

Intellectual Property Rights in China: Risk Assessment, Avoidance Strategy and Problem Solving (‘The China IPR Guidelines’)

The UK China IPR Forum 2004

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1. Introduction

1.1 The Purpose of The China IPR Guidelines

These Guidelines have been prepared by members of the steering group of the UK China IPR Forum set up by the China-Britain Business Council. They are intended to be made freely available to companies of all sizes and are written for people from all disciplines. They are aimed at exporters as much as at foreign investors - indeed, at every of form of enterprise involved in this rapidly developing market. As the frequent meetings, seminars and workshops on China business topics demonstrate, there is widespread anxiety about intellectual property rights in China. The experiences of those already in this market show that such concerns are justified.

The China IPR Guidelines are not intended to be a substitute for making thorough preparations and taking comprehensive advice from specialists in IPR law, prevention, enforcement and related fields; but it is hoped that they will offer companies new to the market a useful introduction to assessing IPR risks, understanding what remedies exist and, above all, taking measures that will help them avoid problems in the future.

1.2 The Background of IPR in China

Today's Chinese intellectual property laws are comparatively new. Legal protection took a step backward during the Cultural Revolution (1965-75), a period of wholesale political and economic turmoil that saw some IP laws rescinded in favour of 'Communist principles'. The need for a modern, more international style of legal framework came with the period of economic reform begun in the late 1970s by Deng Xiao Ping's 'Open Door' policy to welcome Western business, leading to the increasing adoption of a market economic system and the liberalisation of trading conditions. China's accession to the World Trade Organisation (WTO) in 2001 has resulted in trading conditions for foreign businesses in China becoming easier year by year (in theory, at least), according to a defined programme of liberalised conditions. At the same time China has introduced some new non-tariff barriers in certain industries, making progress less smooth than had been hoped.

Joining the international trading community was crucial for China's growth and prosperity and IPR improvement was a key condition of her admission to the WTO. This explains the rapid progress and noteworthy achievements of IPR law reform during the 1980s and 90s and the seriousness with which the Chinese government views this subject. China's IPR performance continues to be a major area of scrutiny and there is an annual appraisal by WTO members trading with China.

Why, then, is there a problem? Despite the comprehensiveness of the laws, many difficulties with Chinese legal processes remain, as explained later in these Guidelines. But these shortcomings are dwarfed by the disparity between the quality of the laws (the 'theory') and the authorities' lack of success in their enforcement (the 'practice'). In an environment where the risk of detection of IPR crime is slight, the penalties applied by the courts and administrative authorities are generally low and the climate of widespread piracy favours the infringer, Chinese IPR law tends to be seen as an irrelevance - by both abuser and abused.

The China IPR Guidelines

The Chinese government points to its efforts to improve matters: to a steadily growing number of successful prosecutions under the criminal law and notorious civil actions successfully brought by both foreign and domestic plaintiffs. It should be added that the increasing interest of Chinese businesses in protecting their own IPR is one of the most important factors in any progress that is being made in the battle against IPR theft. Yet the rapid growth of trading and industrial activity in China means she is a victim of her own success.

History shows us many 'frontier' situations where the rule of law comes a poor second to pragmatism in times of rapid growth and transition. While it would be wholly unjust to single out China for criticism - there is plenty of IPR abuse in other countries - those doing business should ensure they are aware of the difficulties, assess the risks and take steps to guard their know-how. It is from this perspective that these Guidelines are written.

In the sections below, Maura Moynihan of Filtronic plc, independent lawyer and consultant Stephanie Mitchell, Daniel Pavin and Ralph Koppitz of TaylorWessing, Ting Zhang of China Business Solutions and Simon Cheetham of PICA impart their expert knowledge on how to:

- understand the various types of IPR in China;
- assess IPR risks as part of your corporate strategy for China;
- plan for practical avoidance measures;
- take action if facing infringement problems; and
- view IPR in the Chinese context.

We see The China IPR Guidelines initiative as a continuing attempt to provide companies with information that is clear, accurate and up-to-date; above all, it should be relevant to the needs of those doing business in China.

Any queries relating to this document should be directed to Jennifer Broughton (Jennifer.broughton@cbbc.org).

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2. Explanation of IPR Basics

The term intellectual property rights ('IPR') refers to the variety of legal rights that can be asserted over the products of the human intellect. The most common categories with which we are familiar in the United Kingdom - patents, copyright, design rights, trademarks and confidential information - have equivalents in China. Since joining the WTO in 2001 China has adopted further legislation governing both the scope and enforcement of IPR, including patents, designs and utility models, trademarks, copyright and unfair competition legislation, which includes law relating to the use of confidential information.

2.1 Enforcement

In China a major difference from UK practice lies in enforcement, with two routes available. The first and most prevalent route is the administrative enforcement procedure, whereby the patent owner files a complaint at a local administrative office. The other is the judicial route, where legal proceedings are initiated in the courts. This dual route system applies to all forms of intellectual property. Deeper discussion of this topic is beyond the scope of this section; for further information see [Section 5](#) below. The law firm Lovells has produced a helpful document titled: *Strategies for Enforcement of Patents in China*. (For details see [Appendix D](#)).

In the paragraphs below we set out the main features of each form of IP.

2.2 Patents

Patents are the primary vehicle for protecting technology in most technology based-businesses. The basic idea behind the patent system in China is the same as that in the UK: in exchange for publishing details of an invention, the state grants the inventor a monopoly over his invention for a period of 20 years.

Legislation: The relevant patent legislation in China is the Patent Law 1984 (as amended in 1992 and 2000) and the Regulations for the implementation of Patent Law of 2001. See [Appendix D](#) for a link to English translations of this legislation. China's Patent Law provides protection for patents for inventions, utility models and designs. This arrangement contrasts with the UK legislation, where we have separate enactments dealing with patents (the Patents Act 1977) and designs (Copyrights designs and Patents Act 1988). The UK has no equivalent protection for utility models, although other European jurisdictions do.

Requirements for Grant of Patent: Article 22 of China's Patent Law provides that any invention for which a patent right may be granted must be novel, inventive and have a practical application.

This trinity of requirements is clearly analogous to the requirements for patentability under UK law: novelty, inventive step, capable of industrial application. In addition Article 25 excludes from the ambit of patent protection: (1) scientific discoveries; (2) rules and methods for mental activities; (3) methods for the diagnosis or for the treatment of diseases; (4) animal and plant varieties; (5) substances obtained by means of nuclear transformation. This is a clearer statement of what constitutes excluded subject matter for patent protection than is promulgated in the UK Patents Act 1977.

