

PROTECTING YOUR IP IN CHINA:

Basic Steps & Recent Developments

在中国知识产权之保护:

基本步骤及当前变革

Paul Jones

Jones & Co. 钟保禄律师事务所 Джоунс и Ко.

Sean X. Zhang

Blakes

LES Toronto
December 11, 2008

简介 - Introduction

- Many foreigners believe that their intellectual property cannot be protected in China
- Consequently they are reluctant to register and/or enforce their IP rights in China

简介- Introduction

- China has IP laws that meet international standards
- Chinese courts do enforce IP rights, and particularly IP rights held by foreign parties
- To a large extent the threat to IP from counterfeiters can be costed and managed

简介 - Introduction - 假冒伪劣 - Counterfeiting

“... a tumultuous period in which the rigid hierarchies of colonial times finally dissolved, replaced by the more fluid social order of a democratic commercial society. Self-fashioning and self-advancement slowly became a viable way of life...”

Stephen Mihm, *A Nation of Counterfeiters*, p.24

法院及知识产权的实施

Courts & IP Enforcement

Lego Case - 英特莱格公司 (INTERLEGO. AG) v. 可高 (天津) 玩具有限公司, Beijing 2002

Lego was successful under design patent and copyright law

Beijing Higher People's Court stated:

可高公司的产品确有抄袭之嫌，但同时也应看到英特莱格公司的上述玩具积木块艺术创作程度确实不是很高，与典型的实用艺术作品在艺术创作程度上尚有一定差距，一审法院出于平衡利益关系的考虑，作出上述认定是合理的，本院予以支持。

(While the Kegao Company's products really have the **smell of plagiarism**, we should also consider that the **level of artistic creation** in the English Interlego Company's products **is not really very high** and there is a certain disparity between it and typical practical works of art. The court of first instance struck a balance a reasonable balance of the interests and we will support it.)

专利制度 — Patent System

- Two major revisions: 1992 and 2000
- Third revision expected in 2008-2009
- Signatory to all major international treaties
 - TRIPS
 - Paris Convention
 - PCT
- Member of WTO
- Pressure from western countries to conform with international rules
- First established about 20 years ago

专利申请 — Applying for Patent

- First to file
- Absolute novelty – **no grace period, but**
 - does not apply to certain disclosures outside China
 - proposed Amendment to remove this exception
 - disclosure at certain exhibitions etc. exempted
- Three types of patents
 - invention (substantive examination)
 - **utility model** (formality only)
 - can apply simultaneously for invention and utility model patents
 - possible to “switch” from utility model patent to invention patent
 - design (formality only)
 - similar to industrial design registration in Canada
 - color can be a design element
- PCT route or direct filing
 - translation requirement

专利权 — Patent Rights

- Invention and utility model patents
 - make, use, offer for sale, sell or import
 - invention: 20 years
 - utility model: 10 years
- Design patents
 - make, sell or import
 - proposed Amendment to add “offer for sale”
 - 10 years

专利法/条例修订案 –

Proposed Amendments

- Permission required for filing foreign application
- Absolute novelty rule
 - codify prior **public** use defense
- Duty to disclose direct and original sources of genetic resources
 - if completion of invention required use of the genetic resources
- “Switching” from utility model to invention patent
 - Codifying recent Supreme People’s Court case
- Increased limit of statutory damages
 - up to RMB ¥1million, or
 - ~ CAD\$180,000 at \$1 = ¥ 5.5

商标在中国 – Trade-marks in China

- First-to- File system, uses Nice classification
- Currently three years for non-contentious registrations
- Party to the Madrid Protocol – but cheaper to file directly
- Must be well-known in China to be protected

商标在中国 – Trade-marks in China

麦当劳 – McDONALD'S (mai dang lao)

