

Market Voices on Intellectual Property Rights in China

- Results of an industry survey -



GBP INTERNATIONAL
CONSULTING - ENTREPRENEURSHIP - TECHNOLOGY

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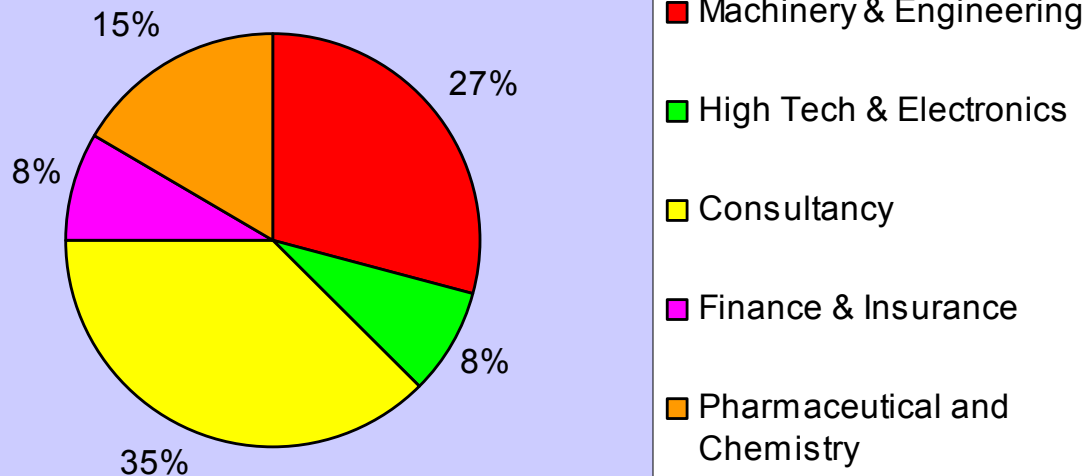
Most western companies manufacturing and trading in China have to manage IPR issues – but seem to „be lost“

- ▶ The IPR issue is omnipresent in the media and seems to be a major complaint/hurdle for business operations in China
- ▶ New laws and regulations as well as international agreements have been adopted by China and legislation is in place to some degree. However, law enforcement seems to be weak
- ▶ GBP conducted a qualified survey among international industry professionals, many living and working in China and herewith publishes the results
- ▶ GBP invites interested parties to engage in a discussion with us on the matter and we look forward to receiving your comments
- ▶ Please contact Volker U. Friedrich at: vf@germanbusinesspool.com

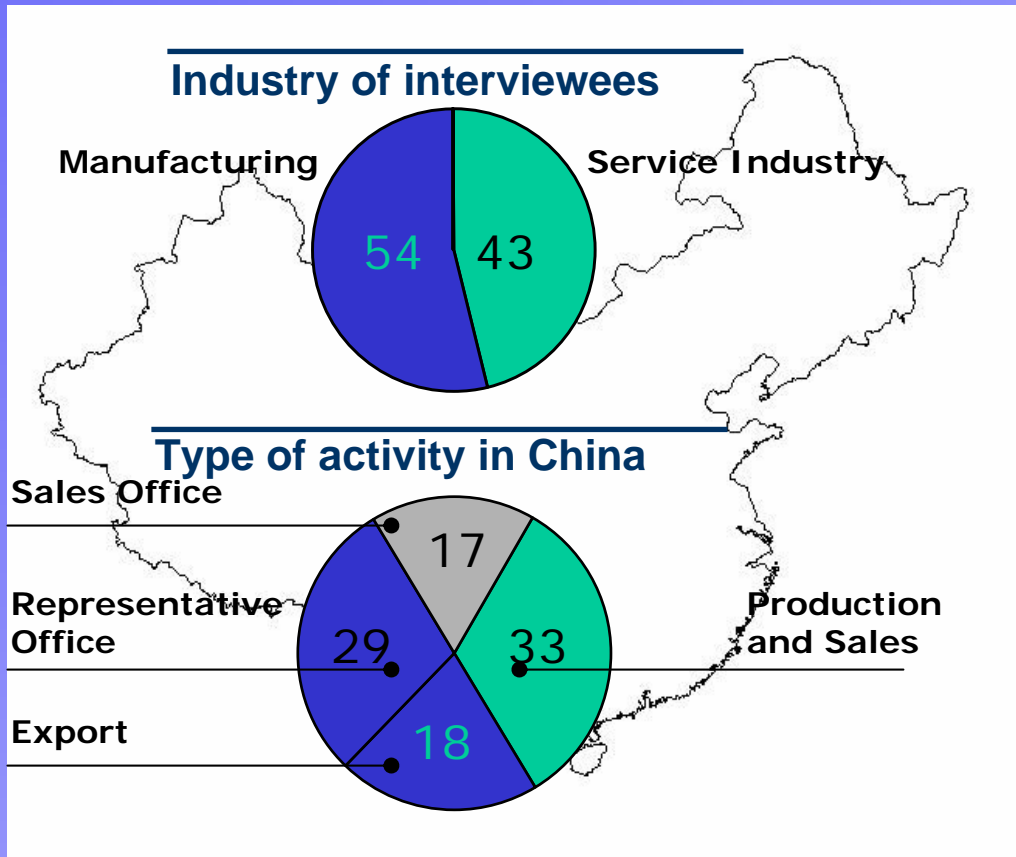


The industry experts contributing to this survey derive their experience from a variety of industry sectors

Respondent's Industry Segments



In total 97 experts with hands on China experience submitted answers to our questionnaire



- Service and manufacturing industry nearly equally distributed
- 1/3 of the companies established production and sales in China
- More than 90% of the interviewed companies are already doing business in China
- 62% of the companies have their own research and development department

The automotive industry has acted aggressively against suspected cases of IPR infringements



- German commercial vehicle manufacturer MAN AG announced that it had filed a lawsuit for design patent infringement and damages against Chinese industrial and automotive group Zonda
- General Motors (GM) filed a lawsuit against China's Chery Automobile Co for alleged piracy of a mini car developed by its South Korean affiliate Daewoo.

The evidence compiled by international organisations is obvious – commercial losses are said to be tremendous

- 2/3 of all identified counterfeit products worldwide originate from China
- 3 to 5 million people are estimated to be working in China's counterfeit industry
- The United States government estimates that global companies lose more than \$60 billion due to counterfeiting and piracy in China
- We are not distinguishing technically and legally between copyrights, patents, trademarks, trade secrets and/or industrial design right
- For the purpose of this survey “IPR” serves as an umbrella term and we do not claim to be legally or academically “watertight”
- The only purpose of this survey is to collect and publish first hand impressions from the market players and those who are working in the field and not on the international (political) negotiation tables

Source: IIPA,, GBP

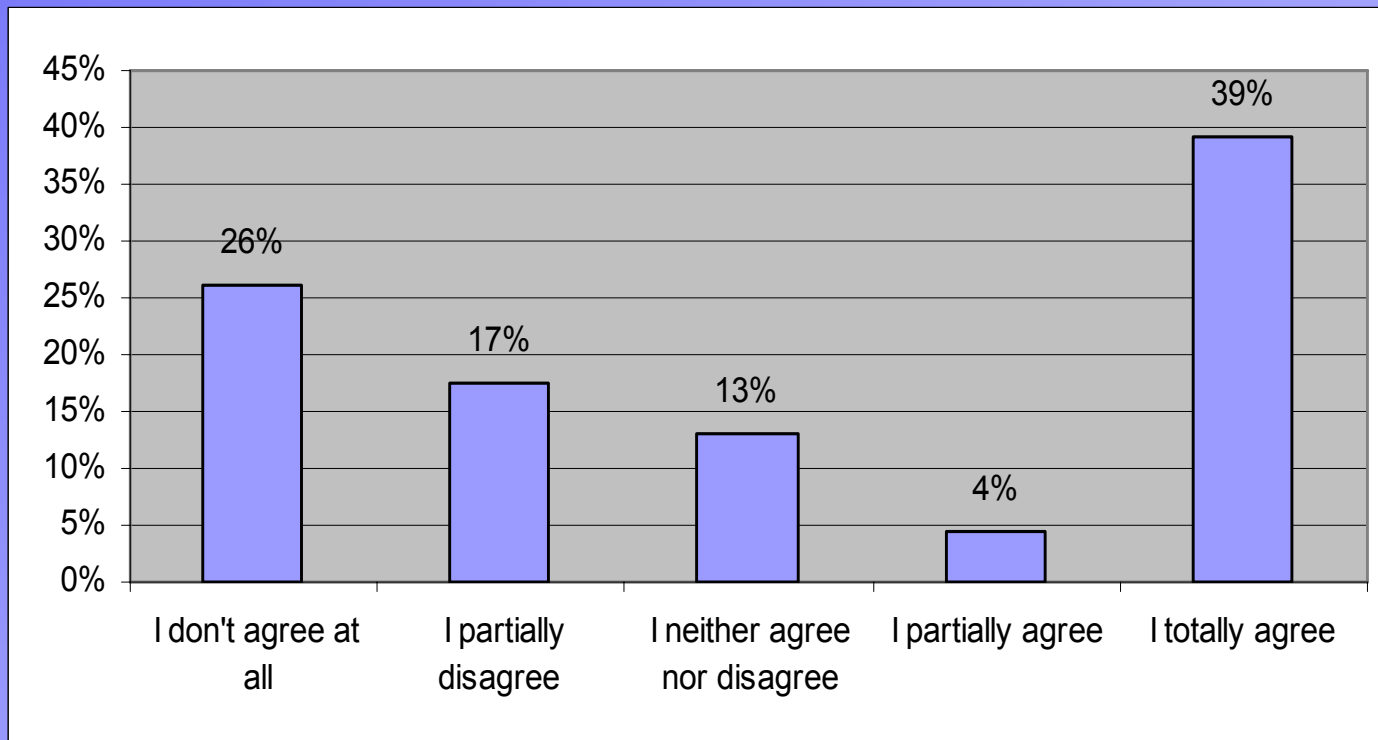
Summary of Key Findings

- Nobody knows how to fight IPR theft in a practical way or form – individual solutions are on a trial and error basis
- There is a overwhelming distrust in Chinese companies and the Chinese market as to the IPR issue (“if it can be copied – it will be copied”)
- Chinese culture does not see IPR theft as an issue and the government does not react fast enough despite laws and international agreements
- Chinese companies are regarded as serious future competitors in markets other than China
- Measures such as reducing the local price or suing Chinese companies are not seen as a solution to IPR theft
- However, the companies do see the IPR theft issue not as a hurdle to enter the market, important is to keep a technology gap while tapping the huge potential of the Chinese market

