

Protecting intellectual property rights in China: an introductory guide

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1. INTELLECTUAL PROPERTY IN CHINA

Protecting Intellectual property rights can present certain challenges for Australian companies in many jurisdictions and China is no exception. Whilst there has been significant improvement in the ability to register and protect intellectual property in China, there are still reports from companies that have suffered commercial losses due to problems experienced in the China market. Counterfeiting, for instance, is estimated to result in approximately 20 per cent revenue loss for many global products; and losses from piracy and counterfeiting activity extend to as high as 90 per cent for movies and software.ⁱ However there are now several ways that companies can effectively protect their intellectual property in-market.

Innovation is the key to competitive advantage, especially in global value chains where success depends on supplying a good or service that is not easily replicable by a commercial rival. Protecting innovation through intellectual property rights is fundamental to securing competitive advantage. Innovation extends beyond science and technology to include the design and marketing of good and services. Apple is a great example of a company which has thrived through innovative technology as well as innovation in design, branding and market intelligenceⁱⁱ.

This product or process is captured and protected by intellectual property in the form of exclusive rightsⁱⁱⁱ.

Global investment in research and development exceeds US\$1.3 trillion and hence there has been an enormous increase in the value of intangible assets such as IP rights. Approximately 80 per cent of the market value of the Standard & Poor's Top 500 shares is from innovation, technologies or service related, rather than from tangible products^{iv}.

This is an introductory guide to intellectual property (IP) as it relates to operating a business in China. There are several topics canvassed in this guide including the importance of IP, different categories of IP, the benefits of properly protecting IP, and key challenges to be aware of when thinking about IP protection in China.

This guide is not a substitute for appropriate legal advice, and Austrade strongly recommends that businesses seek out professional advisory services when considering protection and registration of IP.

2. IP: WHAT YOU NEED TO KNOW

What is intellectual property?^v

Intellectual property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in commerce.

IP is divided into two categories: Industrial property which includes inventions (patents), trademarks, industrial designs, and geographic indications of source; and Copyright which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs.

IP Australia is the Australian Government agency which administers patents, trademarks, designs and plant breeder's rights within Australia. The Attorney-General's department is responsible for copyright^{vi}.

Why is intellectual property hard to protect?

Unlike the physical property or assets of a business, IP is an intangible and elusive asset. The intangible nature of IP makes it difficult to protect. Indeed companies are often unaware that their IP rights have been breached until the IP has been copied or infringed, by which time it can be too late to guard against the resultant commercial losses.

How does a business know whether or not it has an IP right? ^{vii}

Almost every business has IP of some kind. The essential question is whether or not a business has *valuable* IP which is worth protecting: not all intellectual property is valuable. IP value depends on a variety of factors including general utility, commercial value and vulnerability to IP compromise.

For all types of IP, the basic criterion is whether the individual or company is responsible for creating something innovative or novel, something which represents progress over what went before. The four basic types of IP are:

- Copyright - an artistic or creative work such as film, book, music, software or broadcast
- Patent - an invention involving a product or process
- Design - the shape or appearance of a product, object or package
- Trade mark - a means of distinguishing goods or services

IP rights cannot be granted over anything mundane or generic; or which currently exists, is already in the public domain or is owned by someone else. In general, IP rights need to be applied for and granted by official government agencies.

Should your business conduct an IP audit?

IP audits are strongly recommended because they enable a business to identify and determine the existence, value and extent of its IP. Similar to the way in which a stock inventory informs important business decisions, an IP audit is a business management tool which informs business decisions and enables the efficient management of company assets. IP audits are used to identify IP assets and their value, and more importantly, to identify and mitigate against potential risks which could lead to costly legal proceedings.

An IP audit identifies IP and determines whether or not the IP rights are owned by the business. If the IP is not owned by the business, the audit determines whether the company has adequate rights over the IP and whether appropriate steps have been taken to protect the IP in relation to employees and third parties.

IP Australia's guidance on the conduct of IP audits can be found at www.ipaustralia.gov.au

Who is responsible for protection of a company's IP rights?