Mai – cover up, bury – 埋

- buy, purchase – 买

- step, stride, advanced in years – 迈

- wheat, a surname – 麦

- sell – 卖

- arteries and veins – 脉

商标在中国 – Trade-marks in China

麦当劳 – McDONALD'S (mai dang lao)

dang – equal, ought to, just at, work as, deserve, manage, sound of a

gong – 当

- keep off, block, a fender, gear of a car – 挡

- political party, the Party (Communist) – 党

- earring, eunuch – 挡

- crotch – 裆

- proper, match, treat as think, that very day, to pawn – 挡

- manure pit – 囟

- loose in morals, a marsh – 荡

- delay – 宕

- outspoken – 谏

商标在中国 – Trade-marks in China

麦当劳 – McDONALD'S (mai dang lao)

lao – scoop up from a liquid, get by improper means – 捞

- enclosure for animals, jail – 牢

- work, reward – 劳

- old, tough, dark – 老

- waterlogged – 涝

- bake in a pan – 烙

- kind of farm tool – 耨

- fruit jelly – 酪

商标在中国 – Trade-marks in China

麦当劳 – McDONALD'S – wheat should work

Other Possible Names:

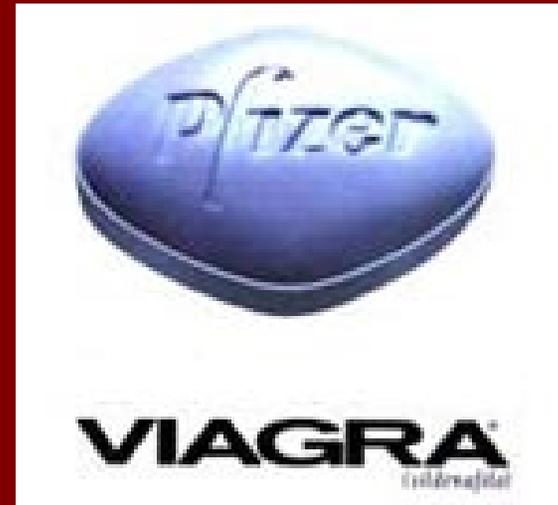
卖叻涝 – to sell something that has been waterlogged in a manure pit

买挡捞- to buy in order to prevent someone scooping something (perhaps improperly)

辉瑞商标的问题

Pfizer's Trade-mark Problems

Pfizer – VIAGRA



最出名的药物万艾可(伟哥、威而钢)

商标在中国 – Trade-marks in China – cont'd.

How are Chinese character trademarks developed?

- Similar sounds – WAL-MART – 沃尔玛 –wo'er ma
- Similar meaning – APPLE – 苹果 – ping guo
- Combination – STARBUCKS
星 – xing – means “star”
巴克 – ba ke – sounds like “bucks”
- New unconnected mark – BLU SPA – 富丽花 – fu li hua

商标案例 Trade-mark Cases

- Ferrero- Rocher – in Tianjin - 2005

意大利费列罗公司(FERRERO S.p.A.) v. 蒙特莎(张家港)食品有限公司

- Ferrero-Rocher had not registered their Chinese character name and had allowed infringing use by a Chinese dairy for well over 15 years.

- Ferrero-Rocher lost at trial and won on appeal and at the Supreme People's Court

商标案例 Trade-mark Cases

- Ferrero-Rocher – cont'd
 - Commenced action in 2003 under Anti-Unfair Competition Law - 反不正当竞争法
 - Grounds for win in Tianjin Higher People's Court:
 1. In determining whether a mark is well-known regard to be had to foreign and domestic market – Paris Convention
 2. Chinese infringer could not prove independent creation of packaging
 3. Infringer failed to prove that the mark was not well-known in China
 4. Court cited Article 10bis (2) of the Paris Convention in support of the proposition that Article 5(2) of China's Unfair Competition Law should be read liberally.

商标案例 Trade-mark Cases

- Ferrero-Rocher – cont'd

3. 根据诚实信用和公认的商业道德准则，知名商品应当是诚实经营的成果。因此，在法律上不能把使用不正当竞争手段获取的经营成果，作为产品知名度的评价依据。

(Based on the principles of good faith and recognized business ethics, “well-known” status for a product must be achieved through management’s own efforts. Therefore unfair competition as specified in law cannot be used as a method for management to achieve “well-known” status for a product.)