Part II: Answers to the questionnaire

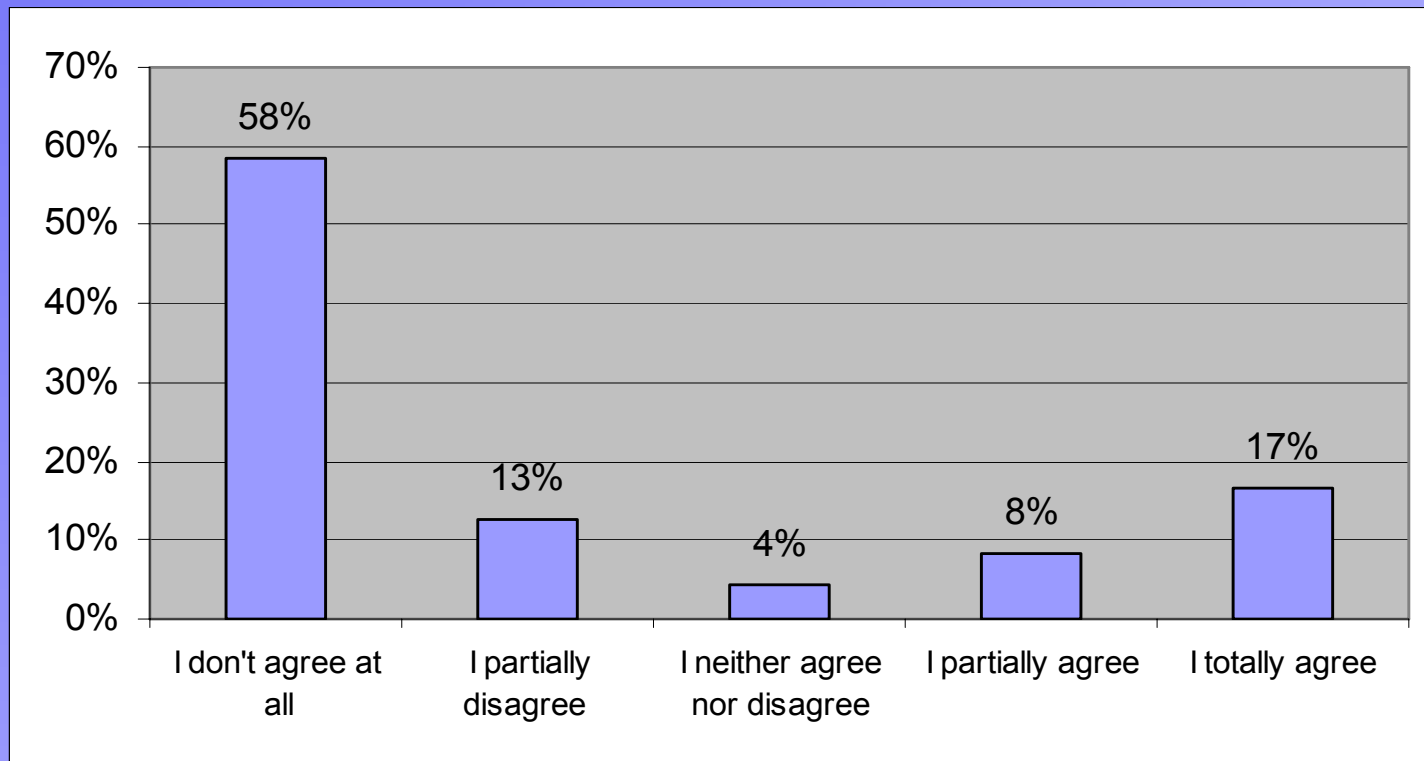
Nearly half of the companies expect that the China business will contribute more than 15% to the overall business

The China business will represent more than 15% of our annual revenue by the year 2010



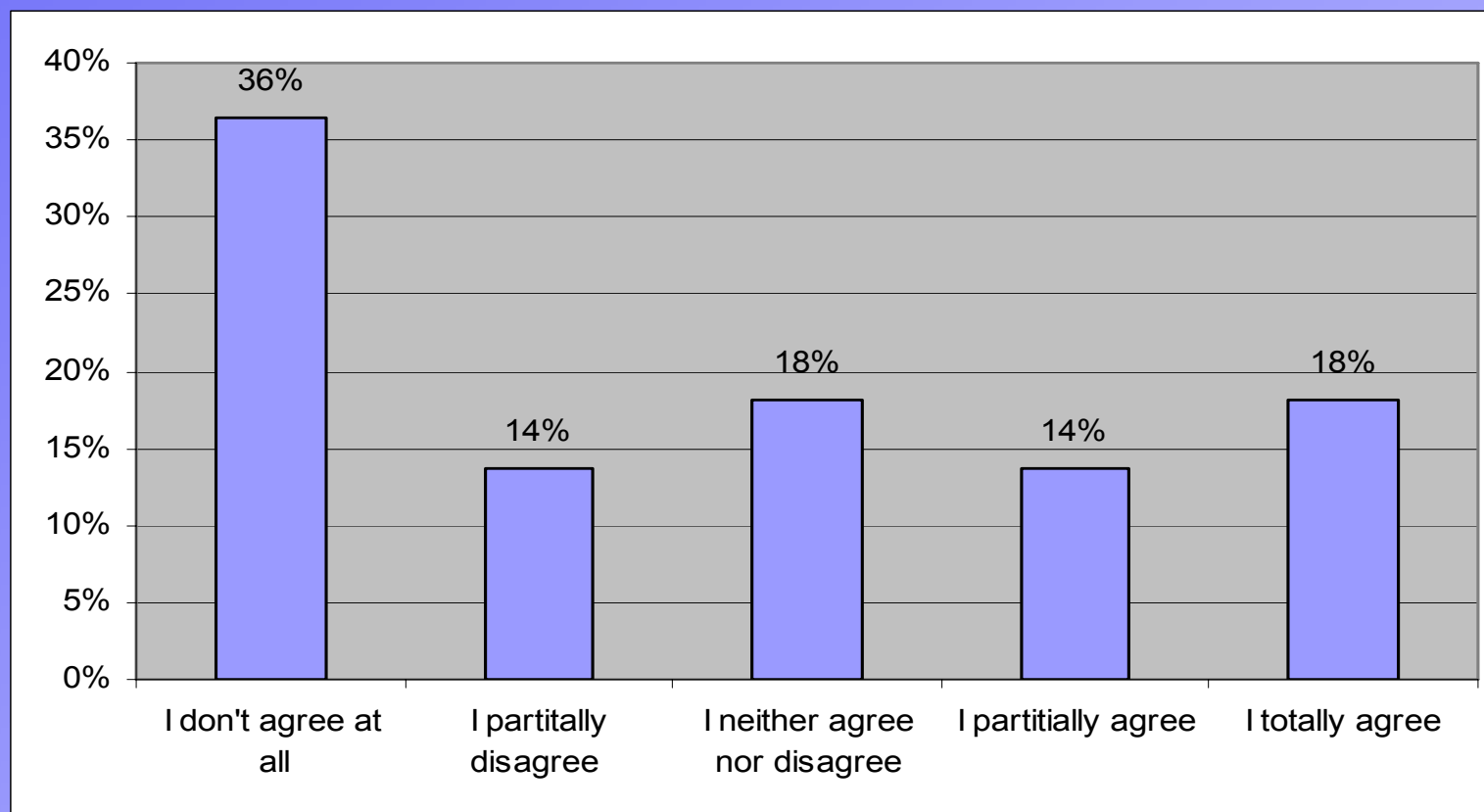
The China adventure was well planned by the majority of the companies – however 25% were just going in by chance

Our business in China began “by chance” and we went forward as and when things happened



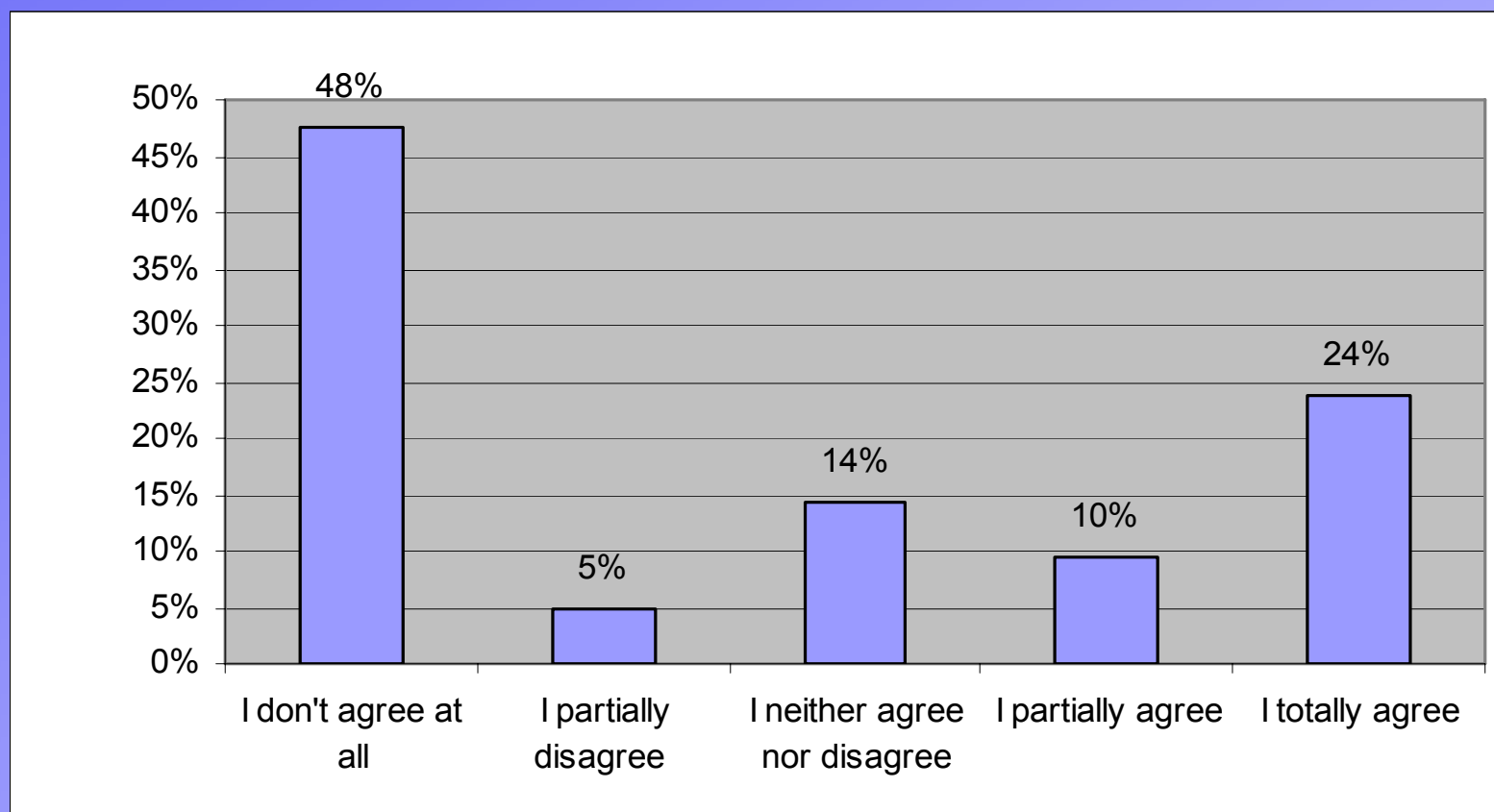
Half the companies of this survey do not see IPR theft as a major hurdle for the business in China

The threat of IPR theft and/or product piracy are a major hurdle for your company's decision to invest more resources into China