First to File System: China follows the ‘first to file’ system for patents which is consistent with the approach adopted in the UK and Europe. This means that patents are granted to those who file first even if this means they are not the first inventor. This contrasts with the ‘first to invent’ system used by the USA.

Priority: A priority system in respect of certain foreign applicants has been adopted by China. Where an applicant files an application for a patent in China for the same subject matter within 12 months from the date of first filing for patent protection in a foreign country, then he may, on the basis of the principle of mutual recognition of the right of priority under the TRIPs agreement, enjoy a right of priority in relation to the Chinese filing which dates back to the original foreign filing. This approach is consistent with UK, European and US patent law.

Applying for a Patent: Under the Chinese Patent Law, where a foreigner (defined as any foreigner/foreign enterprise without a business office in China) applies for a patent in China, he must use an authorized patent agent to file on his behalf. In the UK, many inventors file on their own account without using patent agents. Patents are filed at the State Intellectual Property Office (SIPO) in Beijing. The provincial offices of SIPO are responsible for the administrative enforcement of patents.

Infringement: Section 11 of China’s Patent Law sets out what constitutes infringement. No person may, without the authorization of the patentee, make, use, offer to sell, sell or import the patented product; or use the patented process or use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. This definition of what constitutes infringement is consistent with the UK/European approach.

Reversal of Burden of Proof for Process Patents: The maxim ‘he who alleges must prove’ is generally applicable to patent litigation in China, as it is in the UK. It is for the claimant to prove that the defendant has infringed the claimant’s patent. However, Article 57 of China’s Patent Law contains an interesting provision in relation to patented processes for making new products. This provision reverses the burden of proof for a manufacturer of an identical product. It is for the maker of the identical product in this case to show that his manufacturing process falls outside the claims of the process patent.

Ownership: As in UK law, the inventor is (subject to other arrangements, as discussed below) primarily entitled to apply for a patent.

Employer/Employee: As between an employer and an employee, again as in UK law, where the invention was made by ‘a person in execution of the tasks’ of his employment or ‘mainly using the material and technical means’ of the employer, the employer (rather than the employee) has the right to apply for the patent and is the patentee.

Agreements in Respect of Patents: As in UK law, the ownership principles set out in China’s Patent Law can be superseded by agreement between the relevant parties.

Assignment: Article 10 of the Patent Law provides that the right to apply for a patent and the patent itself may be assigned. However SIPO must approve any assignment by a Chinese entity or individual of patent rights.

2.3 Trademarks

Legislation: In China a trademark can be protected as a registered trademark under the People’s Republic of China Trade Mark Law of 1982, as revised in 1993 and in 2001. The Trade Mark Law gives the owner the exclusive right to use the mark in relation to a prescribed class of goods or services.

Scope: China's Trade Mark Law extends trademark registration to words, designs, letters, numerals, three-dimensional symbols, colours and colour combinations, provided the requirement of distinctiveness is satisfied. For consideration of the issues surrounding whether to register trademarks in Chinese characters, a Western alphabet or both, see [Appendix E](#).

Unregistered Marks: It is still possible to enforce unregistered marks in China under the Anti-Unfair Competition Law and revised Trade Mark Law if the mark has acquired well-known status or reputation. However it should be noted that this is a particularly complex legal area.

Madrid Protocol: China joined the Madrid Protocol in 1989 and as a consequence is required to extend reciprocal trademark registration to member countries, which include the UK, most European countries and the US.

First to Register: In common with the UK, China operates a first to register system. This means no evidence of prior use is required as a prerequisite to registration. This system is subject to abuse, particularly in relation to popular foreign marks. However the Chinese Trade Mark Office has cancelled marks opposed by foreign companies on the grounds that local Chinese agents or customers unfairly registered them. The duration of such cancellation proceedings are lengthy, however: currently at least two years. It should also be noted that proof of use will be required to maintain a trademark.

Making an Application: Like patent filing, foreign entities must instruct a Chinese Trade Mark Agent to apply for trademark registration on their behalf. Applications are made to the Trademarks Office, Beijing and may take up to two years to complete. See [Appendix A](#) for contact details.

Oppositions and Appeals: In parallel with the European position, following preliminary approval by the Trademark Office of the application for mark, the Application is advertised in the China Trademarks Gazette and is open to opposition for three months. Applicants can file a response to any opposition and the Trademarks Office will decide the outcome. Applicants and opponents are permitted to appeal to the Trademarks Review and Adjudication Board within 15 days of a decision.

2.4 Copyright

Legislation: China's copyright laws are set out in the Copyright Law 1990 as amended October 2001. See [Appendix D](#) for a link to English translations of this legislation. The Chinese Copyright Law provides protection from plagiarism for original works of literature, art, natural science, social science, engineering technology and the like which are expressed in the following forms:

1. written works
2. oral works
3. musical, dramatic, *quyi** and choreographic works
4. works of fine art and photographic works
5. cinematographic, television and videographic works
6. drawings of engineering designs & product designs and descriptions thereof
7. maps, sketches and other graphic works
8. computer software
9. other works as provided for in laws and administrative regulations

* *quyi* refers to traditional Chinese musical art forms

As in UK and European legislation and unlike patents and trademarks, copyright works do not require registration to qualify for protection. However registration with China's National Copyright Administration can help to establish evidence of ownership before commencing proceedings for enforcement. It is important to remember that copyright does not confer a monopoly right, it merely protects the expression of an idea. Infringement takes place when the work is copied, not the idea itself.

Ownership: Under Chinese law, as in UK law, the author of a work is the first owner of copyright in it. However, in contrast to the UK position, Article 16 of the Chinese copyright legislation provides that when a work is made by an employee in the course of his employment copyright vests with the employee not the employer. The employer instead has a 'priority right to exploit the work within the scope of its professional activities'. (Under UK law, where the work is made by an employee in the course of his employment, the employer becomes the first owner.)

This divergence in favour of employees is something for foreign companies to be aware of, as it is not clear what the rights of the author are against the employer if he exploits the work outside the scope of the employer's 'professional activities'.

2.5 Design and Utility Model Patents

Legislation: The legislation dealing with registered designs and utility models in China is the same as that for patents: the Patent Law 1984 (as amended in 1992 and 2000). This law defines 'inventions-creations' as inventions, utility models and designs.

Design Patent: To be eligible for a design patent, the shape, pattern, colour or combination of these must be novel as at the date of filing.

Utility Model Patent: To be eligible for a utility model patent the product in question must provide a new technical solution in respect of the product's shape, structure or a combination of these which has a practical application. The requirement is for 'prominent features' and 'notable progress' over the state of the art as a prerequisite for the grant of a patent for an invention, in contrast with the requirements for a utility patent: 'substantive features', 'representing progress'. There is no equivalent of this right in UK law. Despite this, the utility model patent should be of great interest to UK manufacturers who wish formally to protect product features that are novel but perhaps do not satisfy the requirement of inventiveness for the grant of an invention patent.