商标案例 Trade-mark Cases

Sony Ericsson Case - July 2008— Bad Faith Registrations

- Sony Corporation is well-known in China as 索尼
- Ericsson also well-known under the name 爱立信
- In 2001 they formed a joint venture to manufacture and sell mobile phones
- Joint venture incorporated in China as 索尼爱立信移动通信产品（中国）有限公司

商标案例 Trade-mark Cases

- Businessman in 广州 applied to register the mark 索爱 on March 19, 2003 – Sony opposed, but lost twice

北京市第一高级人民法 – Beijing No. 1
Intermediate People's Court

- Applied Article 31 of the Trade-mark Law

商标案例 Trade-mark Cases

- Purpose of Article 31 – to prevent violations of the principle of good faith – 诚实
- Court said the joint venture was widely reported in the press
- so businessman is presumed to have known about it
- his actions 不正当性 – do have clear legitimacy

商标法修订草案 Trade-mark Amendments

- Not yet reached the State Council
 - protection extended to non-traditional marks
 - relative examination eliminated
 - civil law concept of “good faith” 诚实 required in applications
 - Cost awards proposed in oppositions
 - Rights added for prior use in China

著作权— Copyright in China

- Party to Berne Convention, bilateral treaties
- Literary, artistic, science, engineering works etc
 - oral work included
 - including computer software
 - drawings
 - photographs in catalogs
 - articles made from photographs also protected
- Economic rights (13 different rights)
 - reproduction, publication, rent, public exhibition, broadcasting, network transmission etc
 - transferrable
 - compensated for permitting others to do any of these acts
- Personal rights (4 different rights)
 - publish, identify as author, revise, protect integrity of work
 - not transferrable
- Further amendments under consideration

著作权— Copyright (continued)

- Registration not required for acquiring the rights, but
 - required for SAFE permit to repatriate royalty payments
 - relied upon by Customs
 - evidence when enforcing rights, administrative or judicial
 - software issues

域名 – Domain Names

- Domain name registration
 - Company as registrant
 - Squatters
 - Letters from “Registrar”
 - Domain names in Chinese characters
 - Selection of Chinese domain names
 - Trademark considerations
- Commercial websites
 - As commercial information content provider: license required
 - Additional license for online advertisements

技术合同 - Licensing

合同法 (He Tong Fa – Contract Law) – in force
October 1, 1999

- Contains both general and specific provisions
- Art. 6 -当事人行使权利、履行义务应当遵循诚实信用原则 – The parties shall observe the principle of **good faith** in exercising their rights and fulfilling their obligations.

技术合同 - Licensing

Art. 42 In the making of a contract, the party that falls under any of the following circumstances, causing loss to the other party, shall hold the liability for the loss.

- (1) engaging in consultation with malicious intention in name of making a contract;
- (2) concealing intentionally key facts related to the making of the contract or providing false information;
- (3) taking any other contrary to the principle of **good faith**

技术合同 - Licensing

Arts. 322 - 364 技术合同 (Technology Contracts)

- Common Provisions
- Technological Development Contracts
- Technological Transfer Contracts
- Technical Consultation Contracts and
Technical Service Contracts

Art. 329 Any technology contract that illegally monopolizes technologies, impedes technological progress or infringes upon technological results of others is null and void

技术合同 - Licensing

2002 Technology Contract Regulations

- Administration of Technology Import and Export
- Administrative Measures on Prohibited and Restricted Technology Exports
- Administrative Measures on Prohibited and Restricted Technology Imports
- Catalogue of Technologies Prohibited and Restricted for Import
- Circular (MOFTEC & SAFE) Administration of Foreign Exchange Sale and Payment Related to Technology Import Contracts – Feb 20, 2002

反垄断法 – Anti-Monopoly Law

Article 55 – This Law does not apply to action taken by undertakings to protect their legitimate intellectual property rights in accordance with the intellectual property laws and regulations;

however, this Law does apply to action taken by undertakings that **eliminates or restricts competition** by **abusing** intellectual property rights.