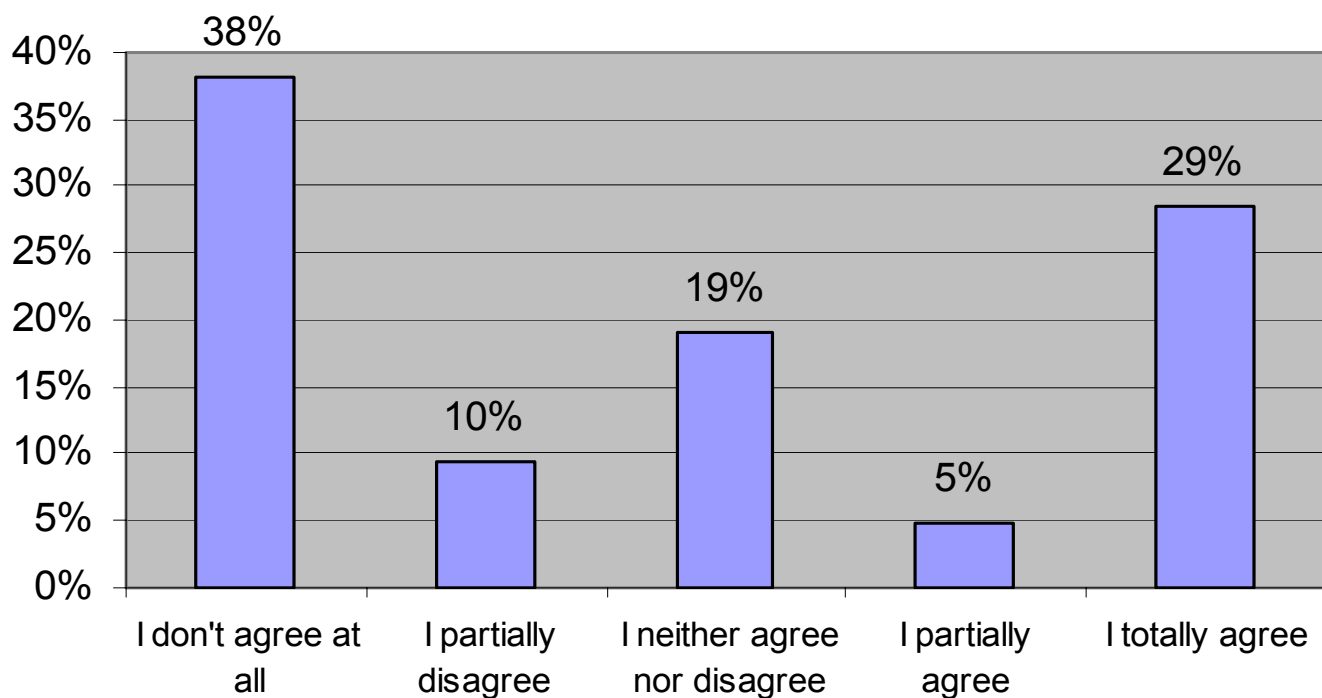
Every third company has known pending cases of IPR theft – but how many do really know about it in the market?

We have presently pending cases of IPR theft and think about how to handle them properly



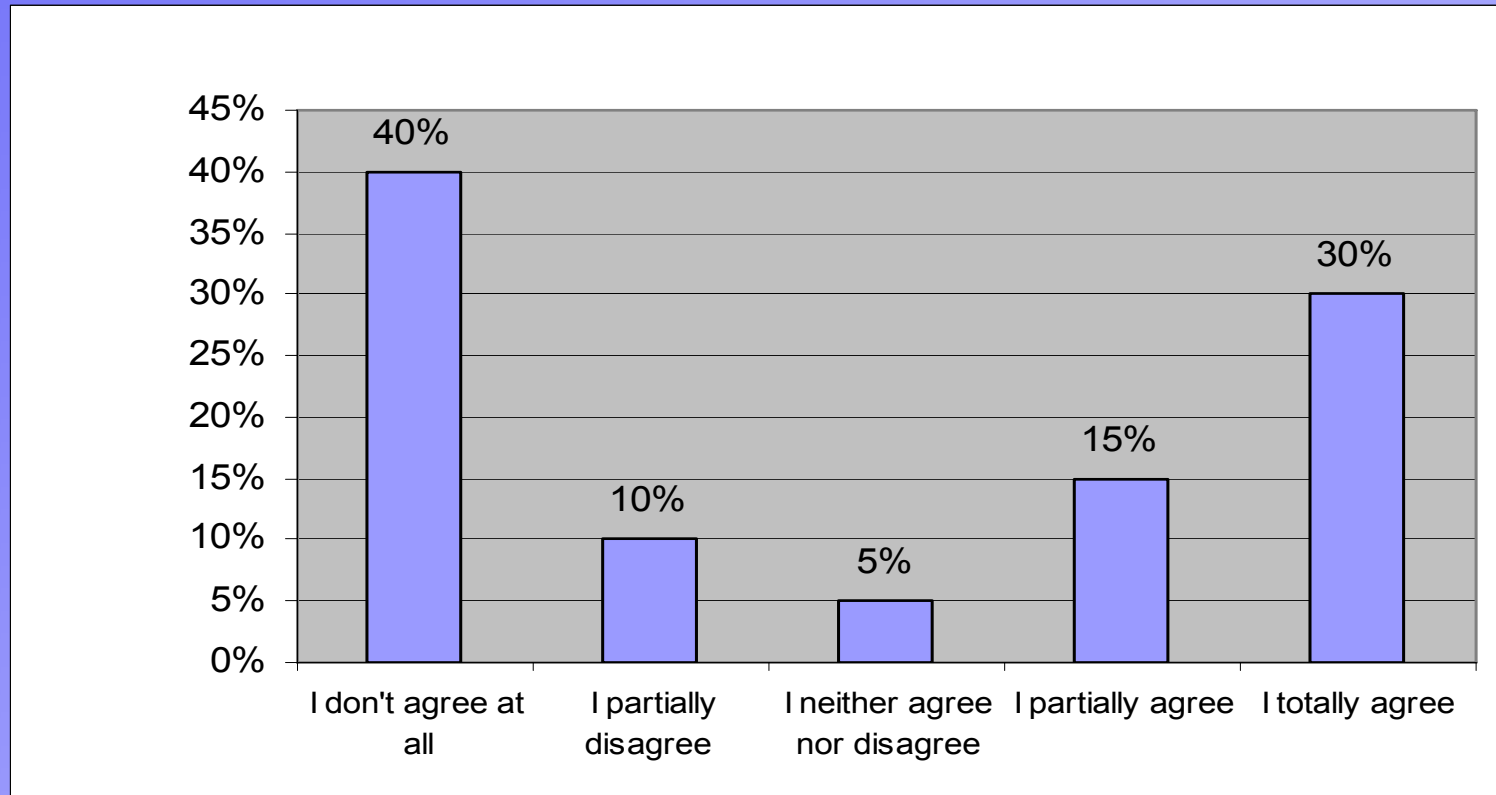
50% of the companies estimate that their IPR theft related losses are less than 10% of the revenue in China

We estimate that the potential loss/damage due to IPR theft is more than 10% of our business in China



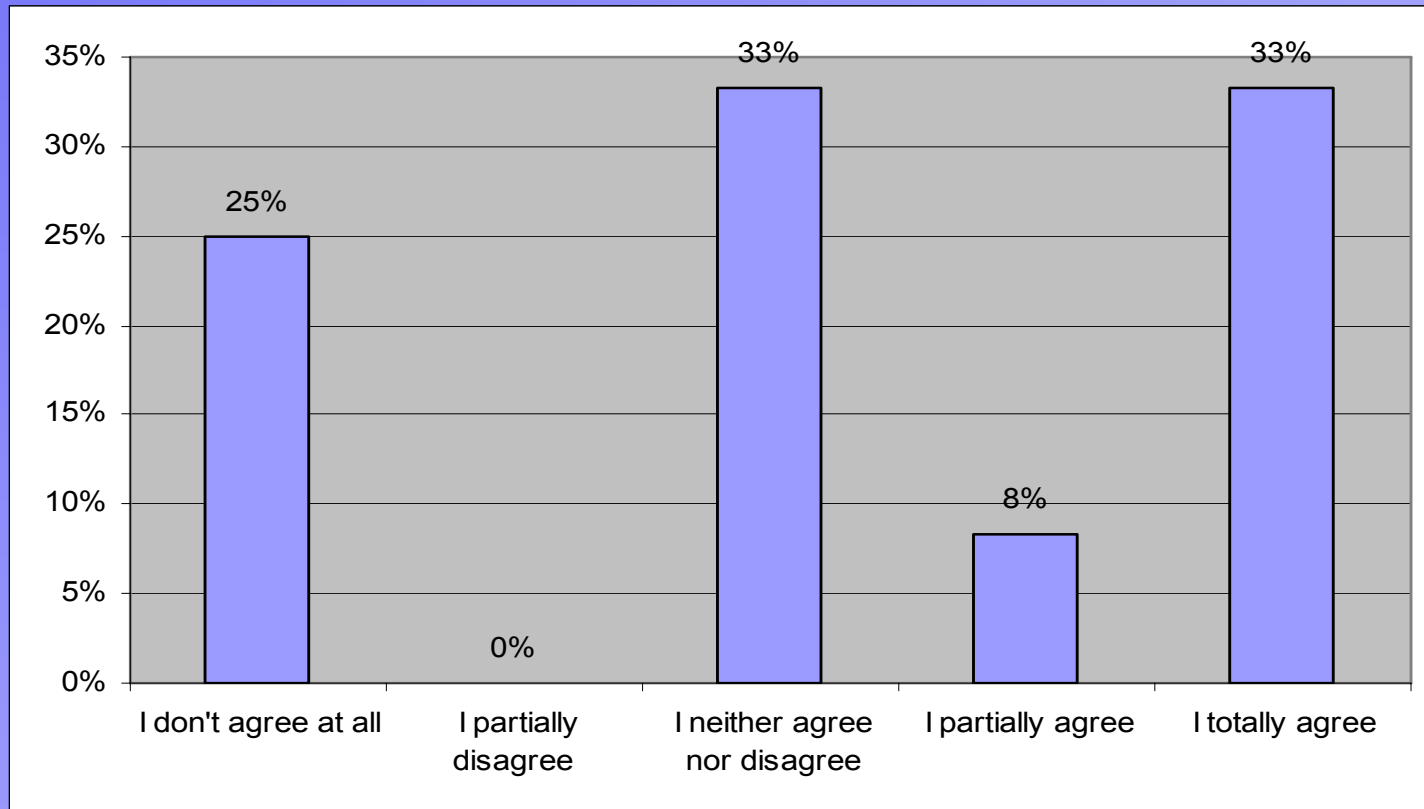
Proper law enforcement is critical – 50% would expect more than a 20% increase in business

We estimate that our business in China would increase by more than 20% if law enforcement would be as strict as in the EU



