning International Registration of Marks ('Madrid Protocol'). The Madrid Agreement and Protocol require and facilitate reciprocal trademark registration for trademark owners in member countries, including the European Union and its member states. Therefore, if they already have a Benelux or Community trademark registration it is relatively simple for trademark owners to apply for trademark protection in China.

Copyright

Unlike patents and trademarks, copyrighted works do not require registration for protection. Copyright protection is granted to individuals and companies from countries that are parties to the international copyright conventions or bilateral agreements to which China is a signatory. In 1992, China joined the Bern Convention for the Protection of Literary and Artistic Works, which provides for reciprocal copyright protection for copyright owners in member countries, including most European states and the United States.

Although copyrights need not be registered, copyright owners may register voluntarily with China's National Copyright Administration (NCA) or its provincial offices ('http://www.ncac.gov.cn/') to establish evidence of ownership, should enforcement actions become necessary. Copyright in software must be registered with the China Copyright Protection Centre. In general, it certainly is advisable to register copyrights prior to offering copyrighted products on the Chinese market or entering into production or assembly agreements with local manufacturers or joint venture partners.

Anti-unfair Competition

The Anti-unfair competition law of China was revised in 2017 and has entered into force on 1 January, 2018. This new version provides protection for IP rights such as trade names, (un)registered trademarks and trade secrets. More in particular the Law against Unfair Competition Law stipulates:

> *Article 6*
> A business operator shall not perform any of the following confusing acts that will enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products,
> 1. unauthorized use of a mark that is identical or similar to the name, packaging or decoration of another business's commodity, which has influence to a certain extent,
> 2. unauthorized use of another business's corporate name (including its shortened name, trade name, etc.), the name of a social group (including its shortened name, etc.), or the name of an individual (including his or her pen name, stage name, translated name, etc.), which has influence to a certain extent;
> 3. unauthorized use of the main domain name, website name or webpage, which has influence to a certain extent; and
> 4. other confusing acts that are sufficient to enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products.

and

> Article 9
> A business operator shall not engage in any of the following infringements of commercial secrets:
> 1. obtaining an obligee's commercial secrets by theft, bribery, intimidation or other improper means;
> 2. disclosing, using, or allowing others to use an obligee's commercial secrets obtained by the means mentioned in the preceding paragraph; or
> 3. disclosing, using or allowing others to use an obligee's commercial secrets in violation of an agreement or the obligee's requirements on keeping such commercial secrets confidential.
>
> Where a third party knows or should know of the fact that an employee or former employee of the right owner of commercial secrets or any other entity or individual conducts any of the illegal acts specified in the preceding paragraph, but still accepts, publishes, uses or allows any other to use such secrets, such practice shall be deemed as infringement of commercial secrets.
>
> For the purpose of this Law, commercial secrets refer to any technical information or operational information which is not known to the public and has commercial value, and for which its obligee has adopted measures to ensure its confidentiality.

The Anti-monopoly and Anti-unfair Competition Enforcement Bureau of the SAMR and the local SAMR offices are responsible for the interpretation and implementation of the Anti-unfair competition law

New Varieties of Plants

China has joined the International Convention for the Protection of New Varieties of Plants (UPOV) and Convention on Biological Diversity. According to the Regulations on the Protection of New Plant Varieties (2014 version), if foreign entities file an application for variety rights in China, the application shall be handled under these regulations in accordance with any agreement concluded between the country to which the applicant belongs and China, or any international convention to which both countries are party, or on the basis of the principle of reciprocity.

One office operating under the Ministry of Agriculture (MoA) and one office operating under the State Forestry Administration (SFA) is responsible for the protection work on the new varieties rights of agricultural plants and forestry plants.

Enforcement of IP Rights

The protection of IP rights in China follows a two-track system. The first and most prevalent is the administrative track, whereby the owner of IP rights files a complaint with the relevant local administrative office. The second is the judicial track, along which complaints are filed through the court system. China has established specialized IP panels in its civil court system throughout the country, and three independent IP courts in Beijing, Shanghai and Guangzhou.

Jurisdiction regarding IP is divided over several government agencies and offices, each one being typically responsible for the protection afforded by one statute or one specific area of IP and/or within certain geographical limits, like CNIPA and its offices at the provincial and municipal level for the enforcement of patents. The administration power of SAMR and its offices at the provincial and municipal level include: imposing fines, confiscating illegal income, sealing and seizing counterfeits.