知识产权的滥用 – What is an Abuse?

Existing Guidelines:

Interpretation of the Supreme People's Court concerning some issues on the Application of Law in the Trial of Cases on Disputes over Technology Contracts – December 16, 2004

Article 10 – illegal monopolization and impairing technological progress

1. restricting one party from undertaking new research and development on the technology; requiring non-reciprocal grant-backs or sole-ownership of jointly developed IP

知识产权的滥用 – What is an Abuse?

2. restricting a party from obtaining similar technology from other origins

3. impeding one party's exploitation of the market

4. requiring the licensee to also acquire raw materials and other items from the licensor

5. unreasonably restricting the source of raw materials and other items

6. prohibiting the licensee from making objections as to the validity of the IP

Impact of the AML on Licensing ?

- Ask yourself why is the restriction being used in China? Is it reasonable and proportionate for that purpose?
- Consider the principles when interpreting the rules
- Use the Supreme People's Court 2004 Interpretation as a guide; European practice may also help
- Consider the issues that China has raised in the 2005 report and elsewhere
- Monitor the forthcoming regulations and guidelines, and be prepared to adapt to changes in the rules
- Consider concept of 诚实 (good faith) as applied to proposed action

维权 – Enforcement

- More patent litigation cases than any country in the world
- Trademark litigation cases second to the U.S. only
- Only 5% involved foreign companies!
 - foreigners won 60% of cases
 - Beijing 1st Intermediate Court: 22% of cases involving foreign parties, who won 80% (2002-2006)
- Recently, more foreign companies as defendants and lost IP cases

维权 – Enforcement (2)

- Administrative
 - no damages awarded
 - stop infringement quickly and less costly
 - evidence collection
- Litigation
 - time consuming (up to 2-3 years) and costly
 - all remedies available, including damages and injunctions
 - good evidence required (not easy in China)
- Arbitration
 - arbitration clause – governing law, location, rules, language
- Customs Protection
 - recordal of IP rights
 - can act ex officio
 - security required for seizure

Some Recent IP Cases

- Tianjin Northern Steel Plate Co. Ltd. v. Lu
 - Lu: inventor, patentee and licensor; Tianjin Steel: licensee
 - Dispute over royalty payment
 - Payment in 3 installments: at time of signing agreement, upon producing first 10 tons of quality products, when the patent application is open for inspection
 - Tianjin Steel did not pay the second and third installments
 - One issue was whether the invention was capable of being practiced (and by extension, whether quality products had been produced)

Some Recent IP Cases (2)

- Tianjin Northern Steel Plate v. Lu (continued)
 - According to the Court:
 - Tianjin Steel was able to produce the products (though not mass production scale). There was evidence that the technology basically was capable of being realized. As the parties did not clearly specify technical parameters for determining what would be quality products and there had not been necessary cooperation between the parties, both parties were partially responsible for the dispute over whether “quality products” had been produced.
 - Tianjin Steel’s second instalment was “appropriately” reduced from RMB 100,000 to RMB 70,000.
 - Request by inventor to terminate the license for breach by Tianjin Steel was denied in view of the performance by both parties and benefit of the technology to the society
 - Lesson to be learned:
 - Pay attention to “expected results” provision in technology contract
 - Be clear on expected results and how to measure

Some Recent Cases (3)