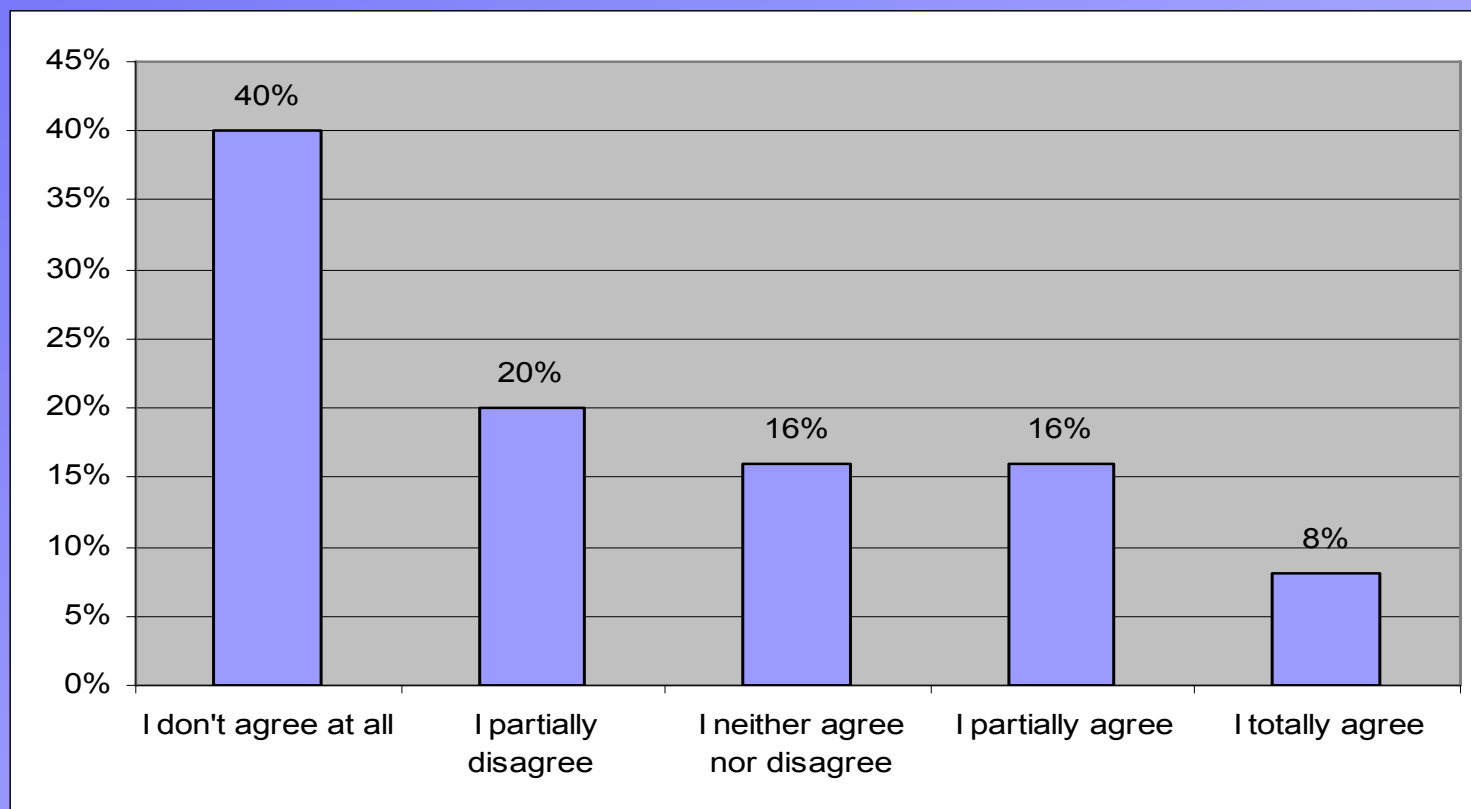
The companies are undecided whether to engage legal support if they do identify cases of IPR theft

If and when such cases happen we intend to engage experienced lawyers in China to sue the other party



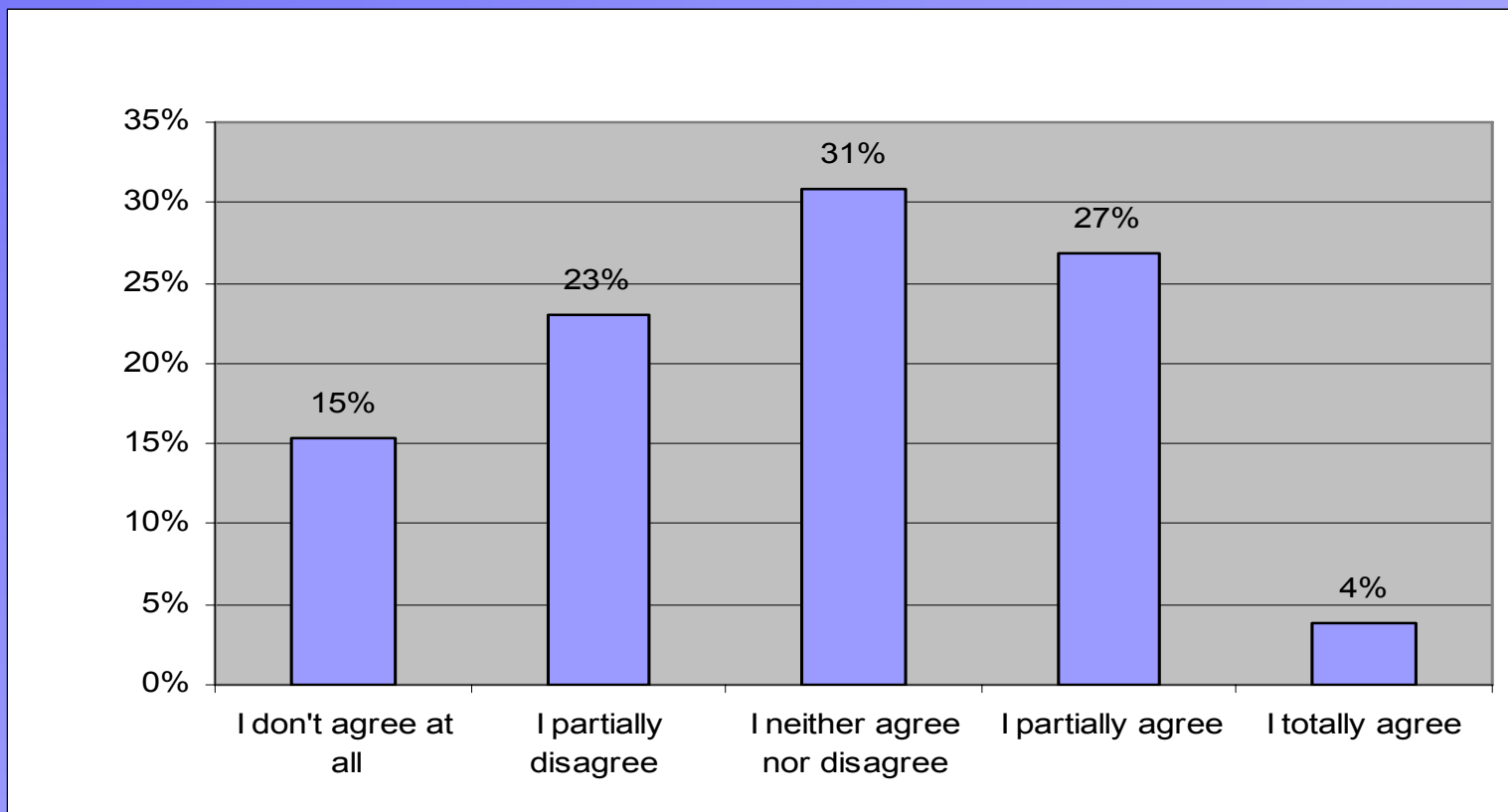
60% of the respondents believe that legal action will not protect their cases in China

We expect that such legal action will have a satisfactory result in a reasonable time and prevent future cases by other Chinese parties



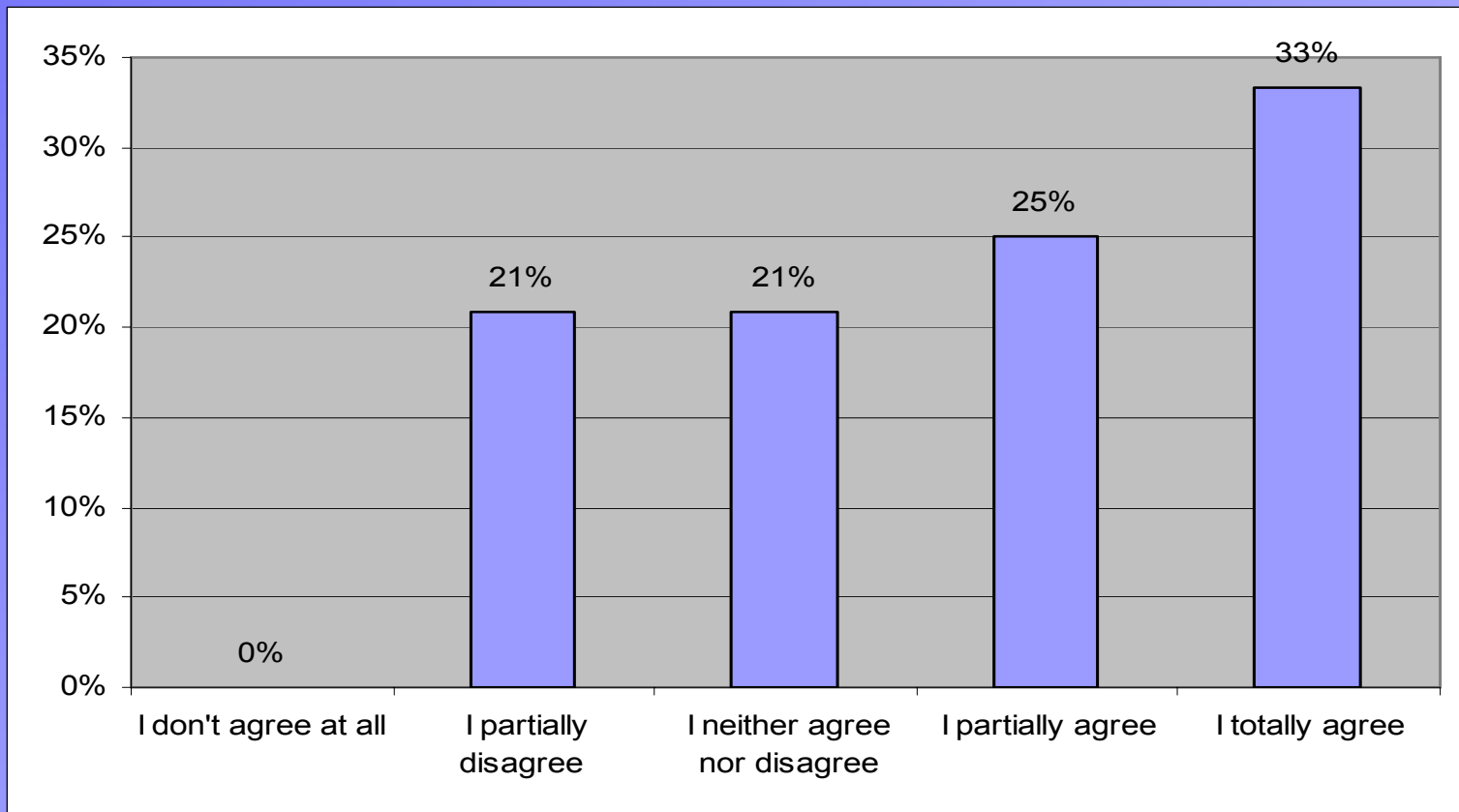
96% believe that the IPR theft issue will not be resolved by the year 2020 – and do not trust the enforcement