Applications: Applications for both rights must be made to SIPO and a fee is payable. Foreign applicants are required to instruct an authorised agent.

Duration: Ten years from date of filing.

Ownership: Provisions relating to ownership and assignment are similar to those applying to patents for inventions.

2.6 Domain Names

In China, individuals may not be the registered owners of domain names. Only legally-registered organisations can apply. Foreign companies can apply if the applicant has branches or offices in China and its main domain name server is in China. It is possible to register domain names in Chinese characters.

Registration: CNNIC (China Internet Network Information Centre) administers the management and registration of the top level domain name: .cn. CNNIC's website giving further information on domain name registration in China is listed at [Appendix D](#). Registration can be done online and completed within approximately 10 days of receipt of registration fee.

Disputes: Domain name disputes are not administered by CNNIC. Any such dispute is dealt with by way of civil action through the courts. In 2001, the Supreme People's Court found in favour of IKEA against a cyber-squatter who registered a domain name using IKEA's trademark, 'IKEA'.

2.7 Layout-Designs of Integrated Circuits Regulations

Legislation: These regulations (Regulations on the Protection of Layout-Design of Integrated Circuits), effective since October 2001, provide protection for the layout of integrated circuits. The regulations are similar in some respects to UK's 'The Design Right (Semiconductor Topographies) Regulations 1989'. The most significant difference is that the UK right arises automatically whereas acquiring the Chinese right requires registration and payment of a fee to SIPO. In certain respects the Chinese right appears to be tighter in scope, requiring the inclusion of at least one 'active element' for protection.

A 'layout-design of integrated circuit' is defined as the three-dimensional disposition of an integrated circuit, consisting of two or more elements with at least one active element and some or all of the interconnections, or such a three-dimensional disposition prepared for the manufacture of an integrated circuit.

Registration: Application for protection must be made to SIPO through an authorised agent and the application form must include a copy of the drawing or layout. Where the integrated circuit is commercially available, a sample of the IC must be included.

Ownership: Provisions relating to ownership and assignment are similar to those applying to patents for inventions.

2.8 Confidential Information

There is limited statutory protection in respect of confidential information, for example, in the Anti-Unfair Competition Law and the Contract Law. In China there are significant cultural differences about what might be expected to be treated as confidential information in a business context compared with expectations in Britain. It may thus be wise to raise such issues clearly during negotiations. China's Anti-Unfair Competition Law provides some protection to those whose confidential information has been violated by theft or other improper activities. The Fair Trade Bureau, under the State Administration for Industry and Commerce (SAIC), has responsibilities over the interpretation and implementation of the Anti-Unfair Competition Law. Redress can also be sought from the courts.

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3. Strategic Considerations

3.1 *Defining the Potential Problems*

Virtually all businesses - Chinese and foreign, large and small - and all types of products - food, cosmetics, industrial parts and fittings, high-tech to every-day - are at risk from piracy, passing off, industrial espionage or some other form of IPR risk in China today. At the same time, legitimate businesses feel the need to compete in the China market and many thrive there.

IPR problems have grown - as has China's involvement in the global economy over the last two decades. Until the 1980s, intellectual property in the People's Republic had been protected along Soviet lines, in keeping with socialist ideology: an inventor who in other countries might apply for a patent might, in China at that time, receive an award and a token prize instead of any longer-lasting legal rights. There were (and remain to this day) some very well-known domestic Chinese trademarks during the 1950s, 60s and 70s, but the marketplace was strictly regulated in so many other ways that only minimal intellectual property protection laws were in place.

The Chinese market today sees hundreds of flowers blooming - brands, technologies, marketing approaches - and unfortunately an equal variety of forms of abuse. Outright copying of trademarked goods, packaging, logos and designs - what is usually meant by 'piracy' - is only the most obvious example. A uniquely Chinese variant on 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 trademark. The nature of the Chinese language and its many homophones (words with similar sounds) unfortunately makes this very easy. (For guidance on this issue, see [Appendix E](#)).

Beyond rampant copying, businesses in China must also be wary of 'leakage' of trade secrets and patents and copyright infringement. All this occurs in an environment in which the strength, efficacy and willingness to help of the judicial and administrative authorities at many levels varies tremendously, from constructive to inadequate. Even worse, there are those in some local administrations who see the economy of their local area devoted to producing pirated goods and therefore may be reluctant (to put it mildly) to intervene. China rates better than many other developing countries on the Transparency International scale of perceived corruption, but it must be said that the problem can be found in many places and administrations, at all levels.

Many respond to this challenge by essentially ignoring the risks, planning to 'risk abuse for a fast buck' or to 'make my money before the pirates catch up'; some take this philosophy even further and assume that suborning or actively participating in IPR infringement is 'how it's done'. The experience of IPR practitioners in China does not tend to support these views. Most who ignore the risks seem to find out that the pirates catch up far more quickly than the legitimate business's cash flow; and those who work with the pirates simply muddy the waters for all and contribute to even more civil and criminal offences - which may well be found out and prosecuted.

Neither of these approaches recommends itself as a reasonable business plan. In fairness it should be noted that while corruption certainly exists in China and the business and private culture there encourages working through relationships rather than relying solely on law, there is a solid core of professional judges, administrators, lawyers and others who fight these trends through patriotism, professionalism and a clear view of a more flourishing economic and legal system if they succeed. See [Section 6.3](#) below for further discussion of corruption.

3.2 IPR Protection and Exploitation Issues

As in most other countries, most forms of IPR require registration in China. Copyright is typically an exception to this provision, although it may be difficult or impossible to sue for damages if not registered. Costs of registration for various forms of IPR protection in China are not materially different from those in other major jurisdictions. Most businesses prioritise amongst their IPR-related products and services, registering the most valuable or those most widely sold and distributed in as many classes as possible. They may register others likely to increase in importance but choose not register soon-to-be-outdated products or others of lesser importance, lower in value or sold in smaller quantities.

Equally important is finding out if someone else has already registered your marks or other IPR or something very similar to them. All these assessments should be made before putting your own goods and services on the China market. Equally, you should bear in mind that once a mark is registered in China, you must use it to at least a small extent, thereby incurring some costs on the ground. This may nonetheless be worthwhile, as in practice these costs may be quite small compared with the risks to the business of not registering.

Failing to register may make it very difficult, if not impossible, to seek effective administrative or judicial assistance at a later date should problems arise. This is invariably a case where a pennyworth of prevention is worth a pound of cure. In China, as in the West, there are trademark and patent agents who can help with the necessary investigations and registrations. These may be purely Chinese firms or affiliated to various Western law firms and practitioners. Contact details of such agents - and especially those found to have been useful in the past - are listed at [Appendix B](#). They are also listed in various directories and on websites.