Also, China's customs authorities have the power to detain and confiscate any infringing products to be exported or imported, subject to the IP owner having registered his patent, copyright or trademark in China and having filed a record/registration with China's Customs Authorities. This power is comparable to the right of customs authorities in the EU to detain goods infringing IP further to Council Regulation (EC) No. 1383/2003 of 22 July 2003.

Appeals from decisions of CNIPA or the Chinese Trademark Office on the registration, validation or cancellation of patents or trademarks must be submitted to the Intermediate People's Court in Beijing with the possibility of appeal to the Beijing Higher People's Court. The enforcement of fines imposed by an administrative agency and appeals against the imposition of such fines must be submitted to the local people's court where such administrative agency is located.

Although in general easily influenced by localism, the administrative track is often preferred by smaller companies due to the relatively low costs involved.

The second track companies can pursue is through civil actions in the local People's Court. Since 1993, China has maintained Intellectual Property Tribunals in part of the Intermediate People's Courts and in all Higher People's Courts and the Supreme Court. Since the establishment of three large-scale independent IP courts in Beijing, Shanghai and Guangzhou in 2014, independent IP tribunals have been set up in other big cities all over China to handle IP cases covering surrounding districts.

The Chinese Patent Law, Trademark Law and Copyright Law allow courts to grant preliminary relief, like injunctions and the preservation of property. The Law against Unfair Competition does not provide for preliminary relief.

Due to recent changes in Chinese IP laws the effectiveness of judicial enforcement has increased sharply over the last years. Therefore, it is expected that the number of IP litigation cases before the People's Courts will significantly increase in the coming years.

Contract Law

To ensure the effective protection of their IP rights and proprietary know-how, companies should always assess which IP rights are essential for their business and register those with the appropriate Chinese agencies and registers prior to entering the Chinese market. Without such registrations a company basically lacks the protection offered by China's IP laws and the possibility to enforce IP rights using the opportunities offered by the administrative and judicial systems of China.

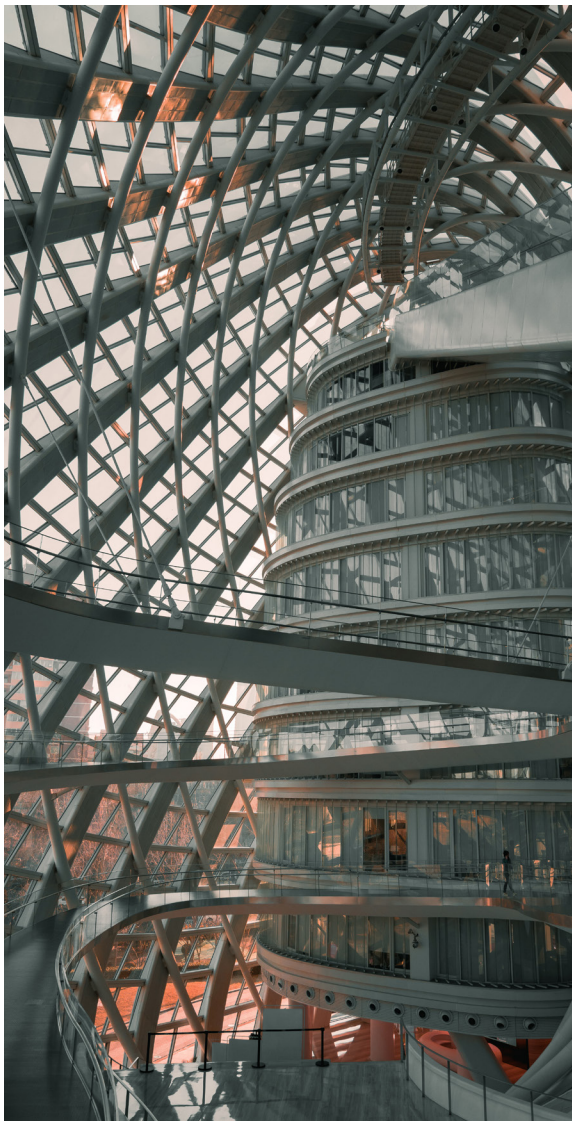
However, besides obtaining the proper registrations, it is equally important to execute a proper contract with your Chinese joint venture partner, whether distributor or manufacturer.

