

PROACTIVENESS IS KEY - IP IN CHINA

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DIFFERENCES YOU CAN COUNT ON

AGENDA

- Background
- IP risks, general part
- IP risks, special part
- Conclusion

BACKGROUND

The IP situation in China

99%

of all music downloads on the internet are counterfeits

48 billion US\$

is USA alone loosing in exports due to counterfeits

12th 5-YEAR PLAN (2011-2015)

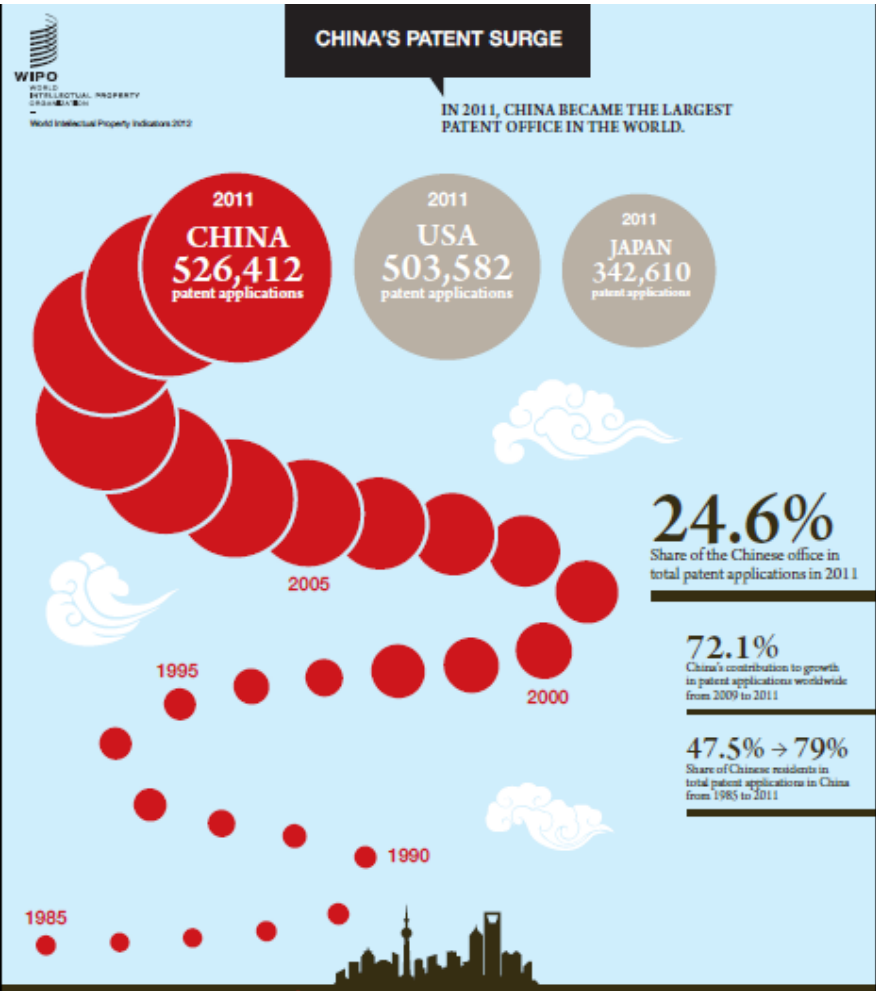
- From production - to knowledge society
 - "scientific progress and innovation will support the transformation"
 - "indigenous research and innovation in science, technology and administration"
 - "guide investments, talents and technology flow to enterprises"

12th 5-YEAR PLAN (2011-2015)