Finally, any risk assessment should also take into account the fact that China serves as the warehouse and production centre for much of the world. Even if you do not yet find goods that infringe your intellectual property in China or in your home market, you may well find them in third countries to which China exports.

3.3 Local Representation and Relationships

Never underestimate the value of meeting and getting to know Chinese trading partners, commercial counterparts and relevant authorities at local, provincial and national level. This process is obviously very important whilst planning an investment or transaction, but never stops being important. Appearing once at someone's door to ask for their help or advice or to demand that copying of your products stop is almost never effective unless the person and organisation already knows both who you are and that you are reliable and trustworthy.

If you are known, however, you may find that one of your routine contacts can help head trouble off before a drama becomes a crisis. For example, if you have maintained good relationships with the local authorities over the course of your business dealings - especially when things are going well - and they are aware of (for instance) the jobs created by your business, the technology it shares or its other benefits to the area, they may well move all the more speedily and effectively once problems occur. It is always worth exploring these avenues as they may save significant costs and time or even mean there is no need for formal administrative or judicial intervention.

3.4 Contractual Aspects

Whatever IPR strategy you choose will be more successful if you and your entire organisation treat your IPR from the very beginning as if it is indeed a very valuable asset. For example, keep access to what is secret limited to those who truly need to know. Make confidentiality clauses or agreements a routine part of your contractual negotiations and employment contracts; and then police them as things develop.

Other possible approaches to IPR protection can also be built into your contracts. You may wish to consider some combination of the following, depending on the nature of the IPR you need to protect: non-compete clauses and non-disclosure agreements (bearing in mind the provisions of local labour-related regulations); provisions in employment contracts covering proprietary information; and the use of indemnity clauses. You might require, for example, your counterpart to indemnify you against specified losses in the event of (particular types of) infringement; you might want to ask them to bear the costs of pursuing administrative or judicial remedies against any future infringers.

Similarly, if you are involved in licensing or other transfer of technology, think carefully about how the use of the technology is to be measured and how royalty flow can be accurately tied to output. Whatever measure you choose, you must audit it - preferably on an unannounced basis as well as in whatever other fashion may be agreed upon - and be seen to take it seriously, rather than relying purely on statements from your opposite numbers. Doing this requires a balance of tact and firmness, but it is a worthwhile balancing act if you are to protect your valuable property.

Whilst negotiating and drafting your contracts carefully, do not forget to take a creative look at 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? Is there a physical or technical way in which customers or end-users can easily be made aware of the presence or absence of the genuine article? Can you offer some combination of the tangible (products) and intangible (services or IPR) that outstrips the illegal competition to whom you might otherwise lose trade or with whose products yours might otherwise be confused? In these days of rapid improvements in printing, packaging and tooling technologies, this approach will not necessarily be useful in every business, but it should not be overlooked.

Finally, listen to your entire commercial chain, including suppliers, distributors, your managers in China, the UK and elsewhere. Inquire of them, if you do not hear from them first, about whether they see counterfeits, passing off or other violations in their segment of the market. Build them into a 'virtual team', all of whom have an interest in spotting and driving out violators. You will not be able to act on every tit-bit of market information, but you cannot afford to act without it.

3.5 The Risk Assessment Process

IPR should always be included in any analysis of the risk involved in your potential China business. For example, in a contemplated acquisition, the stock value of a business may be based to a large degree on its brands. Failure to conduct an IPR risk assessment or due diligence process may fail to identify the lack of brand registrations, the presence of trademark oppositions, the likelihood of upcoming and costly litigation, or the existence of production of potentially infringing goods. Similarly, the lack of patent protection may result in widespread copying and resulting dilution of the company's worth, while for works subject to copyright, virtually the entire value of a product may be lost if not protected.

Specialised security and investigations firms routinely take on assignments like this. In assessing experts to provide such services, ensure that you choose people who can perform investigations and research on the ground in China, who can coordinate registration and litigation checks internationally, and who can obtain market survey information in key markets to gain a sense of levels of present or potential counterfeiting and related problems. You should also try to gauge the extent of familiarity of the firms you meet with your particular business in the greater China region. IPR risk assessment should also be an essential step in considering any decision on market entry or business expansion: there would be no point in launching a glamorous new brand or shiny widget into a new market unless you have taken steps to protect them against copying.

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4. Avoiding IPR Problems

4.1 Partners

Do not suspend your business principles and instincts in China - however persuasive others may be that this is a market where 'special conditions' apply. If being scrupulous in checking out a prospective business partner makes sense elsewhere, it makes even more sense in China given the intellectual property risks to which you may be exposed. Contrary to popular belief, due diligence investigation (or at least, something approaching it) *can* be conducted in China. This sort of work is undertaken by Chinese and international firms which vary in size, as do their fees; you should feel free to ask for quotations, explanations and details of the services they offer.

Do not neglect the more prosaic ways of assessing potential partners: visiting premises, meeting counterparts, seeking and following up references and making use of the usual channels of information about your industry. An informal reference from another company that has worked successfully with the organisation in question may also be reassuring. It may be worth approaching local diplomatic posts or the China-Britain Business Council's China offices for a view of the partner you are assessing. (See [Appendix B](#) for the addresses of these organisations as well as details of other practitioners in company checking or due diligence).

4.2 Partnership Structures and IP Protection

Once you feel you have found the right commercial partners, follow through by thinking carefully about the structure of your relationship with them. Do not regard this stage of negotiations as planning for problems - a common but unfortunate view of contracts - but rather as planning for success. Envisage the constructive relationship you need and adopt a structure that will support it. (See also the advice on contractual aspects in [Section 3.4](#) above).

One question many potential investors face is which type of structure - joint venture ('JV') or wholly foreign-owned enterprise ('WFOE') - offers their intellectual property assets better protection. There is no easy answer. A JV with the right partner might provide a powerful ally who can prevent, or take timely action against, potential infringements; but many leaks or instances of piracy originate from JV partners. If piracy begins at the 'back door', then might the tighter control inherent in a WFOE be attractive? But, equally, an independent operation might find itself without influential partners who could be valuable in other ways, especially during the set-up phase.

The only sensible approach is not to allow IPR matters to be the deciding factor. Better to vet your partners carefully, develop sound relationships with commercial counterparts and relevant government organisations - and choose a structure that makes good sense from an overall business perspective. It follows that you should not proceed with partners in whom you have less than full confidence: after all, there is much more at stake than just your IPR.