We expect that the Chinese government will enforce the WTO-IPR regulations and the problem of IPR theft will not exist any more by the year 2020



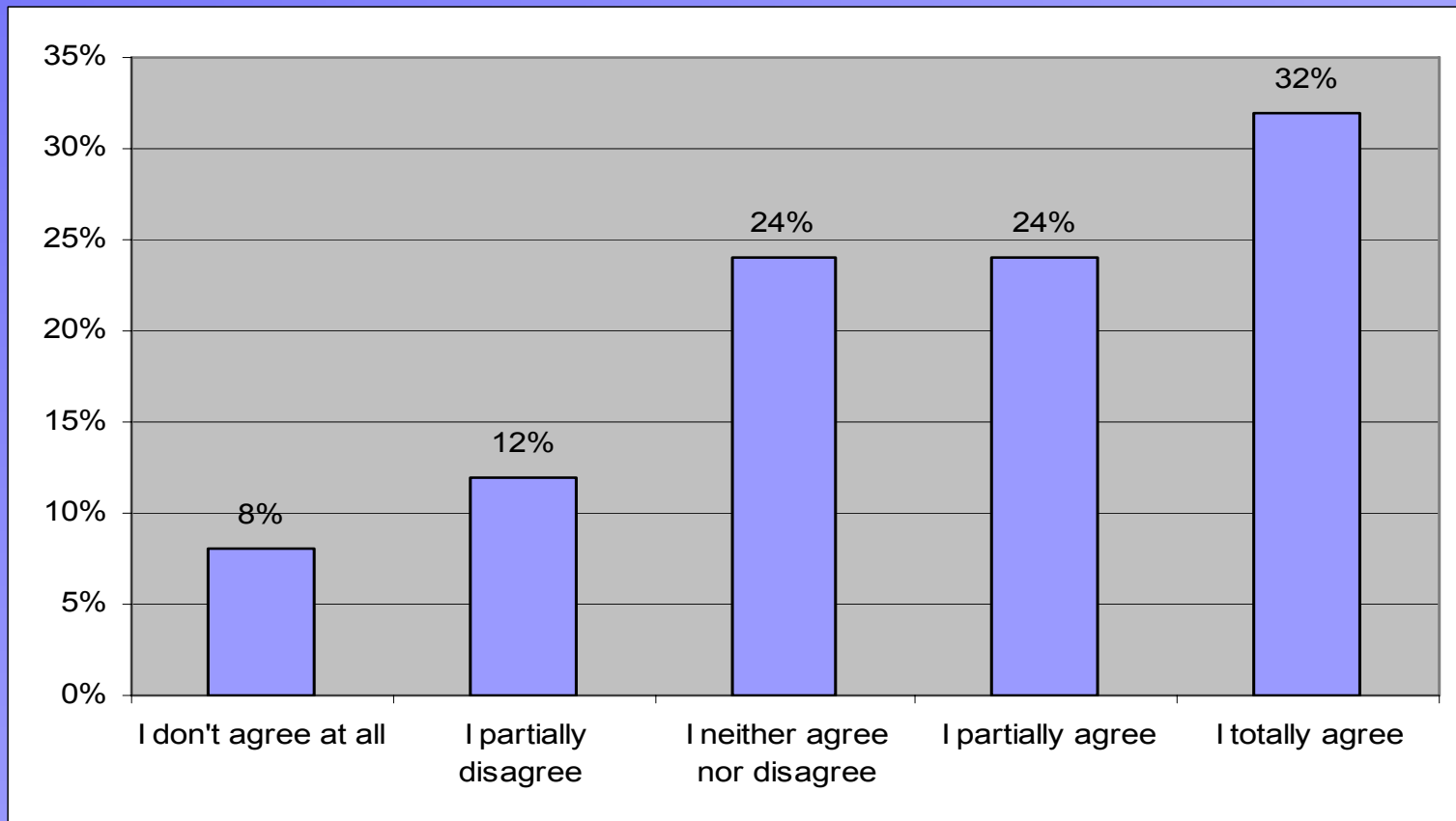
IPR theft in China cannot be overcome – the majority believes the business culture in China will not change

We believe the “problem” cannot be controlled as the Chinese culture does not see IPR theft as an issue and copying will continue to be a problem in China



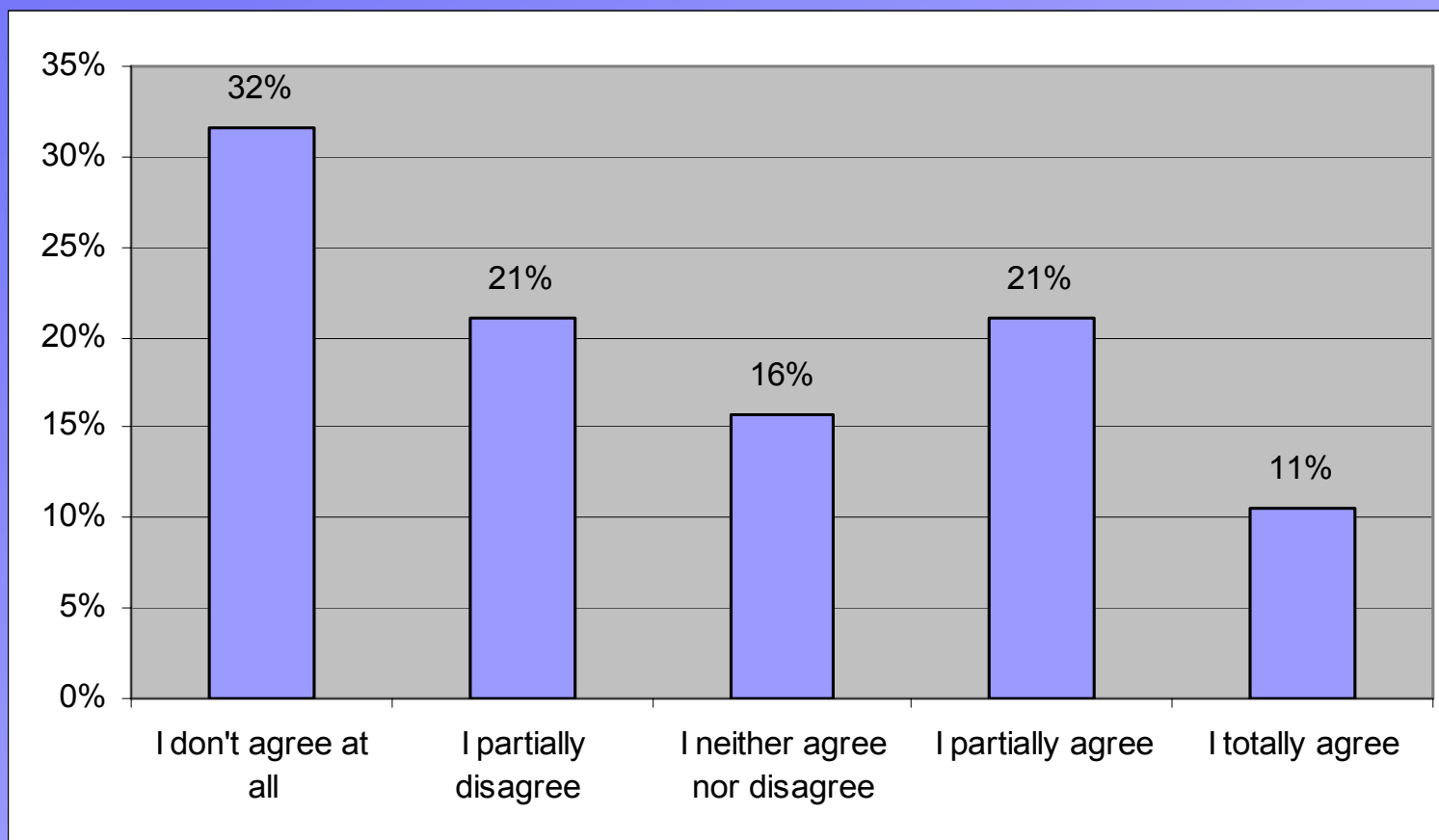
Innovation and technology seriously originating from China may bring a new perspective

We only see the problem to be addressed seriously if Chinese company invest themselves into R&D and start to appreciate the economic value of IPR



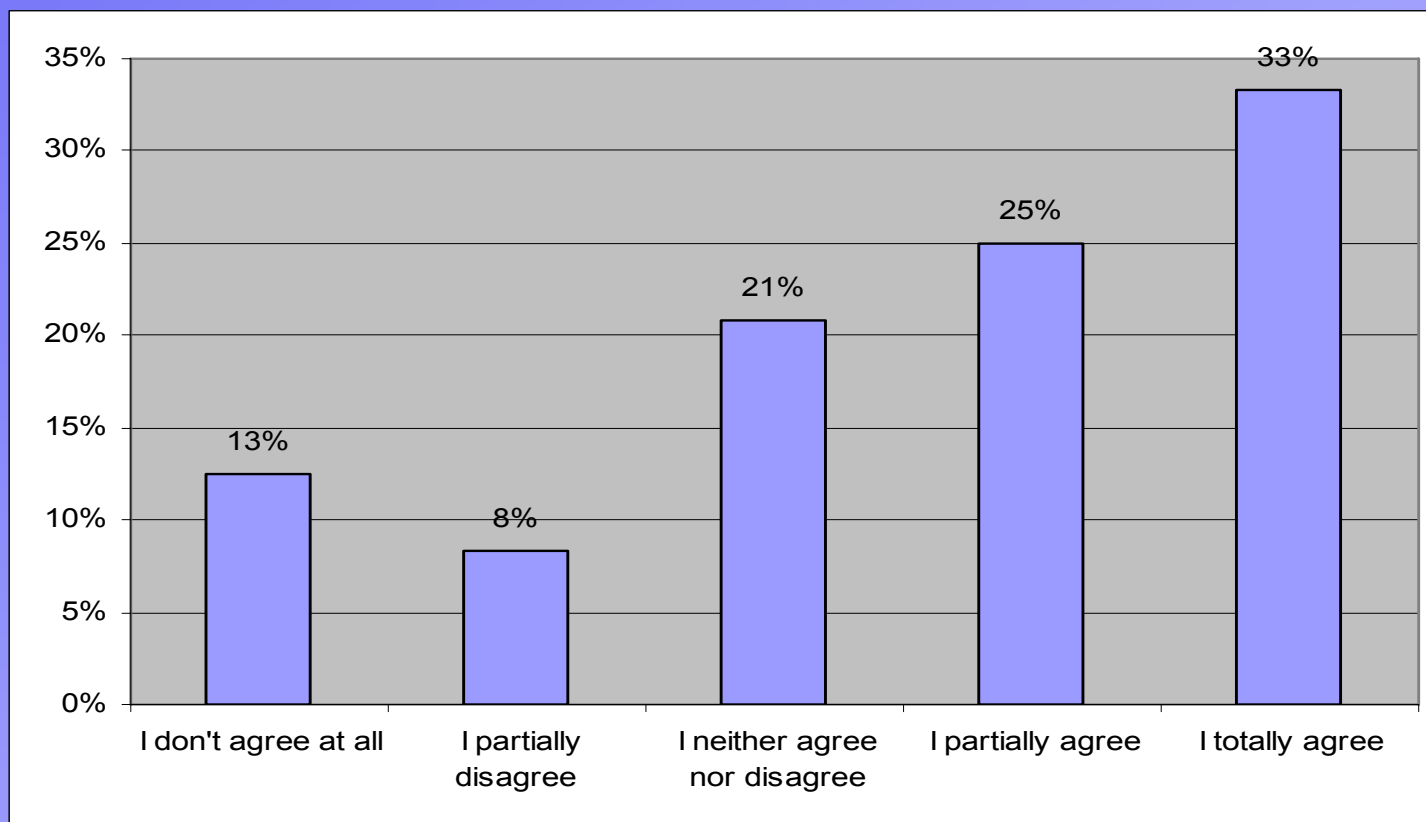
Half the companies state that their local management is not able to solve the problem of IPR theft