Wuhan Jingyuan v. Fujikasui Engr Co. Ltd., Huayang Electrical

- an 8-year legal battle against Fujikasui, a Japanese chemical engineering company, and Huayang, a WFOE and Fujikasui's customer in China
- Jingyuan has an invention patent
- Huayang and Fujikasui engaged Jingyuan to work on a waste water processing project and then decided to use Fujikasui's equipment
- Jingyuan also claimed it lost bid for other projects as a result
- Fujikasui ordered to pay
 - Jingyuan's economic loss of RMB 50.6 m (= sale price of equipment)
 - half of Court's acceptance fee of RMB 390,010
- Huayang ordered to pay royalty
 - retroactively from first use of infringing products
 - until expiry of patent term
 - at a rate of RMB240,000 per unit
- Case appealed to Supreme People's Court and heard in November, 2008

Some Recent IP Cases (4)

Chint v. Schneider: US\$45m damages

- Chint, a Chinese company making low-voltage electric apparatus
- Schneider Electric, a major global maker of medium- and low-voltage electric equipment
- Chint filed patent case in Wenzhou, Zhejiang
 - Chint owns a utility model patent; Schneider's efforts at SIPO to invalidate the patent not successful
 - Schneider did not apply for its own patent in China
 - Schneider's prior use defense: lost on all elements rule
 - Schneider ordered to cease infringement and pay damages
- Case being appealed

More IP Cases

- Danone and Wahaha: who owns trademark 娃哈哈
 - Joint venture, with Danone taking 51% and Wahaha contributing the 娃哈哈 trademark, among others
 - JV broke down; Wahaha set up companies selling competing products using the same trademark
 - dispute over ownership of the trademark
 - trademark transfer not approved by China's Trademark Office and not followed up for about 10 years
- GM settled with Chery in dispute over QQ
 - for lack of a design patent in China covering its SPARK design
- “Viagra” patent held valid
 - not invalidated for insufficient disclosure
 - still under re-examination on inventive steps

最佳做法 – BEST PRACTICES

1. Register your IP

- Trademarks
 - as many classes as possible
 - develop Chinese character version of mark
- Patents
 - Do both invention and utility applications
 - Search Chinese language prior art
- Copyrights
 - Consider registration to improve damage claims

最佳做法 — BEST PRACTICES

2. Prepare a Business Plan for China

- Select what will be made in China carefully – perhaps withhold the most innovative or high-margin products, or separate functions so that no one manufacturer makes the whole product
- Make sure that your project is economically feasible – for you and potential partners
- Build monitoring and enforcement costs into your project feasibility plan
- Know your limit on losses from the project in advance, do a thorough risk analysis

最佳做法 — BEST PRACTICES

2. Prepare a Business Plan for China

- Pricing and Channels of Distribution
 - For products with broad consumer appeal in China many purchases are made in small retail shops – difficult to monitor and police
 - Consider developing a stripped-down, low-cost version of the product for sale in China

最佳做法 – BEST PRACTICES

3. Audits – Know What is Going to China

- What are the key commercial elements?
- How are they protected?
 - Invention patent
 - utility patent
 - design patent
 - copyright
 - trade secret
 - trademark
- How valuable are they? Are they older items that have largely become known?

最佳做法 — BEST PRACTICES

4. Find the Right Partner in China

- Retain advisors experienced in China
- Conduct searches through networks, look for introductions
- Attend trade conferences in China, get to know your options and the differences in your industry in China

最佳做法 — BEST PRACTICES

4. Find the Right Partner in China – cont'd.

Conduct Due Diligence:

- Insist upon the right to make background checks on key people and the company
- Conduct checks on the reputation of the local area.
- Hire outside investigators, and use them
- Audit the other side - Carefully evaluate any property contributions by your Chinese partner, disputes over property valuation have plagued joint ventures
- Some prefer partners with foreign trained key personnel

最佳做法 — BEST PRACTICES

4. Find the Right Partner in China – cont'd.

Conduct Due Diligence:

- Know if there is any state interest in the other party
 - Does the other party need higher authorization to enter into the contract?
 - Does the other party truly own the assets that it is contributing, or does the state still have an interest in the assets – e.g. Danone and the Wahaha trademark – “娃哈哈”

