

R & P

*Supply chain, distribution and
e-commerce in China; legal aspects*



Client-focused & Service-oriented

About us...

**R&P is a Chinese law firm
with 35 staff in SHA & BJ
under Dutch management,
supporting international business
with support in and all over China**

Why is China important?



China: Sourcing capital of the world

- Availability in abundance
- Relatively high quality
- Good infrastructure / logistics
- Costs are still lowish (but rising fast)

China: Market of 1.4 billion people

- World's largest luxury market (2013)
- World's largest e-commerce market (2013)
- Urban Incomes rising 15% per year
- 630 million middle class consumers by 2022
- 1.4 billion middle class consumers by 2030

Sourcing: Dealing with Chinese Factories & Trading Companies



Commercial issues:

- Quality , quality, quality
- If it is too good to be true...

Legal issues :

- Option 1: negotiate very favorable commercial terms (delivery & quality control before delivery) or
- Option 2: Due diligence + legal protection (i.e. a contract, under Chinese law)

Legal Structures for Foreign Companies to Sell Retail in the Chinese market

Cross-border e-commerce

With Chinese distributor

Retail network

E-commerce

- **Cross-border e-commerce**
 - ✓ Goods from outside China
 - ✓ Trademark must be in order
 - ✓ Customer support in China
 - ✓ Lower taxes for import
- **Domestic e-commerce via a Chinese subsidiary**
- **Using Chinese distributor**



Dealing with Chinese Distributors / Counterparts



Commercial issues :

- Everyone has a network (Guangxi), but it's not always a good one
- There is a lot of competition (especially for the best distributors)
- Distributors have their own agenda

Legal issues :

- You will need a good contract, under Chinese law, and (preferably) in Chinese
- Enforceability is a relative concept in China
- The contract is the basis for further negotiations (expect circumstances to change)

Establishing a Retail Network in China



Difficult?

Requires resources?

Impossible? > Case study in the fast-fashion industry:

- **Q1 2013: Shanghai rep. office (foot on the ground)**
- **Q3 2013: Shanghai wholly-owned subsidiary**
- **Q1 2014: First Shanghai branch**
- **2014: 30 new branches all over China**
- **2015: 50 new branches all over China**

Now: 90 branches, presence in 50 cities (1st tier, 2nd tier and 3rd tier), 300+ employees, profitable

Key Issue when selling in China: Trademarks



Key issues:

- Trademarks are crucial to sell in China (many counterparts will refuse working with a company who has no registered trademarks)
- Chinese speak Chinese > so get Chinese trademarks as well
- Trademarks-squatting is rampant
- Trademark infringement is common
- Filing takes time, and China's system is special

Take home lesson: IP strategy should be one starting point



Remember the Key Legal Aspects to Sourcing from and Selling into China:

- ① When sourcing, due diligence and legal protection (contracts) is crucial to long-term success
- ② When selling, there are lots of options > make sure that you choose the right one
- ③ Whatever you do, ensure the right trademarks are registered in the right way

Your legal support in China



Please contact:

Maarten Roos,
roos@rplawyers.com
+86 18621196686

Robin Tabbers
tabbers@rplawyers.com
+31 (0)6 26664421

www.rplawyers.com

About R&P China Lawyers...

- *Corporate / Investment*
- *Commercial Transactions*
- *Employment*
- *Intellectual Property*
- *Taxation / Customs*
- *Dispute Resolution*