From the board room through to the factory floor, each and every company employee shares responsibility for IP protection. All employees – particularly those with access to confidential and/or proprietary information - should act at all times to guard against loss or infringement of the company's IP. Managers at all levels should be familiar with the fundamentals of IP protection, understand the IP rights owned by the business, know where and how to source IP advice, and understand the channels for dispute resolution when things go wrong. An effective culture of IP protection within the business is a cost-effective alternative to sole reliance on external service providers.

IP Management Checklist

Registration of IP rights is essential. Without registering its rights in China, a foreign company will not be able to enforce them later.

Identify the IP that you have or need

Audit your usage rights and any pertinent responsibilities

Are there any third party right attached to your IP? (e.g. joint developments, funded projects)

Do you have a confidentiality policy in place? Is it up to date and observed?

Check terms of employment for all employees, make sure IP is properly assigned and post-employment responsibilities are clear

Consider and evaluate any technical protection techniques that may be appropriate

Make a careful valuation of your IP to establish pricing

Take advice from external experts such as patent agents before any major business decisions

ALWAYS REMEMBER THAT IP MANAGEMENT IS A BUSINESS ISSUE, NOT A LEGAL ISSUE

Source: *Best Practice in Intellectual Property Management*, Peter Ivey, Innotec Ltd and the EPPIC Faraday Partnership, 2004

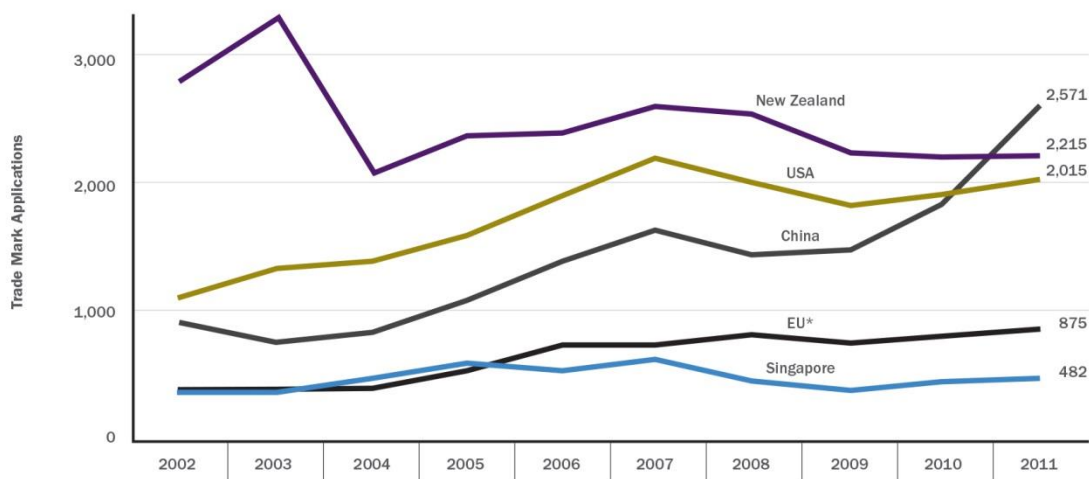
3. CHINA & IP

How important is China for Australian IP owners?

China is rapidly developing into one of the most important IP filing destinations for Australia. In 2011, Australian residents filed 8,557 patent applications overseas – 44 per cent in the United States, 30 per cent in Asia (mainly China, followed by Japan, India, Singapore, Hong Kong and South Korea), and 10 per cent in Europe^{viii}.

China has overtaken the US and New Zealand as Australia's No. 1 destination market for Australian trademark filers. As at 2011, more than 50 per cent of Australia's overseas trademark filings are in three countries: China 19 per cent, New Zealand 17 per cent and the United States 15 per cent. A further 20 per cent of filings are directed to other Asian countries^{ix}.

Top five countries for Australians filing trademarks, 2002-11



Source of figure: Australian Intellectual Property Report 2013

China's IP obligations under international agreements

China is member to the principal international IP rights organisations and agreements:

- Berne Convention (copyright) – since 1992
- Madrid Agreement (trade marks) – since 1989 (Madrid Protocol) – since 1995
- Paris Convention (priority rights) – since 1985
- Patent Cooperation Treaty (patents) – since 1994; and most importantly
- WTO/TRIPS (IPR in general) – since 2001.

