

## Protection of IPR in the Automotive Industry in China

### Your IP in the Chinese Automotive Industry

The automotive industry in China has seen rapid expansion over the last decade; the automotive parts market alone was worth RMB 1.5 trillion (€179 billion) in 2010 and the increasing volume of vehicle sales in the country predicts that the trend is set to continue. There are clear opportunities for European businesses to profit from this booming market but precautionary steps must be taken to meet the challenges that China poses.

When it comes to Intellectual Property (IP) protection, international small to medium-sized businesses that invest in the local automotive industry should be aware of the IP risks that they run when operating in China, and the main tools at their disposal to protect against those risks.

Currently, the most important factors that allow international automotive businesses to operate in Chinese Tier 1 and Tier 2 markets, are their established contacts with global car manufacturers (the Original Equipment Manufacturers, or OEMs who produce parts or components for sale to other manufacturers to market under their own brand name – for more information you can watch the China IPR SME Helpdesk webinar on OEM in China), their technological capabilities, and their reputation for quality. This gives them an edge over many Chinese competitors that are relatively new and lack the regimented processes that are required to guarantee a high level of quality. Therefore IP – in particular with regards to new technologies and the ability to protect this technology from Chinese competitors – will be a key factor in the battle for market share.

### Why is Protecting your Trade Mark Important?

Branding is key to the success of many international companies in the Chinese automotive industry. The strong reputation that these companies have built up in other markets allows them to compete effectively for orders from (international) China-based customers. Trade marks play a relatively small part when it comes to the purchase of OEMs because most car manufacturers will only purchase from known suppliers, so counterfeiters are unlikely to get a foot in the door. Lower down the supply chain trade mark infringements are a more distinct possibility, and European SMEs operating at this level should ensure their trade marks are registered in China.

Another area that is prone to trade mark infringement is the market for spare parts. Parts distributors, whether wholesalers or retailers, may consider selling counterfeit products at real-product prices, increasing their own margin substantially. From a consumer's point of view, the best way to curb the risk of being saddled with inferior counterfeits is to purchase only from qualified dealers. Automotive suppliers whose parts are being copied should be ready to file a complaint with the Administration for Industry and Commerce (AIC), to start an administrative IP enforcement action; or in the case of major infringements, a civil lawsuit which could lead to an injunction (a court order requiring the offender to immediately cease selling and producing the counterfeit items) and perhaps some compensation.

Companies in the automotive industry must remember to register their trade marks in China – if only to avoid third parties registering them first. As China applies the 'first-to-file' system, an

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international business that fails to register its brand name as a trade mark in China, may be prevented from using this brand name in the future, which could have a serious impact on its business. Additionally, owners need to register the Chinese versions of their brand names as trade marks in China, because very often the Chinese equivalent becomes better known and more valuable than the original brand name. For more information on trade marks in China and how to register them, see the China IPR SME Helpdesk guide to trade mark protection in China.

### **Patents and Inventions**

China's system to protect patents is relatively comprehensive and very similar to that of many other international jurisdictions. To be protected under the Chinese patent law, a technology must be registered in China, either directly or through depositing an international patent in China. Upon being granted, the patent holder will have the right to exclude others from making, using, selling, offering to sell, or importing patented products or technologies in China during the patent's term of validity.

The three main conditions to be granted a patent are that the technology must be 'novel', 'inventive', and have practical applicability. In the Chinese automotive industry, the requirement of novelty is by far the most challenging. Companies that develop a new technology, in China or elsewhere, must ensure that the patent is applied for in China before the product's use or publication (anywhere in the world). However, helpfully, China offers a twelve-month priority period upon application in another country or jurisdiction. This means that when a technology is invented and a patent is applied for in the home jurisdiction, then the company has twelve months to apply for the patent in China as well.

In addition, China has special rules that apply where a technology is invented in China. If the Chinese subsidiary of an automotive parts supplier has invented the technology, then the patent must be applied for in China first. For further information about registering and using patents in China, please refer to the China IPR SME Helpdesk Guide to Patents in China.

### **Additional Faster Access to Protection - Utility Model**

Besides applying for an invention patent, companies also have the choice of applying for utility model patents to protect their technologies. Although the utility model patents cover much of the same kinds of technologies as the invention patent, the main differences are as follows:

- **Application:** Utility model applications do not enter into a stage of substantial examination, which means that the State Intellectual Property Office (SIPO) does not need to review the patent's novelty.
- **Timing:** The application process for a utility model usually takes approximately one year (three or more years is common for invention patent applications) but the protection only lasts for ten years (as of granting).
- **Protection:** Unlike invention patents, utility model patents do not require 'substantial examination', which makes them less effective when enforced and exposed to higher risk of invalidation.. An invalidation procedure may suspend any enforcement actions.

Utility model patents are no alternative to invention patents, but they still offer a certain level of protection if the invention patent is no longer available to the owner. Moreover, an effective

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strategy to protect technical solutions is to apply for both a utility model and invention patent simultaneously (i.e. on the same day); and then to abandon the utility model upon being granted the invention patent. This practice allows patent holders to take advantage of the early approval of the utility model to obtain a first level of protection, until completion of the more extensive invention application which provides the patent holder with maximum protection and for a longer period (of twenty years instead of ten).

### **How to Maintain Trade Secrets**

The trade-off for the protection of inventions and utility models as patents is that they are fully disclosed to the public, through publication by the State Intellectual Property Office. Therefore while registering a technology as a patent offers legal protection in China, it also increases the risk that competitors are capable of copying the technology. A different approach to protect technologies is not to file for patent protection, but rather to try to protect the use of these technologies by avoiding disclosure to third parties.

### **Take Away Message**

The automotive industry involves a broad range of intellectual Property, including trade marks, patents and trade secrets. Irrespective of the kind of IP, the first step for owners is to ensure that IP rights are valid and effective in China. For trade marks and patents this means that they need to be registered in China, and for trade secrets (a type of confidential information) certain active steps must be taken.

In general, all automotive companies that are in China or want to enter this market should be clear on their IP protection strategy, which should include a focused understanding of the IP they want to protect, and the measures taken to execute such protection.



*The China IPR SME Helpdesk is a European Union co-funded project that provides free, practical, business advice relating to China IPR to European SMEs. To learn about any aspect of intellectual property rights in China, including Hong Kong, Taiwan and Macao, visit our online portal at [www.china-iprhelpdesk.eu](http://www.china-iprhelpdesk.eu). For free expert advice on China IPR for your business, e-mail your questions to: [question@china-iprhelpdesk.eu](mailto:question@china-iprhelpdesk.eu). You will receive a reply from one of the Helpdesk experts within three working days. The China IPR SME Helpdesk is jointly implemented by DEVELOPMENT Solutions, the European Union Chamber of Commerce in China and European Business Network (EBN).*