In 1999, the Contract Law of the People's Republic of China was adopted. According to Article 1 this law was formulated with a view to protecting the lawful rights and interests of contractual parties, maintaining the social economic order and promoting the progress of the socialist modernization drive.

China's Contract Law is largely based on the same principles as European contract law.

As soon as a contract is established in accordance with the Contract Law, it is legally binding on the parties. The parties should perform their respective obligations in accordance with the terms of the contract. Neither party may unilaterally modify or rescind the contract. Contracts established according to law are protected by law.

Where the parties conclude a contract in written form, the contract is as a main rule established when signed or sealed by both parties. Where a party wishes to apply his standard terms to a contract, the rights and obligations between the parties will be defined in accordance with those standard terms, subject to such standard terms following the principles of fairness. Also, the party applying his standard terms must request the other party to note the exclusion or restriction of its liabilities in reasonable ways, and explain the standard terms in line with the other party's requirements. The parties to a contract must act in accordance with the principles of good faith.



Also, Chinese Contract Law contains specific provisions for, among other things, contracts of sale, contracts for work and contracts for technology.

It is important that you spend appropriate time negotiating and drafting the contract with your Chinese joint venture partner. Moreover, such negotiations will give you the opportunity to get to know the other party's wishes and expectations, while a well-drafted and comprehensive contract helps to prevent and solve disputes.

A contract should always properly identify the IP rights and know-how you regard as proprietary, and specify by which registrations in China such IP rights and know-how are protected. Furthermore, the contract should clearly define what the other party may and may not do with your IP rights and know-how and to whom and under what conditions such know-how may be disclosed. Also, it may be worthwhile to stipulate that

the other party may not compete with you for a certain period and/or in a certain territory or market, neither directly nor through affiliated parties. Further, the main contractual obligations should be adequately safeguarded by a contract clause providing for penalties/liquidated damages in the event that the other party defaults. Both non-competition clauses and penalties/liquidated damages clauses are commonly used in contracts with Chinese companies, and are recognised and enforced by the Chinese courts, provided that such clauses are fair and reasonable and do not violate the public interest.

In international contracts, the parties often choose arbitration as the method for dispute resolution. Besides being a faster option than litigation in court, arbitration has the clear advantage that China is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), which provides for the reciprocal recognition and enforcement of arbitral awards issued in the member states. Also, arbitration has the advantage that arbitrators with different nationalities and backgrounds may be appointed and that the parties may select the venue and language of arbitration. Foreign court judgments and arbitral awards from countries that are not a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards are not directly enforceable in China.

Suggestions and Conclusions

Although only three decades have passed since China started opening its markets to European companies and joined the global economy, China is fast adapting its legal system to international trade. It may be expected that in the years to come China will more and more not only be an importer but increasingly also an exporter of know-how, technology and intellectual property. With Chinese companies like Huawei, Xiaomi and Lenovo, being major international distributors and brands, China has a growing interest in granting the same protection to foreign companies on the Chinese market as Chinese companies will receive in other jurisdictions.

With this in mind, your entry on the vast Chinese market should always be preceded by the proper preparations. First you should identify which IP rights or know-how you wish to protect, second you should make the necessary registrations of your IP rights, and third you should negotiate, draft and execute a proper contract.

In this process, it is essential that you receive guidance and assistance from local counsel. Although to a large extent the language of international trade is universal, there are always local habits and customs to consider if you want to establish a long lasting and fruitful relationship. This applies in particular to a country with a language and history as different from Europe as China. The best way to deal with those local habits and customs certainly is to retain counsel for whom these habits and customs are part of their cultural baggage.

ABOUT BUREN

Experience

Buren has been active in China since 1995 and is the first Dutch firm that was granted a foreign law firm license by the Chinese Ministry of Justice.

Expertise

Chinese and foreign lawyers and researchers are trained by Buren and work in teams. Buren has a co-operation with East China University of Political Science and Law in Shanghai, Erasmus University in Rotterdam (top university on economics) and Wageningen University (top agricultural technology university).

Full practice

Buren is a full practice firm and renders services to western and Chinese clients.

For further information, please contact:

Philip ter Burg
Partner
p.terburg@burenlegal.com
T +31 70 318 4200

Jan Holthuis
Partner
j.holthuis@burenlegal.com
T +86 21 6173 0388

Li Jiao
Counsel
l.jiao@burenlegal.com
T +86 21 6173 0388