

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

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.)

简介 – Introduction – 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

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 – what should work

Other Possible Names:

卖叻捞 – 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)

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

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