Our China managers have found creative ways to prevent IPR theft



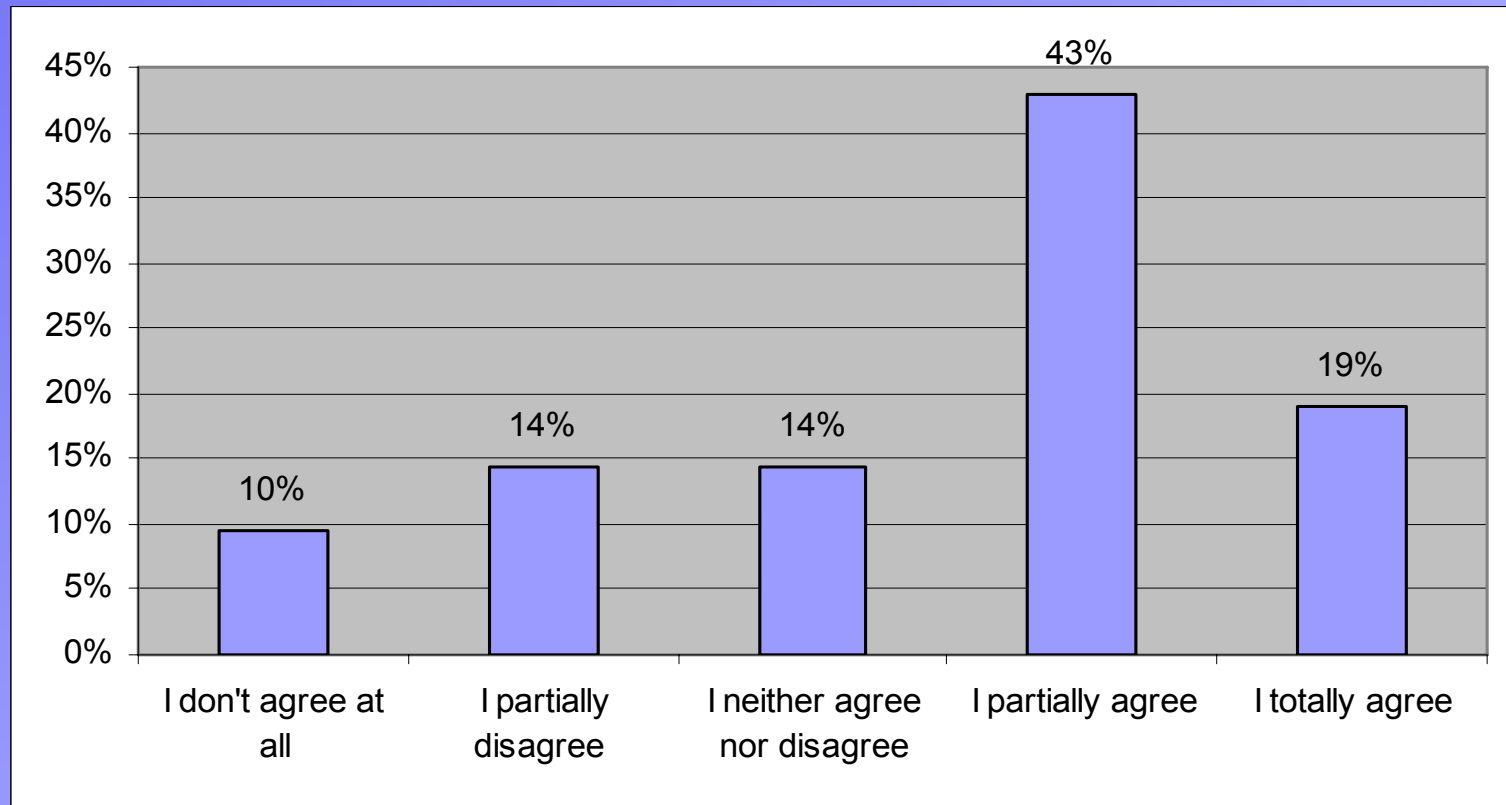
The majority of the respondents is certain that a 100% owned subsidiary ensures better protection than any Joint Venture

We believe a 100% owned company gives us reasonably good protection compared to a Joint Venture



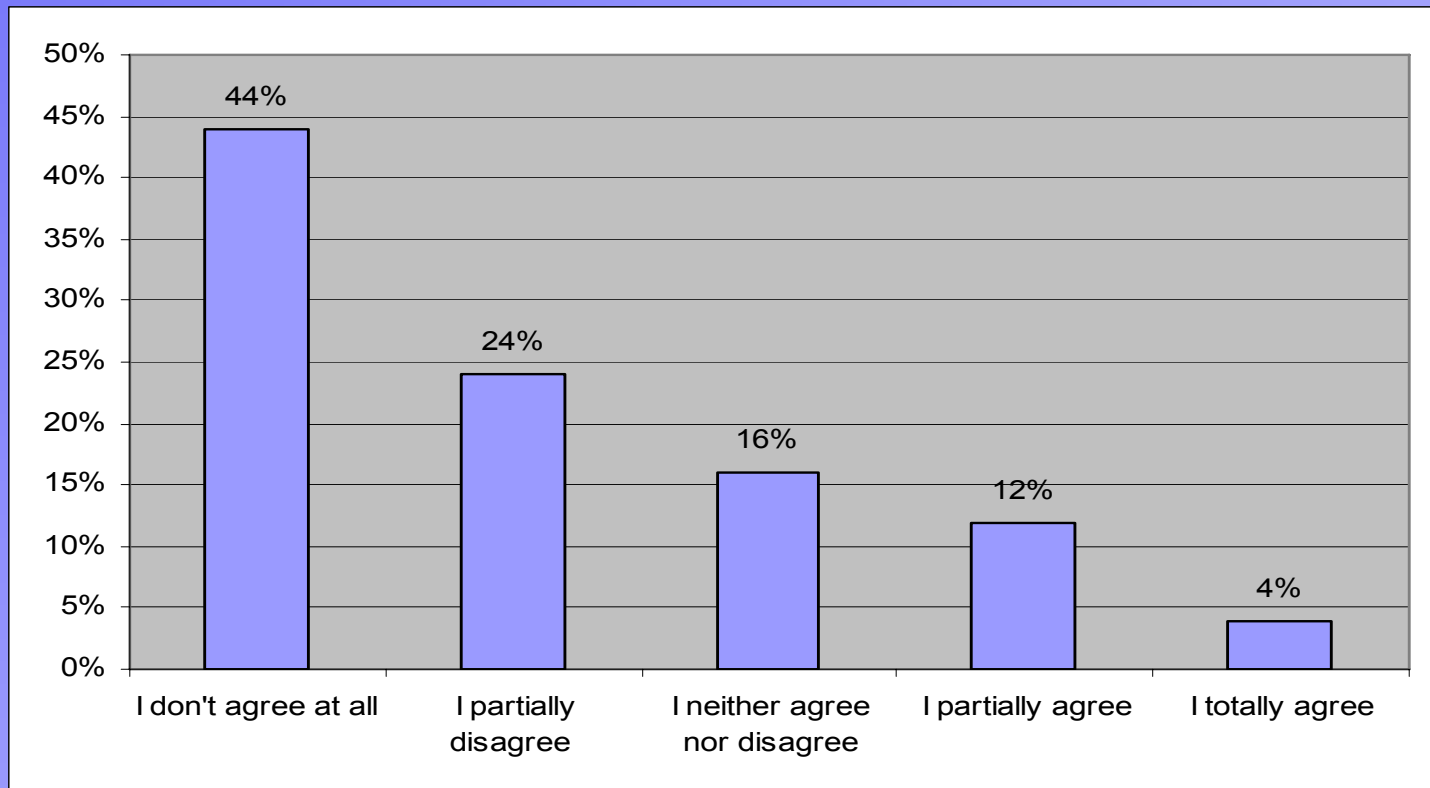
More than 60% believe that the chance of being betrayed is highest in China (compared to other countries)

The chance of being betrayed by your Chinese partner is generally higher than in other markets