China joined the WTO on 11th December 2001, and agreed to implement the Agreement on the Trade-Related Aspects of Intellectual Property (TRIPs) Agreement. Since then, China has amended its IP laws substantially. The TRIPs Agreement is a powerful mechanism to keep China accountable, and importantly, other WTO members can resort to TRIPs as leverage with China

Is the threat of IP compromise in China confined to exporters?

The risks of IP rights compromise in China is not confined to Australian exporters. All companies are vulnerable to compromise of IP rights, regardless of their production base or geographical reach. Irrespective of whether a company is exporting its products or sourcing products overseas, all companies remain vulnerable to the compromise of IP rights. For example, an Australian product may be copied or otherwise infringed in China or other overseas markets without the knowledge of the Australian business which holds IP rights for the product.

There is a difference between having adequate laws and achieving their effective enforcement. Despite concerted efforts by authorities to improve IP protection in China, enforcement of IP rights remains an area for further improvement.

Areas of difference in IP rights between China and Australia

In Australia, IP Australia is the sole agency responsible for administering patents and trademarks. In China, these rights are administered by two separate government bodies: patents are administered by the State Intellectual Property Office and trademarks are administered by the State Administration of Industry and Commerce.

- **Trademarks:** In Australia trademark recognition is granted to the actual user of the mark. In contrast, China follows a “first-to-file” rule for obtaining trade mark rights. In China, the first person to file a trademark application will generally have priority over a prior user of the trademark. Australian businesses are strongly advised to file trade mark applications in China as soon as possible.
- **Patents:** The patent registration and examination period in China can take up to six years, whereas in Australia the same process usually requires between two and three years. In China, certain subject matter is not patentable, including scientific discoveries and methods for mental activities.
- **Copyright:** Copyright in Australia is an automatic right which does not need registration. In China, however, copyright must be registered through the National Copyright Administration Office.

Domestic innovation in China

China is moving up the value chain of the global economy and increasingly has skin in the IP protection game. China is transitioning from a low cost, high volume assembler of products embedded with the IP of foreign companies, to a significant owner of local brands featuring home-grown, domestic innovation. The growth of domestic innovation is supported by government efforts to provide the legal and regulatory incentives for Chinese companies to file patent applications.

This process of change is improving IP enforcement and protection in China – both for Chinese companies and for their foreign competitors^x. The proliferation of domestic innovation is also boosting the competitive power of Chinese companies. The competitive environment is fierce and international companies can no longer assume an automatic IP advantage over local Chinese companies.

Registration of IP in China

There are various methods for registering IP, depending on the type of IP. Set out below are some key examples:

a. Patent Registration

- Patent applications (including inventions, utility models and patent designs) must be filed with the State IP Office (SIPO)
- SIPO Regional Offices provide administrative enforcement
- Registration should be made through a registered patent agent in China.

b. Trademark Registration

- Trademark applications must be filed with the Chinese Trademark Office (CTO), which is part of the State Administration for Industry and Commerce (SAIC)
- SAIC's local bureaux provide administrative enforcement of trademarks throughout China.
- It is essential to conduct a trademark search prior to registration.
- The trademark should be registered in both Chinese and English.
- Other related rights such as domain names and company names should also be secured through registration.

c. Copyright Registration

No registration is required for copyright, but registering copyright with the authorities is advisable.

d. Trade Secret Registration

- Trade secrets are technical or management information that is unknown to the public, but which is of practical value and can bring economic benefits to the rightful party.
- In China, trade secrets do not require registration.
- The principal law governing trade secrets is the Anti-Unfair Competition Law
- The principal administrative enforcement agency is the Fair Trade Bureau of SAIC.

