

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

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

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 – 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)

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

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

外观设计专利案例 - Design Patent Cases

Fiat Panda



Great Wall Peri



外观设计专利案例 - Design Patent Cases

Fiat Auto S.P.A v. 长城汽车股份有限公司 (Great Wall Motor Company),
Hebei Higher People's Court, December 29, 2008

Fiat claimed that Great Wall infringed its design patent

Court said:

- design patents only protect the unique aspects, in this case the side views, but the average consumer would be more interested in the size, shape and technical parameters than the side view protected by the design patent

- differences in the design of the front of the car must also be considered

外观设计专利案例 - Design Patent Cases

Neoplan's Starliner



Zonda's A9



外观设计专利案例 - Design Patent Cases

Neoplan Germany v. 盐城中威客车有限公司 (Zhongwei Bus Co.) 中大工业集团公司 (Zhongda Industrial Co.), Beijing No. 1 Intermediate People's Court, January 14, 2009 (under appeal – decision not available)

- Neoplan registered a design patent, claimed infringement
- Zhongwei said that they created the design independently

Court said – the differences in the designs were too slight to constitute a notable visible effect on the entire design

外观设计专利案例 - Design Patent Cases



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

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?

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 – PRC law is developing but is likely to be more restrictive 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 — Labour 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
- 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
- Specify a choice of law that matches your exit strategy
- Consider using a foreign law, such as Hong Kong, but accept a Chinese court. Chinese courts will try to enforce foreign laws when the parties specify them in the contract
- Agreement between Hong Kong SAR and Beijing on the reciprocal enforcement of money judgments – August 1, 2008

最佳做法 — BEST PRACTICES

6. Develop a Good Contract — cont'd.

Law, Forum and Venue: Arbitration

- 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
- Be careful in choice of arbitrator and arbitration rules, CIETAC has had serious problems recently

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 or Singapore law and venue
- If possible chose a Chinese venue in which you have other investments
- Consider how you will collect Evidence - negotiate for the right of discovery - or make plans to collect and retain written records

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 proper security protocols are in place for trade secrets
- Conduct regular training on security measures -Ensure that new employees are trained on security and confidentiality in Chinese
- In supplier's plants have a representative on site
- Use surveillance equipment or firewalls on web sites

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

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30