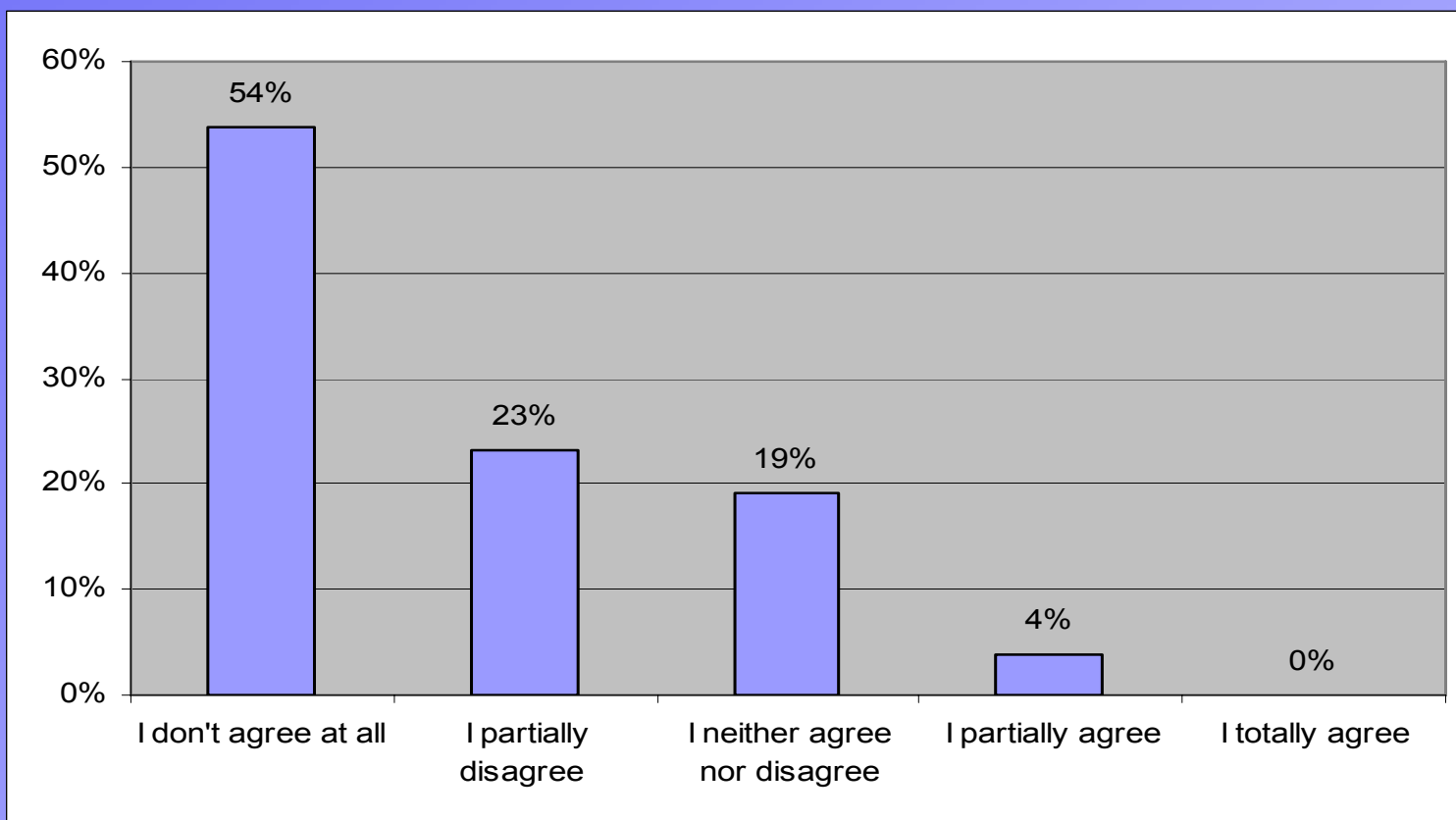
75% do not believe that prices should be reduced in order to erode the margins of the counterfeit business in China

We should reduce our prices in order to capture the local market and make copying less attractive



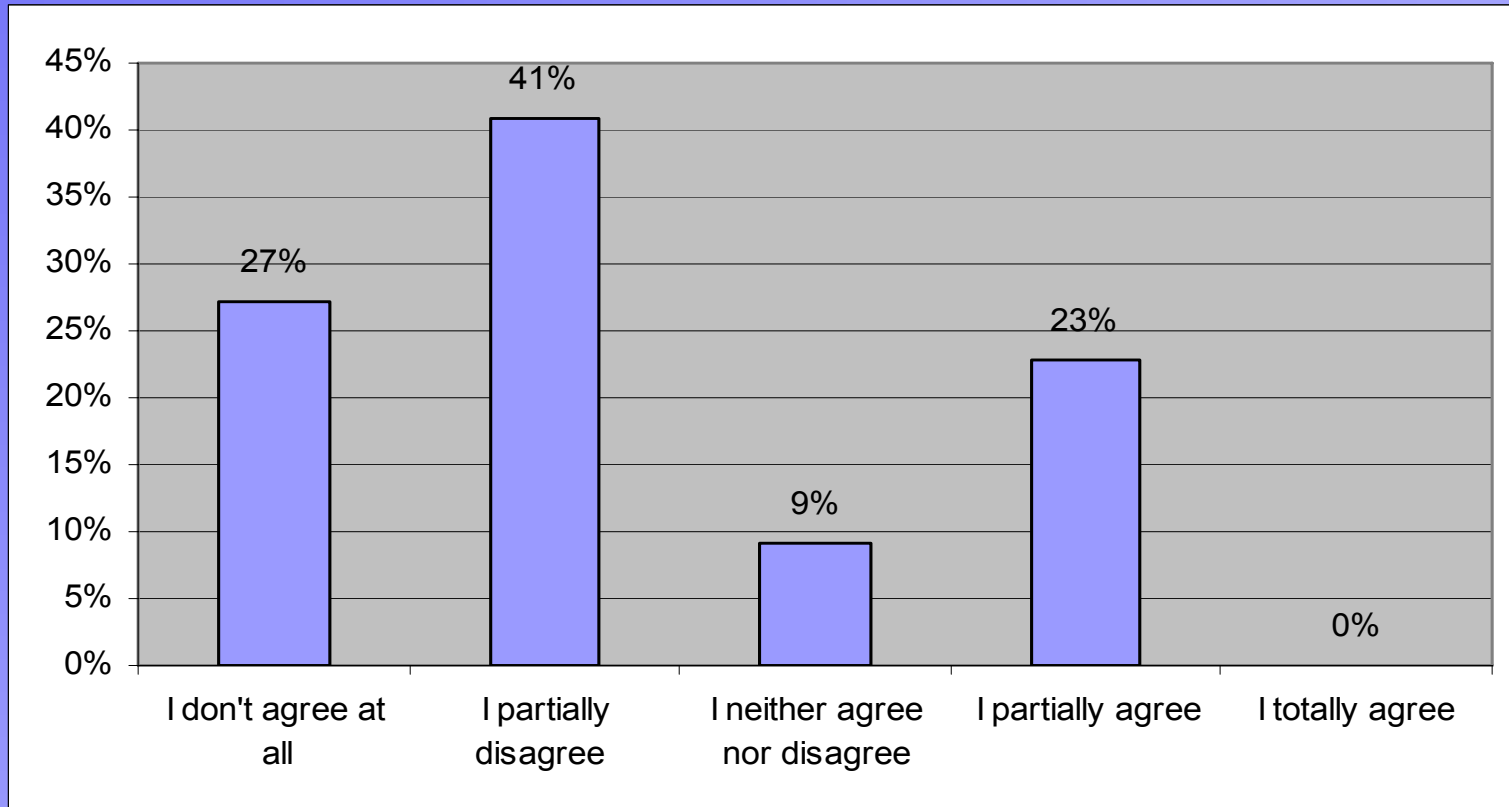
75% of the respondents expect to be cheated by Chinese companies

The majority of the Chinese companies respect IPR and are following the laws



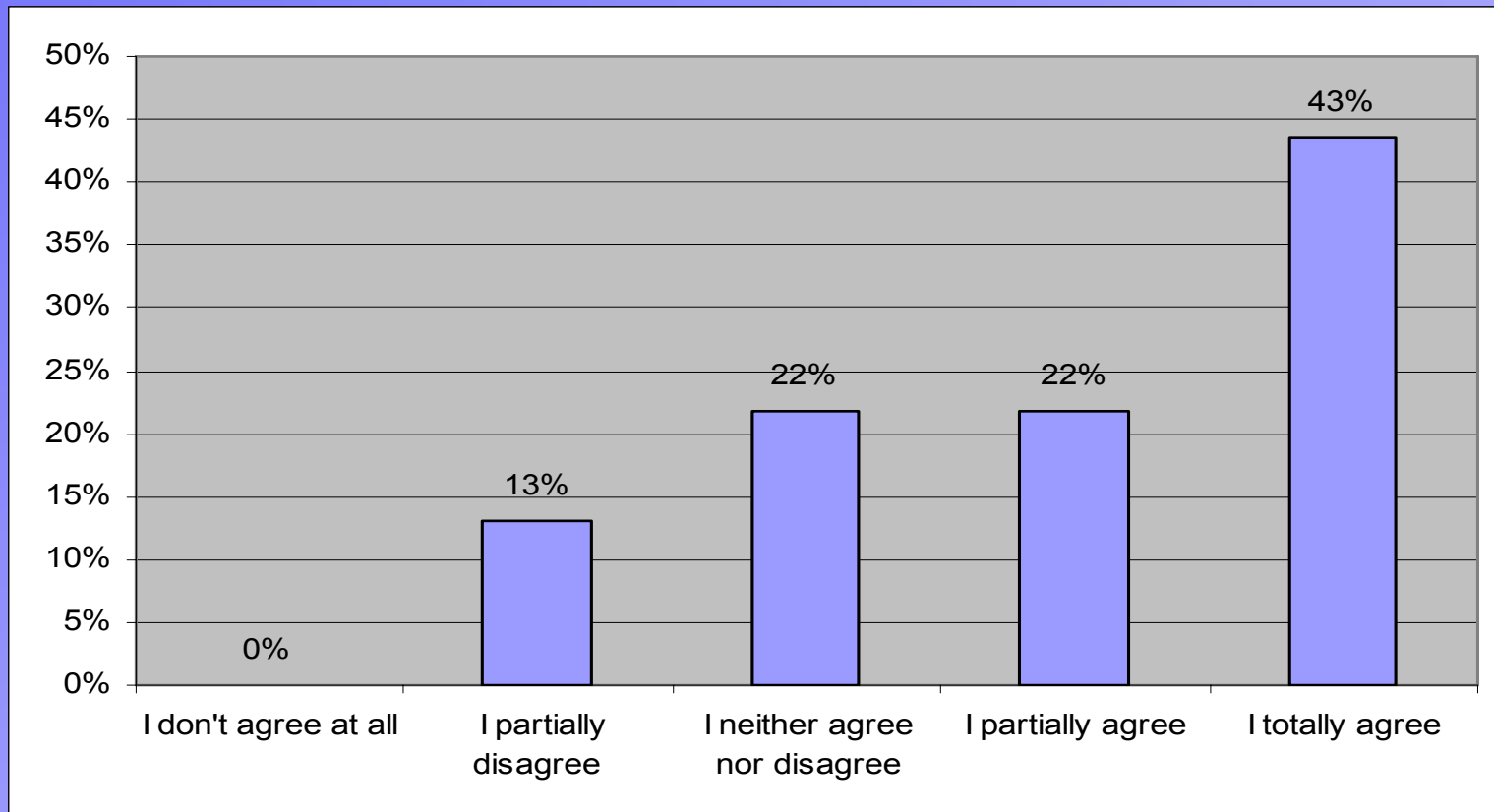
The respondents feel more secure with private firms rather than with state owned companies

The chances of IPR theft is higher with privately owned companies rather than with state-owned companies