4.3 Employees

Just as 'due diligence' checks can now be made in China, so too is the vetting of candidates for employment possible nowadays. Pay particular attention to the key personnel you hire and keep tabs on their activities throughout the course of business: more than one firm has discovered that managers or other highly responsible representatives have caused major commercial headaches and losses - including setting up 'shadow' operations in competition with their employers' business.

Non-disclosure agreements ('NDAs') should be signed with employees who have access to confidential information. Alternatively there should be appropriate confidentiality clauses within the employment contract. While you would hope never to have to proceed to enforce such agreements, they also serve to underline the importance you give to IPR protection by your employees and may act as a deterrent.

4.4 Customers

Know-how may be leaked through your customers, who are likely to be less vigilant in protecting IPR they do not themselves own. One British company has had reason to suspect a Chinese company of illegally obtaining the source code of its software products through one of its customers, based in a third country.

You should gain the full support of your customers in protecting your IPR. To achieve this you will need, as a basic form of protection, an NDA; more important still is to maintain communication with your past customers to ensure their continuing support and understanding - and to make sure they know you remain vigilant.

4.5 Intelligence Networks

Use your local sales team or representative office in China as well as external resources -such as specialist investigation firms - to spot possible infringements. If IPR abuse is detected, it will be essential to collect evidence in support of possible administrative or legal action (see [Section 5](#) - Halting Abuse and Obtaining Redress).

Agents and distributors, often the main channel to the customer and the market, can provide first-hand monitoring of infringements: after all, they have local knowledge in areas and cities you may never yourself visit as the supplier. Consider the use of incentive schemes to motivate such efforts. You might also provide IP protection training including ways to identify possible counterfeits or other infringement operations.

4.6 The Supply Chain

Many companies - whether they have invested in enterprises in China or make use of outsourcing arrangements - will need to take the plunge in providing local manufacturers with drawings against which to quote. Obtaining a number of competitive quotations implies that several potential suppliers are discarded during this process, which is an obvious vulnerability. Using known suppliers, vetting those you do not already know and involving companies involved in managed outsourcing (accessing sub-suppliers on your behalf) are all ways of diminishing this risk. Drawing up NDAs in the case of vulnerable IP and controlling the issuance and return of material is also essential.

There is a real and well-hewn path for authentic products or parts to find their way from subcontractors to counterfeiters. A related abuse is for a genuine product to be overproduced and the excess production re-packaged and sold under another or a similar brand name. You should have agreements with subcontractors about how to handle any overproduction, which should be recorded and notified. Ideally unannounced audits of production facilities should be performed, as both a preventative and an investigative measure.

4.7 Involving the Public

China's business environment remains naïve about IPR norms (though some would say that the use of the word 'naïve', widely used in this context, is merely excusing flagrant abuse). Public education efforts have been under way for some years. The government has launched campaigns and has staged seminars across the country. Assisted by foreign organisations, including the European Union, these efforts are aimed at improving the knowledge and awareness of judges, lawyers, administrators, managers, and the public at large.

Companies can contribute to such education programmes. Doing so helps establish a good rapport with officialdom and especially the IP authorities. Such a relationship could pay dividends if you are faced with the problem of tackling violations.

If you encounter such problems and achieve a successful outcome you might consider making the most of your experiences: publishing your story widely - particularly in relevant local industrial journals and publications - can have significant value as a deterrent to potential infringers.

4.8 Designing IP Protection into Your Technology

The options available for designing protection into technology will depend on the nature of the product within which it is incorporated. Is it hardware? Is it software? What does it look like? How and where is it made and or assembled? The following examples from the IT hardware supply sector demonstrate manufacturing strategies aimed at designing protection into technology products.

Reservation of Key Components: IT hardware subcontract manufacturing in China is becoming a reality for an increasing number of companies - with all the rewards and risks this entails. Integrating a key component into a product and reserving the manufacture of this component (for example a GaAs-based semiconductors sub-component) under highly secure domestic process conditions has been part of suppliers' manufacturing policies for some time. At present few potential infringers will have access to the key GaAs semiconductor fabrication facilities or processes to produce a marketable copy of the product.

Trade Mark: Infringers frequently fail to distinguish between elements of the product that are necessary to its function, and the proprietary marks of the manufacturer. Finding that an infringer of a product design has also reproduced the manufacturer's trade mark (perhaps embossed on the product) may provide the vital evidence required to instigate infringement proceedings. Strategic use of trademarks can be particularly important where a product design has not been registered and where there are defensive arguments raising the possibility of design convergence.

Source Code Retention: Retaining source code in a secure location with restricted access remains one of the prime tools in protecting a supplier's investment in his software products.

Redundancy: Introducing redundancy into the code, or even encoding the your brand name into the software product itself, can provide evidence of unauthorised copying where an infringer has taken steps to disguise the abuse. While this tactic will not prevent infringement, it may be useful for prosecution purposes by establishing the fact that infringement has taken place.

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5. Halting Abuse and Obtaining Redress

5.1 *Heading Off Legal Action*

More and more foreign companies are faced with the fact that their trade marks or other IPR (such as domain names) have already been registered intentionally by a Chinese entity in bad faith, in the hope of negotiating a lucrative transfer price. In the worst case, the Chinese entity may claim that the genuine product violates its formally-registered IPR - a simple way of making the foreign competitor's activities in China more difficult. Related opposition and cancellation proceedings are lengthy (sometimes taking two to three years) and costly. Therefore before introducing branded goods or services to China (including contracting with an OEM in China) all relevant IPR should be formally protected and registered.

Appropriate licence agreements setting out the consequences in case of termination are another important tool to protect the foreign IPR owner. Such agreements can be made subject to foreign law but the parties may nevertheless need to consider certain mandatory requirements of Chinese law, for example, foreign exchange-related aspects when cross-border royalties are to be paid.

Warning notices sent to infringers asking them to stop their actions often do not lead to the intended result. An IPR owner should carefully consider whether such notices should be sent since they may allow the infringer to prepare for a possible raid action at a later date.

5.2 *Responding to IPR Abuse - Relevant Authorities*

A variety of entities are involved in fighting counterfeiting, including the people's courts (for all kinds of IPR infringements) and various governmental authorities. This dualism, with both courts and administrative authorities competent to fight infringements, is a characteristic of IPR protection in China. The administrative channel agencies are listed below (for full details see [Appendix A](#)).

