

# INTELLECTUAL PROPERTY PROTECTION IN CHINA: Best Practices

## 知识产权的保护在中国： 最佳做法

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# 简介 - Introduction

- Many foreigners believe that their intellectual property cannot be protected in China
- Consequently they are reluctant to register their IP rights in China,
- or even to do business in the PRC or Hong Kong

## 简介- Introduction – 基本见解 Basic Advice

- China has IP laws that meet international standards
- Chinese courts do enforce IP rights, and particularly IP rights held by foreign parties
- The PRC does have a “wild west” economy
- 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 reasonable balance of the interests and we will support it.)

# 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

# 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:

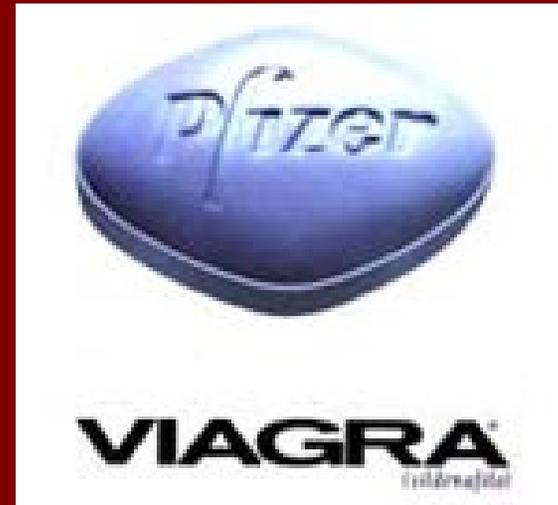
卖叻涝 – to sell something that has been waterlogged in a manure pit

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

## 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 Guangzhou applied to register the mark 索爱 on March 19, 2003 – Sony opposed, but lost twice
- Beijing No. 1 Intermediate People's 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 – read concept of good faith (诚实) into Article 31 of Trademark Law

# 最佳做法 — BEST PRACTICES

## 2. Prepare a Business Plan for China

- Select what will be made in China carefully – perhaps withhold (or restrict to Hong Kong) 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
  - trade-mark
- How valuable are they? Are they older items that have largely become known?

## 实用新型专利案例 - Utility Model Patent Case

Zhengtai Group (正泰集团股份有限公司) a.k.a. “Chint Electric”:

- sued Schneider Electric of France for infringing its utility patent for a miniature low-voltage circuit breaker
- Schneider had done the prior art searches in China, was aware of the patent, but thought that it was obvious, and that Schneider had prior art
- tried to invalidate the patent but lost
- Wenzhou Intermediate People’s Court awarded damages of \$48 million USD – settled on appeal for \$22 m USD – April 15, 2009

# 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)

# Contract Principles

合同法 1999 (Hetong Fa or Contract Law)

第四十二条 当事人在订立合同过程中有下列情形之一，给对方造成损失的，应当承担损害赔偿责任：

- (一) 假借订立合同，恶意进行磋商；
- (二) 故意隐瞒与订立合同有关的重要事实或者提供虚假情况；
- (三) 有其他违背诚实信用原则的行为。

# Contract Principles

## China's Contract Law – 1999

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 act contrary to the principle of **good faith**

# 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 – PRC law is developing but is likely to be more restrictive on grantbacks
- How will access to the IP be controlled, monitored?

# 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.

# 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 and there is an agreement between Hong Kong and the PRC for enforcement

# 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 – Hong Kong Civil Procedure Rules include discovery as of April 2, 2009
- 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 Hong Kong SAR law and venue
- Agreement between Hong Kong SAR and Beijing on the reciprocal enforcement of money judgments — August 1, 2008
- 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

# 最佳做法 – BEST PRACTICES

## 政府 - Government

### 1. Unitary State – 31 “Provinces”

- Each level of government can exercise the same powers as the national government
- if there is no conflict with the laws of a superior level of government

### 2. Consultative Administration

- Broad consultations on new laws
- Reluctance to be the nail that sticks out

# 中国法院的涉外纠纷

## Foreigners in the People's Courts

浙江蓝野酒业有限公司 诉 上海百事可乐饮料有限公司  
(Zhejiang Blue Wild Liquor Company v. Shanghai Pepsi Cola)  
May 24, 2007



# 中国法院的涉外纠纷

## Foreigners in the People's Courts

- December 14, 2003 Chinese co. applied for the trademark “蓝色风暴” (BLUE STORM) – registered January 24, 2006
- July – August 2005 Pepsi used the same mark in a promotional campaign
- Pepsi won in the court of first instance on grounds that use as a slogan was not used as a trademark
- On appeal Zhejiang Higher People's Court awarded 3 million yuan (\$393,576.00 USD) to the Chinese company

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