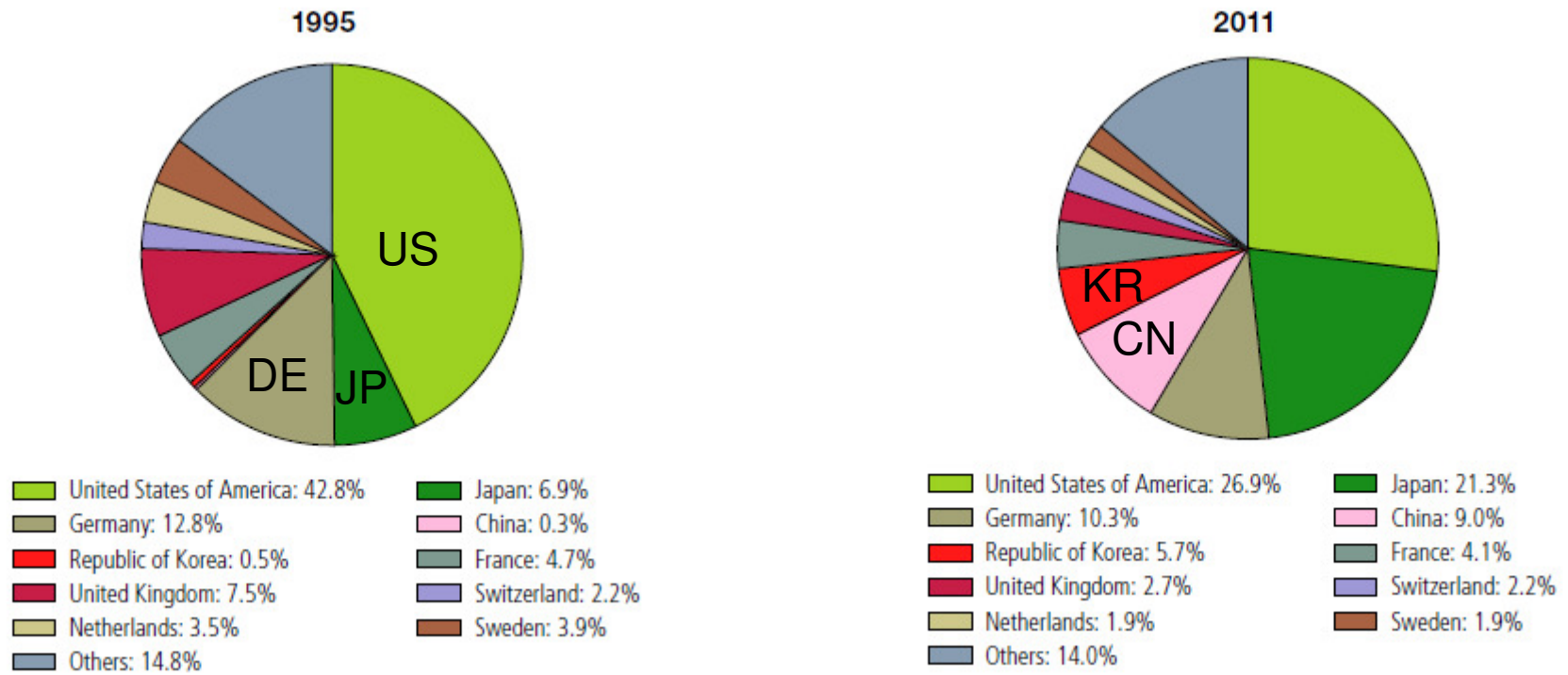
- R&D must be increased to 2.2% of BNP
- For each 10,000 people there should be 3.3 patents
- Substantial extent of control and (financial) incitements

NATIONAL INTELLECTUAL PROPERTY STRATEGY

- The quality of own IPR must be higher and the amount greater
- China must be leading measured on the number of patents granted to Chinese applicants
- The number of foreign patent applications filed by Chinese applicants must increase significantly



COUNTRY SHARE IN TOTAL PCT APPL.



