

# **Break Through the Chinese Wall**

**- Legal and practical guidelines  
for establishing a company in China**

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## About the book

“Break Through the Chinese Wall” is an accessible handbook which provides an introduction to the fundamental rules, regulations and common practices related to establishing and running a business in China. The handbook provides answers to the most frequently asked questions from our clients.

The handbook has been jointly written by Capital Associates and NCO China. Capital Associates is a Chinese law firm specialised in providing commercial legal services and assistance to foreign companies investing in and trading with China. NCO China is a consulting firm that offers corporate services with regard to the establishment of an enterprise in China, Hong Kong etc., and provides accounting, tax and HR services to foreign investors in China. Both Capital Associates and NCO China serve a variety of clients; from large multinational companies to small and medium sized enterprises.

China’s rapid development means that regulations and practices are constantly changing. The handbook is meant to be an introduction to the current laws and practices in China. Updates and further information regarding the subjects covered by the handbook can be obtained from our offices or websites. Please refer to the contact information in the back of the book.

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# Intellectual property rights in China

Infringement of Intellectual Property Rights (IPRs) is still a matter of great concern in China, which any foreign investor must take into account before entering the Chinese market. The more popular a product gets in China, the more likely it will soon be met with rival products with similar characteristics, appearances, and brands.

The Chinese government realises that IPR infringement can discourage foreign investment. In response to increasing international criticism, the Chinese government has, in recent years, launched a variety of measures to combat and crack down on violators of IPRs.

In order to enforce IPR legislation and implement government action plans more effectively, the central administrative system has been reformed dramatically. For instance, a cross-ministry national work group with high-ranking officials has been established; an IPR training program for government officials has been initiated; forums for communication and co-ordination with FIEs have been prepared, etc. Awareness of IPRs is also improving at the local government level due to on-going training and positioning of IPR trained personnel.

The court system is undergoing reforms to improve the handling of IPRs cases too. Local courts all over the country take part in extensive IPRs training activities, and new specialized IPR courts and divisions have been established in most major cities.

Despite these efforts, which undoubtedly have improved the general awareness and recognition of IPRs in China, the progress achieved in terms of getting counterfeited goods off the streets has not been impressive. Local protectionism, corruption, and the lack of co-operation between Chinese authorities are still an everyday

occurrence in China. Until these obstacles are fully addressed by the Chinese government, no broad scale enforcement and protection of IPRs is to be expected.

## **International treaties and conventions**

China is a member to the World Intellectual Property Organization (WIPO) and has acceded to most international treaties and conventions related to the protection of IPRs, including the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Madrid Agreement for the International Registration of Marks, the Nice Arrangement concerning the International Classification of Goods and Services for Registration of Marks, the Berne Convention, the WIPO Copyright Treaty, the Universal Copyright Convention, and the Geneva Phonograms Convention.

Since China's admission to the World Trade Organization (WTO) in 2001, the Chinese government has strengthened the legal framework of IPR legislation, in order to comply with the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).

## **Copyright protection**

By virtue of China's Copyright Law, the owner of a work receives protection without being required to register the work with a Chinese copyright agency. However, since seeking redress for violations can be difficult without prior registration, it is highly recommended that the copyright for literary works be registered, in order to avoid disputes concerning to ownership.

If the copyright is held by an individual, protection is provided during the life of the author and extends fifty years beyond his or her death. If the copyright of the work belongs to a legal entity, the work is

protected for a period of fifty years from the first publication of it. The period of protection for cinematographic, television, video, or photographic works is fifty years from the first publication of the work, regardless of who owns the copyright. If the work is not published within fifty years of its completion, the work is not protected under the law.

A work may be used without permission or compensation in certain "fair use" situations, such as use for the purpose of education or scientific research, or use by a state entity for the purpose of carrying out official duties.

China's Copyright Law only provides protection to works that cause no harm to China's public interest and do not violate Chinese law.

## **Patent protection**

In December 2008, the Standing Committee of the National People's Congress enacted a new Patent Law, which took effect as of 1 October, 2009. The purpose of the amendment of the law was to strengthen the protection of patent rights in China and encourage new inventions.

The State Intellectual Property Office (SIPO) under the State Council is responsible for the administration of the law, including the handling of patent applications. SIPO has set up 21 local receiving offices in different cities across the country. In 2009, SIPO granted more than 580,000 patents of which more than 80,000 belonged to foreign applicants.

The Chinese Patent Law protects patent rights for "inventions-creations"; i.e. inventions, utility models and exterior designs. Foreign patents must be registered in China in order to obtain protection under the law. Any entity or individual intending to file a patent application in a foreign country for an invention-creation made in

China, shall apply in advance for a confidentiality examination conducted by the patent administrative department under the State Council. If this obligation is not fulfilled, the foreign patent application will not be granted a patent right, if the patent is applied for in China.