State Intellectual Property Office (SIPO): patents

State Administration for Industry and Commerce (SAIC): trade marks, anti-unfair competition, anti-counterfeiting

National Copyright Administration (NCA): copyrights

State Food & Drug Administration (SFDA): pharmaceuticals

Ministry of Agriculture and State Administration of Forestry: plant varieties

Ministry of Commerce (MofCom): a useful source of IPR advice in its own right and for guidance on which other authorities to contact

Ministry of Information Industry (MII): layout designs of integrated circuits

General Administration of Customs: cross border protection

Administration for Quality Supervision Inspection & Quarantine (AQSIQ): product quality and anti-counterfeiting

Public Security Bureau (PSB): criminal enforcement

Administrative enforcement is usually handled by the respective local delegated authorities of the central organisations listed above - such as the local Administrations for Industry and Commerce, Public Security Bureaus, and so on.

Courts: The significant legislative reforms after China's accession to the WTO have brought increasing powers to China's Courts. The Supreme People's Court has also issued detailed opinions designating specialised IPR courts and their competencies. The courts are expressly permitted to order interim injunctions and preservation measures against counterfeiters, which can be obtained in the absence of the counterfeiter.

Generally, however, most IPR owners still opt for the administrative enforcement channel since it is usually faster and more cost-effective. Court proceedings are more common in technically complicated patent infringement cases; and they are essential if compensation is to be sought from the infringer, rather than the fines in administrative proceedings, which revert to the state.

Administrative Authorities: The burden of collecting evidence prior to a successful raid application is usually with the IPR owner. The authorities often lack the manpower to carry out investigations on their own initiative. If sufficient evidence is available and the authority cooperates, a raid action can be planned and carried out in days or sometimes within hours. As stated in Section 5.3 below, one of the key issues is the sufficient prior preparation of evidence (including carrying out relevant investigations of the target entities). The protection of IPR at trade fairs, such as the biannual Canton Fair, requires prior coordination with the relevant authorities and the establishment of contacts. Such contacts, or 'guanxi', are a pre-requisite for raising official awareness and permitting speedy action once an infringing product is discovered during a trade fair. It may sometimes be necessary for evidence to be collected by or in the presence of a Chinese notary, which must also be arranged beforehand.

As we have seen, there is a wide variety of enforcement authorities. Their function depends on the type of the IPR involved as well as on other factors. Sometimes this can be used to the advantage of the IPR owner: if one particular authority does not cooperate as desired (perhaps because of local protectionism) it may be possible to achieve the desired objectives by involving an alternative government agency. If one type of IPR infringement is difficult to prove - for example in a patent case - but obvious quality defects exist in the counterfeits, it may be possible to act based on product quality and consumer protection rules. Similarly, if a software copyright case would be hard to bring, a trademark action based on counterfeited packaging rather than the copyrighted contents may be more desirable. Enforcement in China needs a creative approach and appropriate prior discussions with the available authorities to determine the best possible channel for enforcement action in each case.

You should be aware of a potential lack of coordination between different enforcement agencies, for example when requesting a transfer of the case for criminal prosecution. Remember that equipment used during counterfeiting is not systematically destroyed; and be aware that confiscated infringing goods are, at present, also likely to escape destruction.

5.3 Getting Evidence

Before any legal action is carried out in a counterfeiting case, it is advisable to assess the chances of success of the individual case and compare them to the costs and other risks. A detailed investigation of the counterfeiters, who are becoming more and more sophisticated in their approach, is generally a crucial step. The seller of the counterfeit products is often not the same as the actual manufacturer or the provider of logistics or storage. Only a concerted action against as many parts of the manufacturing and distribution chain as possible will lead to long-term success.

Manufacturing may sometimes intentionally be split up in smaller units - or even small facilities in individual households spread out over a larger area - to avoid detection and the triggering of criminal prosecution. Comprehensive investigations can be time-consuming, costly and also dangerous. Various private investigation firms and local agents offer relevant services, which are often coordinated by the lawyer or agent later handling the raid action.

Notarization (the involvement of a public notary to certify valid existence) of certain evidence can be mandatory - such as in trade mark cancellation cases - or at least recommended (for example, to certify the content of an infringing internet website on a certain date) when taking action in the courts. In administrative enforcement cases, evidence does not usually need to be notarized.

5.4 Choosing a Lawyer or Agent

In certain cases the involvement of a Chinese lawyer or qualified agent to handle a counterfeiting case for a foreign company is a legal requirement. Most foreign companies choose to involve a local lawyer or agent in any event. It may be helpful in some cases to use an international law firm to coordinate activities at various locations in China and act as a one-stop contact point for the foreign company. This helps to ease communication problems, especially if a Chinese lawyer or agent without adequate English is involved at a remote location. On the other hand, there is an increasing number of Chinese law firms, particularly in the major cities, who may be able to respond adequately to your needs. Only meeting them for a frank discussion of your business, their fees and their services can show which course is right for you and ultimately the best value in your case.

5.5 Criminal Enforcement

Criminal prosecution has become an increasingly important tool in achieving a higher deterrent effect in actions against counterfeiters. However the revised Criminal Law standards fail to clarify how the value of fakes seized (as well as sold) should be calculated in order to determine whether certain standards are satisfied. This may be a significant disadvantage given the fact that counterfeiters almost always fail to maintain written records of their transactions.

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6. Cultural and Societal Issues

6.1 Cultural Differences and IPR Perception

When a Chinese company manager sees something interesting at a trade show his or her immediate thought may be ‘can I make the same thing more cheaply and sell it in China?’ rather than ‘is this protected by patents? And do I need to pay a license fee to the IP owner?’. That would explain why more than 100 Chinese DVD manufacturers have suddenly found themselves legally liable for a licensing fee and royalties to a consortium of foreign DVD patent owners (3C and 6C), after years of hard work and profit selling cheap DVDs in China and overseas.

Every Chinese is proud of the ‘Four Great Inventions’ achieved over 1,000 years ago - the compass, paper-making, gunpowder and movable type printing technology. Until less than 200 years ago, the Chinese economy was still the largest in the world. After a few centuries of economic stagnation under the Qing dynasty, massive population expansion, natural disasters and decades of war, China did not have much to boast about by the middle of the 20th century. China seemed to decline while the rest of world was developing rapidly. For most Chinese, ‘catching up with the West’ has been one of the incentives to work hard in recent times.

Some Chinese companies, driven by short-term profitability needs (and in a pattern familiar from other countries at similar stages of rapid economic development), prefer to adopt a ‘shortcut’ route by launching products based (legally or illegally) on other people’s technology rather than investing in the development of their own. In many cases this has resulted in immediate financial success, but it has also led to an increase in IPR disputes. The resulting long-term damage to corporate reputations affects not only small Chinese companies but also famous Chinese conglomerates.

However there is encouraging news. With China joining the WTO - and thanks to the government’s continuous educational efforts - more and more managers are learning to respect other people’s IPR; they are also becoming better at recognising the value of their own and at protecting it. Recent years have seen a soaring number of patent applications to SIPO by Chinese companies and individuals. There have also been widely-publicised IPR cases demonstrating that Chinese companies are taking a more aggressive approach in safeguarding their IPR.