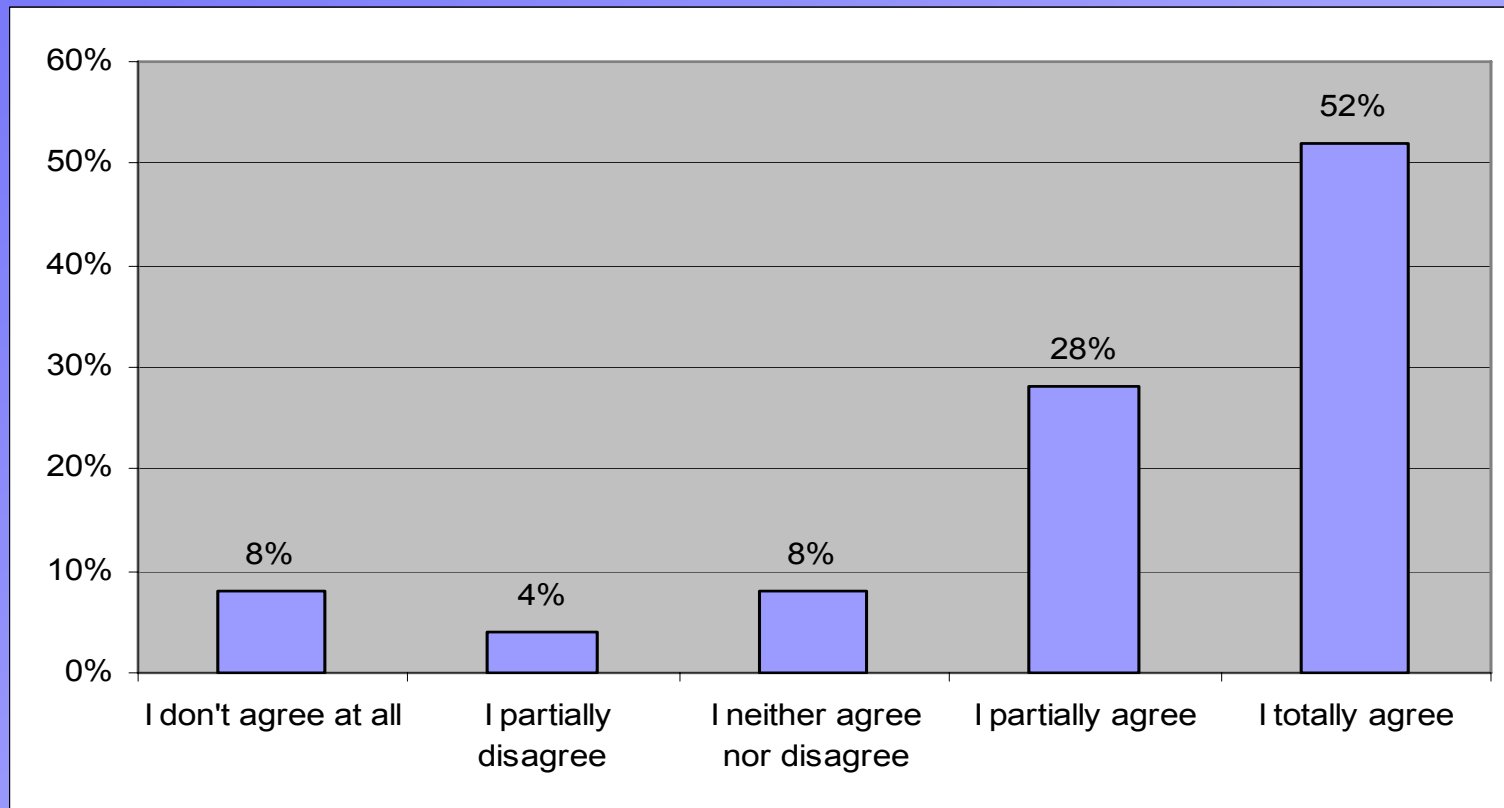
65% believe that the technological advantage can be kept by fast development and investment in R&D

We believe we can keep our technological advantage by a fast development pace of our technology and the technology gap will continue to exist



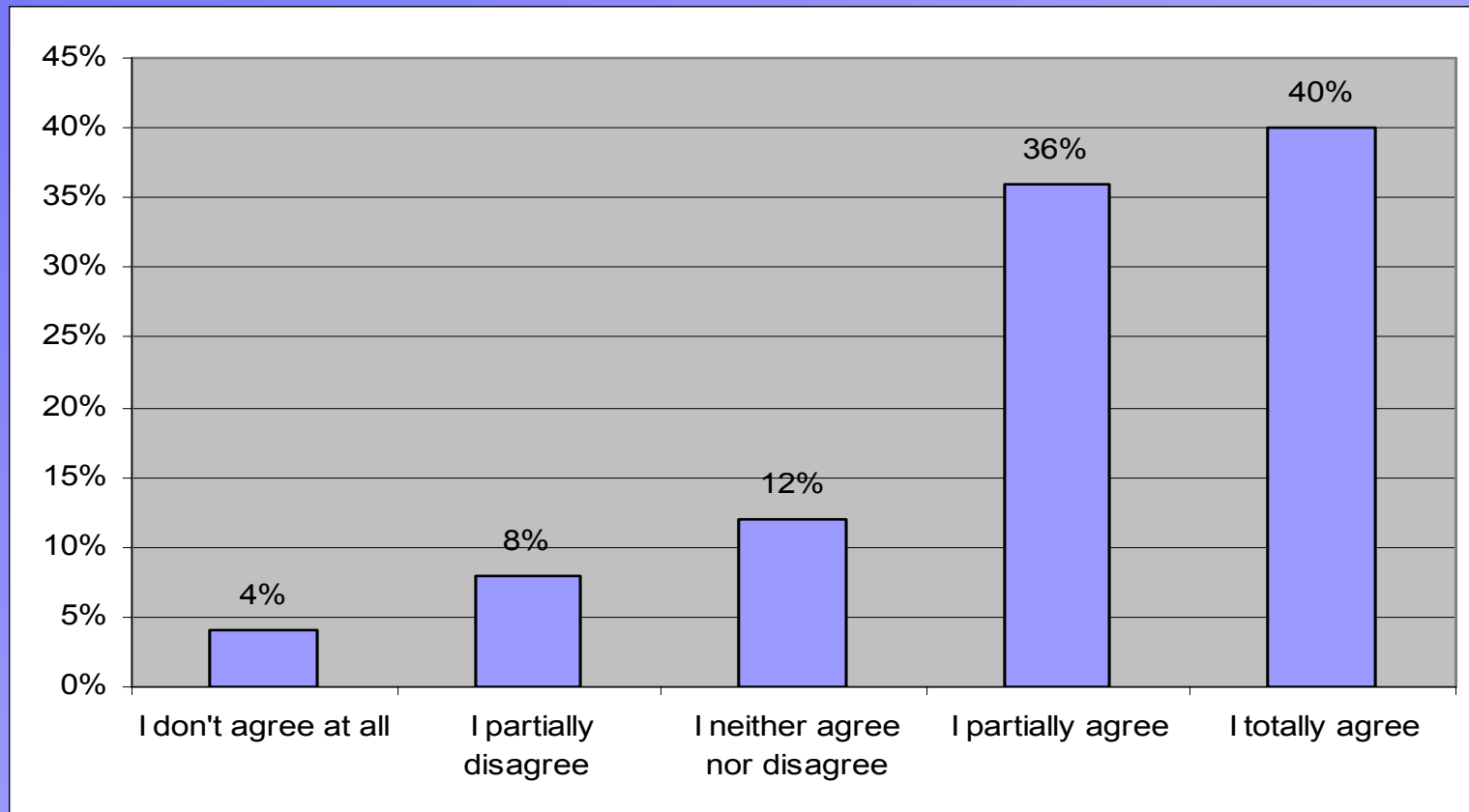
Chinese companies do not need to steal „your“ technology – they will find also other ways – say 80% of the respondents

If we stay out of China, Chinese companies will find other ways to develop comparable technology



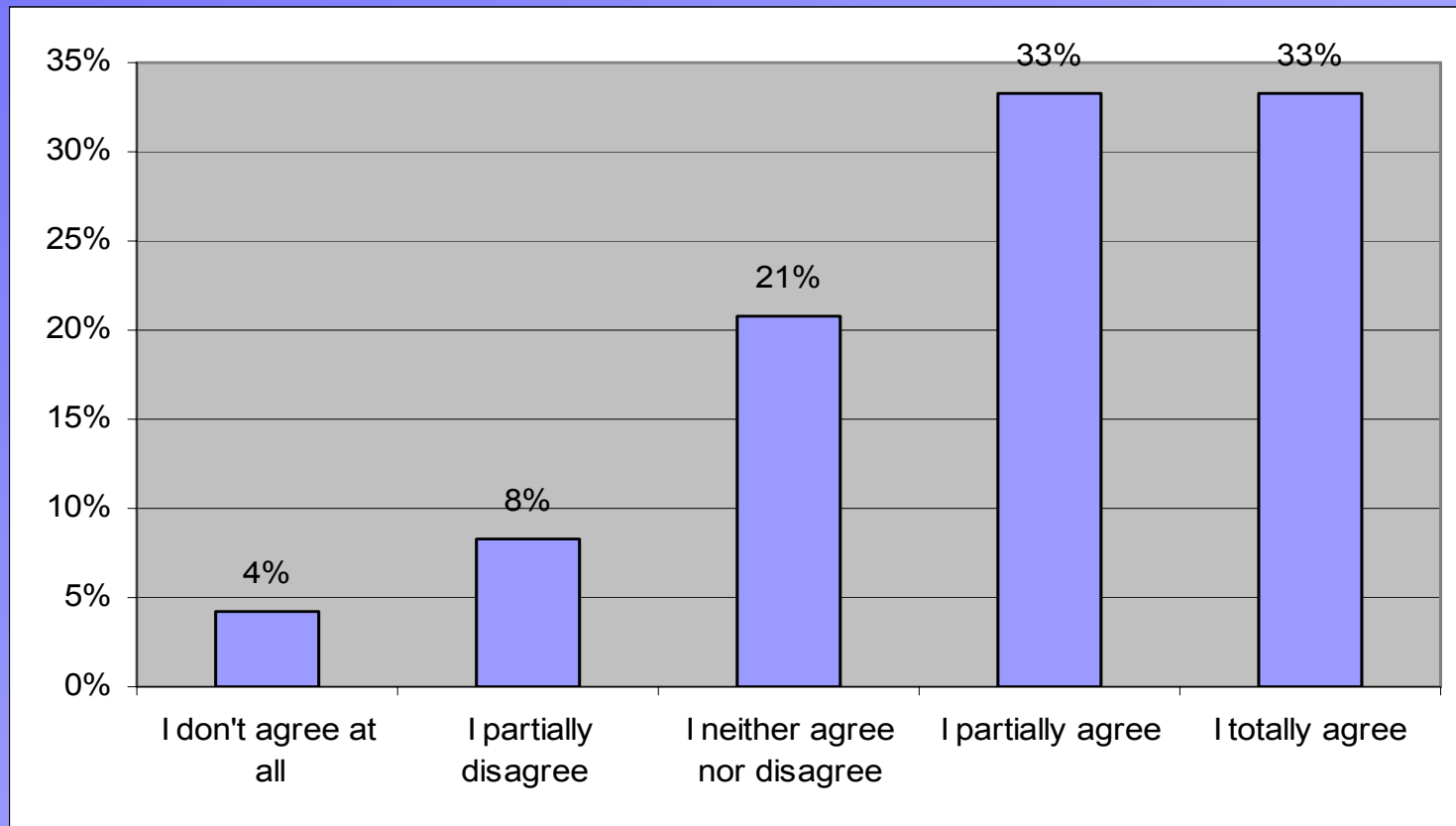
Nearly 80% believe that Chinese companies will become serious competitors in other overseas markets

We expect the Chinese companies to become serious competitors of ours in markets other than China



Price is the key purchasing parameter in China – and IPR will be ignored if the price gap is big enough

If the price difference is more than 25% (original compared to copy) the clients in China will go for the cheaper solution no matter what



We wish to thank all individuals who took the time to respond to our questionnaire



Wheresoever you go, go with all your heart

Confucius

Chinese philosopher & reformer (551 BC - 479 BC)