If filed in China less than twelve months after the filing of the original application in a foreign country, the priority date of a patent application will be deemed to be the date of the original application in that country, if this is decided by any agreement concluded between the said foreign country and China, by any international treaty to which both countries are parties, or on the basis of the principle of mutual recognition of the right of priority. For design patents, the application must be filed in China within six months from the date of the original application.

Patent right will not be granted to an invention-creation that is contrary to Chinese law or social morality, or is detrimental to public interests.

While the duration of patent rights for inventions is twenty years, the duration of patent rights for utility models and designs is ten years counted from the date of filing.

Disputes arising as a result of infringement of the patent right of the patentee shall be settled through consultation between the parties. Where the parties are not willing to consult with each other, or where the consultation fails, the patentee or any interested party may institute legal proceedings in the competent People's Court, or request SIPO to handle the matter. Legal proceedings concerning infringement of a patent right must be instituted within two years from the date on which the patentee or any interested party obtained or should have obtained knowledge of the infringing act.

The Patent Law of 2008 raised the maximum fine for patent counterfeiting, and recent case law shows improvements in the

capability of Chinese courts to render a judgment consistent with international standards as regards patent suits.

## **Trademark protection**

Trademark registration in China is normally an integral part of the initial entry into the Chinese market for any FIE wanting to protect its trademarked products or services in China. Sometimes registration is mandatory before a FIE can obtain its business license, e.g. if the products falls under the categories of tobacco or drugs.

Besides traditional trademarks on goods and services, the Chinese Trademark Law offers protection to collective marks and certification marks.

If a trademark is not registered, it will receive no protection under the Chinese Trademark Law. Therefore, there are no legal restrictions regarding the use of unregistered trademarks in China, since China has not yet adopted the concept of use giving rise to trademark rights. According to the Chinese Trademark Law, prior use of a trademark in China will not provide the user with exclusive rights to the mark, unless the trademark falls within the category of “well-known trademarks”. The term “well-known trademarks” refers to trademarks that are widely known to the relevant public and enjoy a relatively high reputation in China. Therefore, most foreign trademarks must be registered in order to obtain protection.

If filed in China within six months from the date of filing the original application in a foreign country, the priority date of a trademark application will be deemed to be the date of the original application in that country, if this is decided by any agreement concluded between the said foreign country and China, by any international treaty to which both countries are parties, or on the basis of the principle of mutual recognition of the right of priority.

The Chinese Trademark Law protects against “bad faith” registration of trademarks. If the registration of a trademark violates the rights of a trademark owner, the owner may request the Trademark Review and Adjudication Board to revoke the trademark within five years from the date of registration. If the trademark is “well-known”, no time limit for the revocation apply.

A registered trademark is protected for a period of 10 years, calculated from the date on which the registration is approved. In case a registered trademark needs to be used for a longer period, an application for extension of the registration period must be filed minimum six months prior to the expiration of the period. If the extension is granted, the trademark will be registered for an additional 10 years.

### **The Anti-unfair Competition Law**

The Anti-unfair Competition Law provides intellectual property protection to items not covered by the trademark legislation and protects trade secrets.

The general aim of the Anti-unfair Competition Law is to ensure a sound development of the market economy, to encourage and safeguard fair trade, and to protect lawful rights and interests of business operators and consumers.

According to this law, a business operator may not harm competitors by:

- Passing off a registered trademark of another party
- Causing confusion by unauthorised use of names, packaging or trade dresses of well-known products
- Unauthorised use of enterprise name or personal name of another party

- Use quality marks such as certification marks, marks of fame, and marks of excellence that are counterfeit or used without authorization

In general, the law prohibits any form of bribery when selling or buying products, misleading or false advertising of own products or those of the competitors, infringements of trade secrets, predatory pricing in order to force out competitors from the market, and unfair tendering practices.

## **Frequently Asked Questions**

### *1. What general precautions should be taken against IPR infringements in China?*

Many FIEs in China fail to take adequate measures to protect their intellectual property. Although it is impossible to completely protect an enterprise against IPR infringement, many things can be done to reduce serious risks.

Most proactive measures can be adopted internally within the enterprise by setting up procedures and routines on how to handle and exchange sensitive information and IPRs, and by making sure that these procedures are followed strictly by all employees as well as third parties working with or for the enterprise.

External measures are often more expensive and complicated as they usually require the involvement of third party service providers. External measures are normally only taken when infringement of IPRs has been reported.