The high-profile DVD patent royalty disputes have taught Chinese electronics manufacturers a hard lesson, so that a growing number of Chinese companies are coming to regard IPR as a key consideration before launching or designing products.

6.2 The Implications of Defending Your Rights

While Chinese culture still prefers ‘friendly conciliation’ to outright legal action, Chinese companies and individuals are increasingly resorting to legal routes to fight for their rights. Nonetheless the traditional approach remains - at least until a stalemate prompts legal action: find a go-between to help in negotiating with the other party. Contrary to many Westerners’ beliefs, ‘face’ no longer plays as big a role in today’s company life in China as it used to. This may be partly due to the introduction of Western management styles; but it also reflects increased public confidence in the country’s legal systems and determination on the part of Chinese businesses to protect themselves.

While the overall perception of a foreign company launching a legal suit with Chinese companies can be mixed ('too aggressive', 'not flexible', 'not to be messed with'), foreign companies should not worry too much about their reputation being blighted. In fact, publicizing successful cases can serve as a deterrent to potential IPR infringers. On the other hand, it is probably not a good idea to sound off about past legal successes of this sort when establishing relationships with new Chinese customers.

6.3 Corruption

Anyone doing business in China over a significant period will have encountered or heard of corruption in one form or another. The traditional Chinese definition of 'corruption' may be different from what is understood according to Western standards. For example, the giving and receiving of expensive gifts was accepted as a friendly gesture in the past. Down through the dynasties in China's 5,000-year history, individuals could 'buy' official positions from their bosses; the right to collect taxes could be bought and sold; and criminal punishments could sometimes be converted into monetary equivalents. These practices were deeply-rooted and permeated every level of government at various times and places, even if officially condemned.

All of this changed - in theory at least - with the establishment of modern China in the mid-20th century, when a new code of rectitude was introduced. The Communists' fight against the Nationalists was based, in part, on rejection of their opponents' all-pervasive corruption. However according to recent international standards China now ranks as one of the world's more corrupt countries. In recent years the drive to separate government from business has brought about some improvement, albeit still far from satisfactory. It is likely that corruption will remain a fact of business life in China in the foreseeable future.

Sometimes there is felt to be a fine line between 'guanxi' (relationships) and corruption. Some Chinese would even question whether getting to know the judge or other powerful people involved in the legal system in order to improve one's likelihood of success in court - and investing considerable time, not to mention money, in the process - is in fact a form of corruption. 'Conflict of interest' is still a new concept to many Chinese officials and business people. There might be a situation where the head of a local Administration for Industry and Commerce with which you are launching an administrative complaint against an infringer of your IPR has a relative working for the infringing company. You would not know about this conflict of interest, as it would most likely not be declared; you would merely wonder why your case was not being handled expeditiously.

In general, higher levels of government department are less corrupt than lower levels; and some localities are less corrupt than others. A useful rule is to seek assistance from the locality where you have a good relationship. Alternatively, go to a higher level authority - particularly when the other party involved is a big local company, as this often means they will have strong backing from the local government. Remember that in China the courts are not independent of government: local courts are greatly influenced by their respective local governments and have their own internal Party structure. Local governments in turn depend on local companies for employment and taxation income, both increasingly important as the central government devolves more and more budgetary responsibility to lower levels.

As for the attitude of foreign businesses in China, you should guard against the temptation of adopting a ‘when in Rome. . .’ mindset. Penalties for corruption in China can be severe, not to say extreme, and they tend to be applied more vigorously to a foreign business person’s Chinese partner than to foreigners themselves. The best advice is to treat corruption as most companies do elsewhere in the world and avoid it by resisting corrupt demands. You should bear in mind that UK law also expressly prohibits British businesses from paying bribes and entering into corrupt acts, while China has recently signed up to the Anti-Bribery Convention. Finally, it is also an unpleasant fact of life that IPR abuse is usually closely linked to other forms of corruption and sometimes to other types of crime.

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Appendix A: Government IPR Organisations in China

State Intellectual Property Office (SIPO) (formerly China Patent Office (CPO))

Patents; coordination of IPR enforcement among PRC authorities and lead office on foreign-related IPR matters

Address: 6 Xitucheng Lu, Jimenqiao, Haidian District, Beijing 100088

Tel: +86 (0)10-6209-3114; Fax: +86 (0)10-6201-9615; Website: www.cpo.cn.net

State Administration for Industry and Commerce (SAIC)

Trademarks

Address: 8 Sanlihe Donglu, Xicheng District, Beijing 100820

Tel: +86 (0)10-6802-2771; 6803-2233; Fax: +86 (0)10-6801-0463; Website: www.saic.gov.cn

National Copyright Administration (NCA), International Division

Copyrights

Address: 85 Dongsì Nandajie, Dongcheng District, Beijing 100703

Tel: +86 (0)10-6512-4433 ext. 2708; Fax: +86 (0)10-6512-7875; Website: www.ncac.gov.cn

State Quality and Technical Supervision Bureau (SQTSB)

Primarily patent and trademark issues involving product quality and human health concerns, especially counterfeits

Address: 4 Zhichun Lu, Haidian District, Beijing 100088

Tel: +86 (0)10-6202-2288; Fax: +86 (0)10-6203-1010; Website: www.cqi.gov.cn

General Administration of Customs (Customs)

Enforcement of Customs-registered IP

Address: 6 Jianguomennei Dajie, Dongcheng District, Beijing 100730

Tel: +86 (0)10-6519-4114; Fax: +86 (0)10-6519-4558; Website: www.customs.gov.cn

Public Security Bureau (PSB)

Raids and criminal cases

Address: 9 Qianmen Dongdajie, Beijing 100740

Tel: +86 (0)10-6524-2840; Website: www.cei.gov.cn/homepage/gov/buwei/bw011.htm

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Appendix B: Non-Government & Commercial IPR Contacts in China

China-Britain Business Council - China Offices

CBBC Beijing - Michael Wang, Head of Office, Tel: +86 10 8525 1111, Fax: +86 10 8525 1001, Email: Michael.wang@cbbc.org.cn.

CBBC Shanghai - Fu Yue, Chief Representative, Tel: +86 21 6218 5183, Fax: +86 21 6218 5193, Email: fu.yue@cbbc.org.cn.

CBBC Qingdao - Harry Jiang, CBBC Qingdao Manager, Tel: +86 532 83869772, Fax: +86 532 83869329, Email: harry.jiang@cbbc.org.cn.

CBBC Shenzhen - Thomas Qiu, Office Manager, Tel: +86 755 8219 8148, Fax: +86 755 8219 3159, Email: Thomas.qiu@cbbc.org.cn.