Enforcement of IP Rights in China

China has a number of channels through which to enforce IP rights. They are set out in the following table:

Enforcement Channel	Advantages	Disadvantages
Administrative Enforcement	<ul style="list-style-type: none"> • Inexpensive & fast • Local • No lawyer needed 	<ul style="list-style-type: none"> • Limited geographic jurisdiction • Can be subject to “local protectionism” • Penalties usually non-deterrent • Non-transparent • Damages for injured party rarely available
Civil Enforcement	<ul style="list-style-type: none"> • Specialised judiciary with better knowledge of IP rights • Rights to appeal • Damages available • Nationwide jurisdiction 	<ul style="list-style-type: none"> • High cost • Lack of independence of judiciary in many jurisdictions • Difficulties in collecting damages, if rewarded
Criminal Enforcement	<ul style="list-style-type: none"> • Can be brought by injured party or prosecutors • Deterrent damages possible (fine and imprisonment) • Possibility of civil damages in addition to criminal punishment • Potentially lower cost than civil litigation • Criminal measures for wilful trademark counterfeiting and copyright piracy on a commercial scale are part of WTO obligations 	<ul style="list-style-type: none"> • Not all IP right infringements are criminalised. • Difficulties may exist in having administrative cases referred to criminal prosecution.
Customs Enforcement	<ul style="list-style-type: none"> • Available for import and export • Stops goods in transit • Inexpensive • Stops the harm caused by export of counterfeit goods 	<ul style="list-style-type: none"> • Most useful when company knows the port from which goods are being exported • Auxiliary expenses such as storage charges can be high • Customs only inspect a limited percentage of goods exported.

Source: United States Patent and Trademark Office website.

Tips for IP rights protection in China

Finally, despite the complexity of IP rights, there are shared experiences on how to minimise risks of IP compromise in overseas markets like China^{xi}:

- Adhere to normal business instincts and practice. Guard against assertions such as “contracts are unnecessary in China - relationships are the key”, and an attitude of “When in Rome...”
- Prevention is better than cure – and cheaper
- Assess the risks of the market and prepare thoroughly
- Seek advice but take “self-help measures” (refer to table below) to protect your IP rights
- Make sure everyone in your business values IP
- Register your IP rights – *even copyrights*
- Forge good relationships with organisations that can help you
- If action is necessary, be resolute but consider mediation first
- Once beyond mediation, civil litigation has a much more potent deterrent effect than administrative enforcement
- If you don’t demonstrate that you value your IP, who else will?

The following table outlines some self-help measures that can be used as a guide by businesses.

Self-help Measures

Design		Make it hard to reverse-engineer your product.
Staff		Hire honest people, have effective IP-related clauses in employment contracts, educate employees about IP protection and require them to safeguard the IP assets of the business.
Documents and equipment	and	Institute sound physical protection and destruction methods for drawings, tooling, samples and machinery.
Packaging		Make sure there are no “leakages” of packaging that might be used by counterfeiters to pass off fake product in real packages.
Production runs	over-	Police over-runs to ensure genuine product is not being sold under a different name.
Relationships		The contacts you have with local authorities can make all the difference in helping to defend your IP rights, and if a problem occurs, obtaining swift and effective action.

Source: *Intellectual Property Rights Primer for China*, UK Trade & Investment, 2008

For further information on IP, we encourage you to read the information available through IP Australia, particularly regarding case studies that may be applicable to your business. Please refer to <http://www.ipaustralia.gov.au/understanding-intellectual-property/case-studies/>

For one specific case study on doing business in China, please click here to be sent to the correct IP Australia page.

Disclaimer: *This is information only and not advice. Any party relying on this information should only do so after obtaining independent professional advice to check any action based on this information is suitable for the intended purpose. Austrade specifically denies liability for any loss claimed to arise from this information*

ⁱ Source of statistics: Office of External Affairs, US Patent and Trademark Office.

ⁱⁱ Austrade CEO's interview with Director-General of World Intellectual Property Organization, July 2013

ⁱⁱⁱ Id.

^{iv} Standard & Poor's website at: <http://www.standardandpoors.com>

^v Definition of IP is excerpted from World Intellectual Property Organisation website, at: www.wipo.int

^{vi} IP Australia at www.ipaustralia.gov.au

^{vii} *Intellectual Property Rights Primer for China*, UK Trade & Investment, 2008.

^{viii} Australian Intellectual Property Report 2013, p. 15.

^{ix} Id.

^x The Watermark Journal, Volume 28 Number 2.

^{xi} Supra note I.