Please find below some guidelines on how to protect your company against IPR infringements internally and externally:

#### Internal measures:

- Make sure that all trademarks and patents are legally protected in China at all times by completing the necessary registration procedures.
- Make sure that all employees, suppliers, distributors, etc. are informed in writing about the company policy on IPR, and the consequences of infringement.
- IPRs and the protection thereof are relatively novel disciplines in China, and many Chinese people are not aware of the legal impact of infringing IPRs. Training of staff, suppliers, distributors, etc. is often the only solution to this problem.

#### External measures:

- Carry out background checks on especially suppliers and distributors before hiring them. If they have a record, or a reputation, of supplying or selling fake products of other companies, cooperating with them should be reconsidered.
- Setting up a telephone hotline is a simple and efficient way to collect accurate information from disappointed customers and consumers on IPR infringement. Make sure the hotline telephone number is obtainable from company brochures, product labels, website, etc.
- Hiring an agent may be the only way to obtain crucial information on where pirated products are produced, and how they are distributed.
- Always contact your local Chinese lawyer, if you need further advice on how to protect yourself against IPR infringement, or if you need to initiate legal action.

2. *What are the chances of obtaining redress if someone counterfeits our products?*

The increasing number of successful actions brought by owners of IPRs against manufacturers and distributors of counterfeited products in recent years indicates that Chinese courts are now taking the protection of IPRs more seriously.

In 2009, Chinese courts heard more than 20,000 IPR-cases, with copyright disputes ranking first.

In 2007, a verdict made by the Supreme People's Court announced a record compensation amount among all the IPR infringement cases involving foreign participants. In the verdict, the Supreme People's Court affirmed the original judgment of awarding Japan's Yamaha Motor Co., Ltd. record damages of RMB 8,300,440.43 for trademark infringement, based on the evidence gathered showing the defendant's obvious infringement intent and lack of sufficient financial information. This verdict shows that the Chinese courts are increasingly willing to award damages acceptable to international standards to stop the infringement of IPRs.

3. *Is it necessary to wait for a court order in order to crack down on manifest IPR infringements?*

No. In China IPR infringement may be pursued in two different ways; either by obtaining a court order, or by directly involving police authorities.

Though the administrative procedure is the fastest, it is only feasible if definite proof of an infringement can be demonstrated.

4. *What is the best way to protect a trademark?*

Trademarks are best protected, if both a block letter form of the mark (which will protect the trademark in all styles) and the stylised form is registered, in case the block letter form is rejected due to lack of distinctiveness.

You should always consider registering a foreign language trademark with a Chinese language equivalent, as most consumers make purchase decisions based on an associated Chinese character trade name. Otherwise, there is a risk that consumers will make up their own colloquial names that may not be the most desirable for your products.

5. *Can a foreign company submit a trademark application by itself?*

Yes. According to the Implementing Regulations of the Chinese Trademark Law, local branches and subsidiaries of foreign companies are allowed to register trademarks directly with the Trademark Office of SIPO without using a Chinese agent. However, if the foreign investor has not set up a legal entity in China yet, a registered trademark agent is required.

The trademark registration process usually takes 9 to 12 months to complete.

6. *Can a foreign company submit a patent application by itself?*

Yes. Under the Chinese Patent Law, any foreign person or entity with a business address in China can file a patent application without the use of a patent agent. However, if the foreign investor has not set up a legal entity in China yet, a registered patent agent is required.

The approval process for a patent application normally takes 12 to 24 months to complete.

# Useful links

## Help and advice when establishing a FIE in China

- [www.capitallaw.cc](http://www.capitallaw.cc)  
Capital Associates' website.
- [www.ncochina.com](http://www.ncochina.com)  
NCO China's website.

## Government and organizations

- <http://english.gov.cn/index.htm>  
The official website of the Chinese central government.
- [www.ebeijing.gov.cn](http://www.ebeijing.gov.cn)  
Official website of the Beijing Municipal Government.
- [www.shanghai.gov.cn](http://www.shanghai.gov.cn)  
Official website of the Shanghai Municipal People's Government.
- [www.china.org.cn](http://www.china.org.cn)  
Government portal site to China that offers broad access to news about China.
- [www.fdi.gov.cn](http://www.fdi.gov.cn)  
Website of the Chinese Ministry of Commerce directed to foreign investors. The site comprises government news and information about investment directions, economy, statistics and law.
- <http://english.mofcom.gov.cn/>  
Official website of the Chinese Ministry of Commerce.

- [www.chinainvest.com.cn](http://www.chinainvest.com.cn)  
China International Electronic Commerce Centre's website. Contains investment news and information about investment projects in China.
- [www.tdctrade.com](http://www.tdctrade.com)  
Hong Kong Trade Development Council's website. Provides information about CEPA.
- [www.tid.gov.hk/english/cepa/](http://www.tid.gov.hk/english/cepa/)  
Website of Hong Kong Trade and Industry Department. Provides full text documents on all CEPA agreements and annexes.
- [www.adb.org](http://www.adb.org)  
Website of the Asian Development Bank.