CHINESE OWNED IPR ABROAD

- Increase in number of PCT and US patent applications with Chinese applicants
- Financial subvention of patent applications nationally and abroad
- Acquisition of foreign companies

GLOBAL CHINESE PLAYERS

lenovo



Haier

ZTE中兴

SINOVEL

IP RISKS, GENERAL PART

THE LEGAL FRAMEWORK

- WTO
 - Member since 11 December 2001
- Comply with all important treaties
 - TRIPS
 - Paris Convention
 - Bern Convention

DIFFERENCES TO EUROPE

China	Europe
Only registered IP is protected	Also unregistered IP may be protected
IPR is protected from the date of registration	IPR is protected (conditional) from the date of application
The owner must prove infringement	The infringer can be forced to disclose relevant information
All evidence must be submitted at the instigation of the proceedings	Evidences may be submitted during the entire preparation of the proceedings

NEED FOR CHANGE

- Legislation
 - Protection of copyrights on the internet
 - Criminal sanctions for infringement
- Enforcement
 - Effectiveness and consistency

DIFFERENCES, TRADEMARKS

- What should be registered?
 - Form of the trademark
 - For which goods and services (sub-classes)
- Recordal of license
- Proof of use (requirement of use, establishment)

NEW TRADEMARK ACT

- Allows multi-class applications
- Improves registration process
 - Introduces stricter timelines, including for appeals
- Office actions will be issued for other deficiencies than specification of goods
- Introduces honest concurrent use/fair use

NEW TRADEMARK ACT (CONT.)

- Deters "entrepreneurial applications"
 - Must be in accordance with a principle of honesty and credibility
 - Bad faith extended to prior relationships
- Deters infringement
 - Ceiling for compensation raised to 3 billion RMB
 - Admin fines raised to 5 x illegal turnover

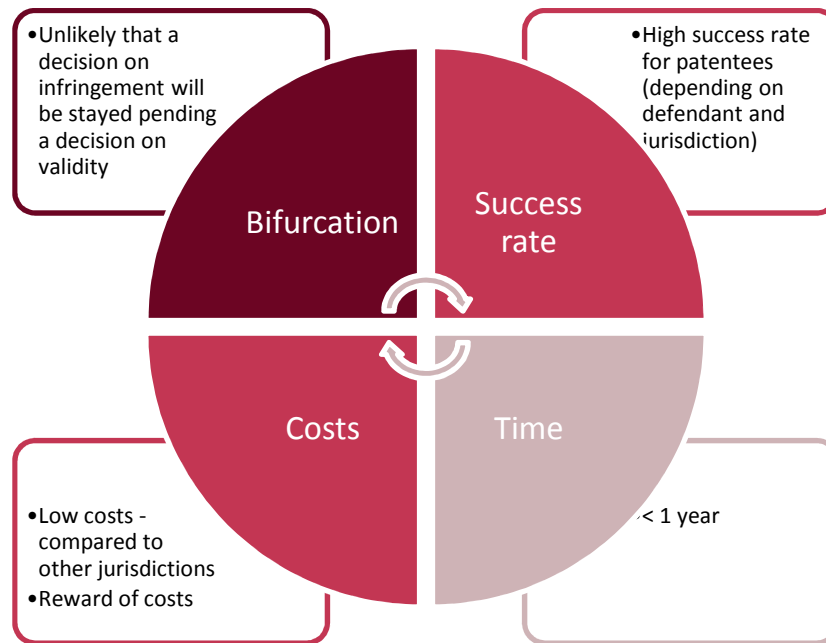
ENFORCEMENT IN CHINA

- Second largest patent litigation jurisdiction after the USA
- Most claimants are Chinese companies
- No significant difference in the treatment of Chinese and foreign claimants
- Higher success rate outside of Beijing and Shanghai

REGIONAL DIFFERENCES



PREFERRED 1ST INSTANCE IN ASIA?



US TRADE REP. "2012 SPECIAL 301 REPORT"

- Favours Chinese IPR
 - Public approvals, public procurement, etc. may be conditional that IPR is created in China and/or owned by a Chinese entity
- Industrial espionage
 - Increase in industrial espionage in China and outside China for the benefit of Chinese companies

LEVELS OF RISK EXPOSURE

Production

- Own infringement of the IPR of others
- Third parties infringement of own IPR

Distribution

- Increased visibility
- Market Communication

R&D

- Allocation of rights in relation to employees and partners
- Ownership of IPR

IP RISKS, SPECIAL PART

LOOKING AT

- Own production
- Outsourcing
 - Contract manufacturing (CMO)
 - Contract research (CRO)
- Direct distribution
- Licensing
 - Technology transfer

EMPLOYEES' INVENTIONS

- "Service inventions" (work made for hire) belong to the employer
 - Employer has the right to apply for a patent
- Employee has a right to compensation
- First filings abroad require foreign filing license

DUE DILIGENCE OF PRODUCT IP

- Analyse IP involved in product/manufacturing
 - IPR in China
 - Trade secrets and know-how
 - Other IPR and how to establish further IPR
- Which functions should be kept in-house and which can safely be outsourced?