最佳做法 — BEST PRACTICES

5. Structure the Deal Carefully

- License, technology transfer, co-operative joint venture, equity joint venture, WFOE?
- What is Plan B – if things don't work out?
- How to get your money out of China – dividends, payment for services, royalties
 - Withholding taxes on royalties now 10%

最佳做法 — BEST PRACTICES

6. Develop a Good Contract

General Items

- Do not use your standard form agreement for North America
- Consider preparing for enforcement in China with a civil law form of contract in Chinese
- Do not rely on the other party as to the legal validity of the terms
- Negotiate in good faith and disclose material facts – required by Article 42 of the Contract Law (中华人民共和国合同法)

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

— IP Issues

- Carefully describe the scope of the grant — for example — territorially what is China?
- Rights to improvements — remember the restrictions on grantbacks
- How will access to the IP be controlled, monitored?

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

– **Non-Competition Provisions**

- Know the provisions of the 劳动合同法 — Labor Contract Law
- Use side agreements with key personnel
- Draft the scope of the restrictions with precision
- Draft the liquidated damages provisions carefully

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

- **Technicalities:**

- Contract should be in Chinese, or at a minimum, bilingual
- Identify the Chinese party in Chinese characters, as copied from its certificate of incorporation;
- translations vary tremendously and Chinese companies often use short forms of their names in Chinese

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

- **Technicalities:**
 - Specify exact terms of payment and performance
 - Ensure that that each page is signed and that the contract is properly signed and sealed. Are two signatures required?
 - Make provision for inspections and audits, possibly including for the components or inputs, and use them

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

Law, Forum and Venue:

- Generally China does not enforce foreign judgments, U.S. judgments in particular
- Specify a choice of law that matches your exit strategy
- If you are based outside of China, consider using arbitration, China is a party to the New York Convention on Arbitral Awards

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

Law, Forum and Venue:

- Be careful in choice of arbitrator and arbitration rules, CIETAC has had serious problems recently
- Consider negotiating for the right of discovery - alternatively make plans to collect and retain written records
- Alternatively chose a foreign law, such as Hong Kong, but accept a Chinese court. Chinese courts will try to enforce foreign laws when the parties specify in the contract

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

Law, Forum and Venue:

- Specify a choice of venue, the Chinese party is unlikely to agree to come to North America, in part because of cost considerations, consider Singapore law and venue, or Hong Kong SAR
- There is now an agreement between Hong Kong SAR and Beijing on the reciprocal enforcement of judgments
- If possible chose a Chinese venue in which you have other investments

最佳做法 – BEST PRACTICES

7. Monitor your IP after Closing

- Inside and outside of China – some are now shipping labels and product separately for assembly in other countries.
- Register trademarks with General Administration of Customs. They can act ex officio in seizing suspected counterfeit goods.
- Visit trade shows, eBay, small commodities markets in key areas of China, wholesalers, key retailers, places where legitimate products are made and sold

最佳做法 — BEST PRACTICES

7. Monitor your IP after Closing

- Don't forget internal monitoring
 - Implement plant security measures
 - Ensure that new employees are trained on security and confidentiality in Chinese
 - In supplier's plants have a representative on site

最佳做法 — BEST PRACTICES

7. Monitor your IP after Closing

- Don't forget internal monitoring
 - Use surveillance equipment or firewalls on web sites
 - Ensure that proper security protocols are in place for trade secrets
 - Conduct regular training on security measures

最佳做法 — BEST PRACTICES

8. Develop your 关系 (guanxi) or relationships

- Customs officials
- Provincial and city authorities
- Embassy
- Chinese and foreign based trade associations
- Local Administration for Industry and Commerce 工商行政管理局

PROTECTING YOUR IP IN CHINA:

Basic Steps & Recent Developments

在中国知识产权之保护:

基本步骤及当前变革

Paul Jones

Jones & Co. 钟保禄律师事务所 Джоунс и Ко.

Sean X. Zhang

Blakes

LES Toronto
December 11, 2008