### **Other sources of information about China**

- [www.transparency.org](http://www.transparency.org)  
Website of Transparency International, a coalition against corruption.
- [www.hoover.org/publications/clm](http://www.hoover.org/publications/clm)  
Website of the Hoover Institution of Stanford University. Provides information about China's leadership politics and its foreign and domestic policies.
- [www.chinaeconomicreview.com](http://www.chinaeconomicreview.com)  
China Economic Review is a monthly magazine published in Hong Kong covering business, finance and economics in China.
- [www.worldbank.org/transitionnewsletter](http://www.worldbank.org/transitionnewsletter)  
World Bank newsletters on developing economies.

- [www.cia.gov/library/publications/the-world-factbook/](http://www.cia.gov/library/publications/the-world-factbook/)  
U.S. CIA World fact book.
- [www.expatsinchina.com](http://www.expatsinchina.com)  
A guide for foreigners living in China.

## **Logistics**

- [www.maps-of-china.com](http://www.maps-of-china.com)  
Maps of Chinese cities, provinces and regions in the principal areas of China.
- [www.primecargo.com](http://www.primecargo.com)  
Website of the international transportation and freight forwarding company Primecargo.
- [www.dsv.com](http://www.dsv.com)  
A transportation company that offers end-to-end transport and logistics solutions.

## **News in English**

- [www.chinadaily.cn](http://www.chinadaily.cn)  
Website of China Daily, the Chinese government's official mouthpiece.
- [www.scmp.com](http://www.scmp.com)  
Website of South China Morning Post, which is a little less censored than China Daily.
- [www.shanghaidaily.com](http://www.shanghaidaily.com)  
Website of the local Shanghai newspaper
- <http://english.peopledaily.com.cn>.

## **Chambers of commerce**

- [www.amcham-china.org.cn](http://www.amcham-china.org.cn)  
The American Chamber of Commerce in China.
- [www.europeanchamber.com.cn](http://www.europeanchamber.com.cn)  
The European Chamber of Commerce in China.
- [www.pek.britcham.org](http://www.pek.britcham.org)  
The British Chamber of Commerce in China.
- [www.ccifc.org/](http://www.ccifc.org/)  
The French Chamber of Commerce in China.
- [www.dccc.com.cn](http://www.dccc.com.cn)  
The Danish Chamber of Commerce in China.
- [www.swedishchamber.com.cn](http://www.swedishchamber.com.cn)  
The Swedish Chamber of Commerce in China.

## Abbreviations

AIC	Administration of Industry and Commerce
AMEA	Anti-Monopoly Law Enforcement Agency
ASBE	Accounting Standards for Business Enterprises
BLTB	Beijing Local Tax Bureau
CAS	Chinese Accounting Standards
CBRC	China Banking Regulatory Commission
CCPIT	China Council for the Promotion of International Trade
CEPA	Closer Economic Partnership Arrangement
CIETAC	China International Economic and Trade Arbitration Commission
CJV	Contractual or Cooperative Joint Venture
CO (CEPA)	Certificate of Hong Kong Origin (CEPA)
COFCOM	Commission of Commerce
CPA	Certified Public Accountant
CSRC	China Securities Regulatory Commission
DTT	Double Taxation Treaty
EJV	Equity Joint Venture
EPZ	Export Processing Zones
FESCO	Foreign Enterprise Service Corporation
FIE	Foreign Investment Entity
FIP	Foreign Invested Partnership
FR	Factory Registration with TID (CEPA)
HKTDC	Hong Kong Trade Development Council
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LoI	Letter of Intent
MII	Ministry of Information Industries
MOFCOM	Ministry of Commerce
MOLSS	Ministry of Labour and Social Security
NDRC	National Development and Reform Commission
NPC	National People's Congress

PBOC	People's Bank of China
PRC	People's Republic of China
RMB	Renminbi
RO	Representative Office
ROOs	Rules of Origin (CEPA)
SAFE	State Administration of Foreign Exchange
SAIC	State Administration for Industry and Commerce
SAR	Special Administrative Region (Hong Kong and Macau)
SAT	State Administration for Taxation
SIPO	State Intellectual Property Office of the PRC
TID	Hong Kong Trade and Industry Department
TRIPs	Trade-Related Aspects of Intellectual Property Rights (agreement under WTO)
WFOE	Wholly Foreign Owned Enterprise
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

## References

We have found inspiration for the handbook on the websites listed under “Useful links”. In addition, various materials from events and presentations together with “Danmarks Nationalbank, Quarterly Review 1, 2009” have been used.

Last, but not least, we have drawn on the long experience of Capital Associates and NCO China in advising clients.

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