OUTSOURCING PARTNER

- Capabilities
- Reputation
 - Collect references
- On-site due diligence
 - Review standard operating procedures (SOPs)
 - Interview people/request attrition rate

MANAGE DISCLOSURE PROCESS

- Secure NDA
- Disclose only the necessary information, at the latest possible time
- Use only written disclosure and mark document "proprietary and confidential"
- Review SOP's for handling confidential information

CONTRACT, THE ESSENTIALS

- What do we get?
- What do we have to give?
 - Money
 - Disclosure
- How fast can we terminate?

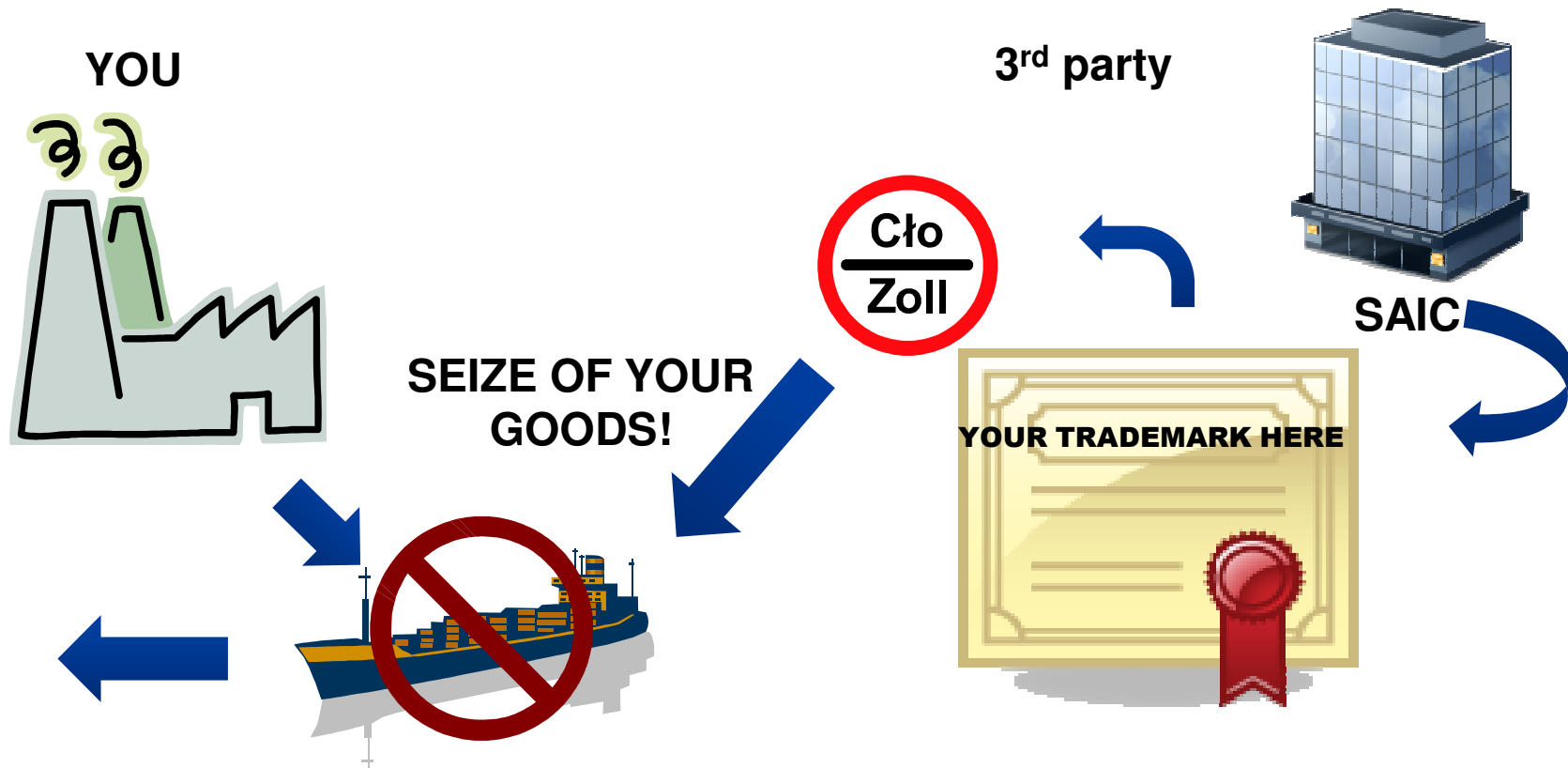
CONTRACT, IP ISSUES

- Undertaking of confidentiality
- Ownership to background and (possible) foreground IP, including inventions and data
- Documentation
 - Access to documentation and data

CONTRACT, GENERAL ISSUES

- Language
 - Are the terms understood?
- Governing law and venue
 - Mandatory law
- Signatories

TRADEMARK REGISTRATION?



DIRECT DISTRIBUTION

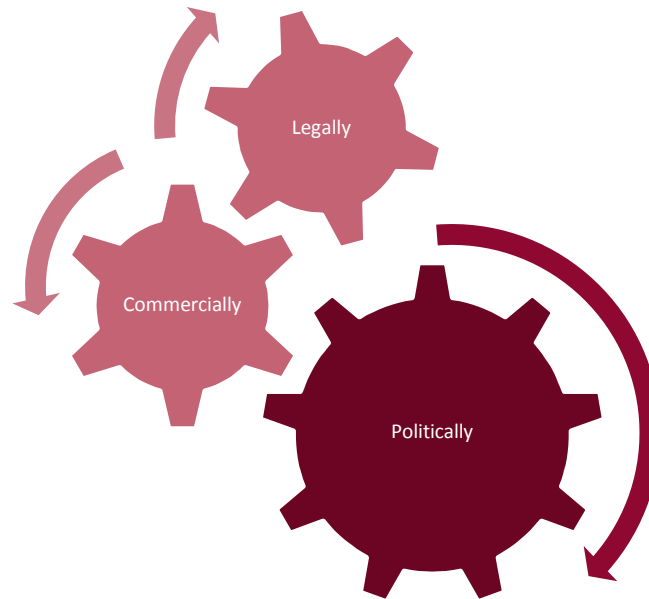
- Register all trademarks used
- Use trademarks aggressively – on products, in tools, in manuals, in software code
- Mark products using secure markings – holograms, etc.
- Register designs (before publication)
- Ensure patents and utility models on all aspects

LICENSING

- As for CDMO outsourcing
- Increased contract management
 - Quality control requirement
- Increased risk of
 - Unauthorized disclosure
 - Foreground IP
 - Ownership of marketing authorizations

CONCLUSION

CHINA IS SPECIAL



AN IP STRATEGY, WHEN?

- An IP strategy for China must be in place before
 - Information is disclosed to Chinese partners,
 - Manufacture is outsourced to China,
- and at the latest
 - When China is recognized as strategic market

AN IP STRATEGY, HOW?

- Protect innovation as elsewhere in the world – but stay focused on details
- Registration of additional rights specifically for China, including utility models, designs and copyrights
- Secure trade secrets and knowhow by managing the disclosure process

PROACTIVENESS IS KEY

- KNOW your market, partners and competitors
- USE the IP system as your local and global competitors

A CHANGE IN PARADIGM

- Changing from production to knowledge society
- Takes place at extremely high speed
 - Form of government
 - Resources
- Impossible to be market leader without IPR – whether in China or abroad