CBBC Chengdu - Sophie Bao, Office Manager, Tel: +86 28 86656302, Fax: +86 28 86657296, Email: sophie.bao@cbbc.org.cn.

CBBC Hangzhou - John Zhou, CBBC Hangzhou Manager, Tel: +86 571 87631069, Fax: +86 571 87630961, Email: john.zhou@cbbc.org.cn.

CBBC/EEDA/EXDRA Nanjing - Derek Wang, Tel: +86 25 52311740, Fax: +86 25 52233773, Email: derek.wang@cbbc.org.cn.

CBBC Wuhan - James Liu, Office Manager, Tel: +86 27 8577 0989, Fax: +86 27 8577 0991, Email: james.liu@cbbc.org.cn.

CBBC Shenyang - Lisa Liu, Chief Representative, Office Manager, Tel: +86 24 23341600, Fax: +86 24 23341858, Email: lisa.liu@cbbc.org.cn.

TaylorWessing Shanghai Representative Office

Contact: Ralph V. Koppitz

Address: 15th Floor United Plaza, Unit 1509, 1468 Nanjing West Road, Shanghai 200040

Tel: +86 (0)21-6247-7247; Fax: +86 (0)21-6247-7248

United Kingdom Diplomatic Posts

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Appendix C: IPR Contacts Outside Mainland China

China-Britain Business Council

Contact: Jennifer Broughton
Address: 1 Warwick Row, London SW1E 5ER, UK
Tel: +44 (0)207 802 2000; Fax: +44 (0)20 78022029
E-mail: Jennifer.broughton@cbbc.org; Website: www.cbbc.org

China Business Solutions Ltd

Contact: Ms Ting Zhang
Address: St John's Innovation Centre, Cowley Road, Cambridge CB4 0WS, UK
Tel: +44 (0)1223-421968; Fax: +44 (0)1223-281700
E-mail: info@chinabusinesssolutions.com; Website: www.ChinaBusinessSolutions.com

Stephanie Mitchell

Independent IPR and China Business Consultant
Address: 8, rue du Chatelain, bte 6, B-1000 Brussels, Belgium
Tel: +32 (0)2 649 31 28; +32 (0)473 944 520
E-mail: smitchell@skynet.be

PICA Corporation

Contact: Simon Cheetham
Address: Verna House, 9 Bicester Road, Aylesbury, Bucks. HP19 9AG, UK
Tel: +44-1296-425006; Fax: +44-1296-425005
scheetham@pica.net

TaylorWessing

Contact: Daniel Pavin
Address: Carmelite, 50 Victoria Embankment, London EC4Y 0DX, UK
Tel: +44 (0)20-7300-7000; Fax: +44 (0)20-7300-7100

Bird & Bird

All types of IP litigation, transactions and portfolio management; HK trademark registration
Contact: Hilary Pearson
Address: 90 Fetter Lane, London EC4A 1JP
Tel: +44 (0)207-415-6000 Fax: +44 (0)207-415-6111
E-mail: hilary.pearson@twobirds.com Website: www.twobirds.com

Contact: Matthew Laight
Address: 6/F Asia Pacific Tower, Citibank Plaza, 3 Garden Road, Hong Kong, PRC
Tel: +852 2248-6000 Fax: +852 2248-6111
E-mail: matthew.laight@twobirds.com

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Appendix D: IPR Reference Section

Strategies for Enforcement of Patents in China
Lovells,

English translations of Chinese IPR legislation: www.chinaiprlaw.com/english

China Internet Network Information Centre (CNNIC)
Website with information on domain name registration in China: www.cnnic.net.cn.

further reference information being compiled

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Appendix E: Trademarks in China - Language Issues

Registering trademarks in China raises a set of issues not faced in many other jurisdictions, due to the nature of the Chinese language. Whether in the form of Mandarin, Cantonese or any of the several other variants or dialects, Chinese is characterised by its large number of homophones, or words that sound the same. For example, there are at least 19 different Chinese characters that are pronounced 'hú'. For a Chinese reader, each of these characters has a completely different and clear meaning - a bit like an English reader encountering the words 'to', 'too', and 'two'. In Chinese speech, each of these syllables will generally occur in combinations or in a context that will make the meaning obvious.

When you come to register a trademark, however, this can be a problem. Foreign words can be written in Chinese in several ways. One common way is to simply 'transliterate' the sounds: thus, 'Smith' could become 'Si-mi-si', written with characters that have no particular meaning other than to represent these sounds, or whose meaning is clearly irrelevant in this context. It is also possible to translate directly the meaning of a foreign name or word. If blessed with a good translator or advertising representative, you may be fortunate enough to derive a brand name or company name in Chinese that both echoes the English word(s) and conveys a relevant meaning. Coca-cola came up with the classic brand name 'ke-kou-ke-le', which is about as close as a Chinese speaker could come to the pronunciation of the soft drink's name and also conveys the approximate meaning 'tasty and fun' when the characters are read.

From the foregoing it can be seen that there may be a plethora of choices for your brand and company names. Another ramification is that you may have to invest far more in developing a Chinese brand and company name than you would in other new markets. The inverse of this, when applied to protecting your intellectual property, is that any prospective pirate may have plenty of possibilities as well. How does this work? Say for example you register your mark in its original English form and also in the Chinese form that you have settled on after taking appropriate advice and considering its implications in the Chinese market. You go ahead and register your mark - perhaps 'Smith Widgets' in English, and 'Si-mi-si' in Chinese characters. Have you sufficiently protected yourself in China with respect to trademarks?

Unfortunately, the answer is probably not. These registrations will not prevent another entrepreneur from producing widgets labelled 'Si-mi-si' in Chinese characters, by choosing one or more characters in this name that are different from those you have registered. To a Chinese eye, the name will *look* different; but to a Chinese ear, it will *sound* identical. This is bad enough as far as consumer and market confusion goes - but it might get even worse. Your illicit competitor can legitimately register that alternate trademark and you would have a hard (and expensive) time opposing him, even supposing that you managed to find out about the pending registration.

What can you do to counter this threat? The first step is to invest adequately in developing an effective Chinese name, brand and presence. If the name is sufficiently unique and well-known it will be easier to defend legally and to manage in the market. Second, when you contemplate trademark registrations, you should consider defensively registering other marks in Chinese that may sound very similar. It is unlikely you can prevent all piracy this way; but the relatively small investment, made at the same time you register your other marks, may block some of the obvious avenues for potential piracy. Brainstorming with your Chinese-language advisers and staff at this stage - together with a modest investment in registering a few extra marks - may prove to be the best way of heading off such problems.

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