

# INTELLECTUAL PROPERTY PROTECTION IN CHINA: Preventative Steps

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# Getting Started

- Start early – register your IP in China
- For patents - do prior art searches in Chinese
- For trademarks register in several classes, choose a Chinese version of the mark
- Do not commence entry without first retaining advisors with specialized knowledge of China

# Getting Started

## Early Choices:

- 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
- Consider doing an IP audit on the project components
- Make sure that your project is economically feasible
- Build enforcement costs into your project feasibility plan
- Know your limit on losses from the project in advance, do a thorough risk analysis

# Getting Started

## Early Choices cont'd:

- Know the authority of the government that you are dealing with (understand the true division of powers)
- Use non-competition covenants
  - For employees ensure that they conform to Chinese law

# Getting Started

## Contracts

- Do not rely on the advice of your Chinese partner as to the enforceability of the contract
- Contracts should be in 中文 - Chinese
- 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)
- Plan for the collection of evidence – in China as in other civil law jurisdictions the courts focus on written evidence – there is no discovery – there are limitations on the affidavits that a notary will formalize
- Provide for monitoring mechanisms

# Getting Started

## Contracts

- Have an enforcement plan for minor breaches, international arbitration is expensive
- Know in advance what you will do if the contract is breached (plan for trouble)
- If you plan to take legal action, in what country are the relevant assets or people located
- China does not enforce foreign judgments, U.S. judgments in particular

# 商标在中国 – Trademarks in China



# 商标在中国 – Trademarks in China





# Developing a Chinese Character Mark

Do You Recognize These Famous Marks?

- 肯德基 Kendeji
- 星巴克 Xing Bake
- 麦当劳 Maidanglao
- 沃尔玛 Wo'er Ma

# Developing a Chinese Character Mark

Chinese character versions of a trademark will inevitably be developed

- Chinese uses only about 400 syllables – unlikely match the English mark
- Each syllable may be used for as many as 100 characters
- Chinese is acquired through a different part of the brain – more focus on the written word

# Developing a Chinese Character Mark

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

# Developing a Chinese Character Mark

## 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

# Developing a Chinese Character Mark

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

# Developing a Chinese Character Mark

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)

# Developing a Chinese Character Mark

麦当劳 – Mai dang lao - McDONALD'S

麦克唐纳 – Standardized translation for the surname

(《英语姓名译名手册》, 2nd rev. ed. Beijing: Commercial [Shang1wu4], 1985, p. 257. )

- pronounced “Mai ke tang na” (pinyin)

# Developing a Chinese Character Mark

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



# Copyright Law - 著作权法 (版权法)

- China is a party to the Berne Convention and the Universal Copyright Convention
- 著作权法 – Copyright Law – 1990 – amended 2001
- State Council - 计算机软件保护条例 (Regulations on Computer Software Protection) Decree No. 339 effective as of January 1, 2002
- State Copyright Bureau 计算机软件著作权登记办法 (Measures for the Registration of Copyright in Computer Software) effective as of February 20, 2002

# Copyright Law - 著作权法 (版权法)

- Registration is not a requirement for enforcement
- But it raises the likelihood of “knowing infringement” – removes a defense
- Measures – Art. 12 – methods for maintaining confidentiality during registration

# Copyright Law - 著作权法 (版权法)

- Decree – Art. 18 – licensee shall not exploit any right that is not expressly granted
- Decree – Art. 24 – civil and criminal penalties for reproduction or transfer, or circumvention of protection measures

# Copyright Law - 著作权法 (版权法)

Article 48 Anyone who infringes upon the copyright or a right related to the copyright shall pay compensation for the actual losses suffered by the right owner, or where the actual losses are difficult to calculate, pay compensation to the amount of the unlawful gains of the infringer. The compensation shall include the reasonable expenses that the right owner has paid for putting a stop to the infringement.

Where the actual losses cannot of the right owner or the unlawful gains of the infringer cannot be determined, the People's Court shall, in light of the infringement, decide on a compensation amounting to not more than 500,000 yuan.

# COUNTERFEITING

- Counterfeiting is profitable when:
  - Consumers are prepared to accept a fake of lower quality – “ROLEX” watches
  - Consumers cannot easily determine the quality of the goods – pharmaceuticals, personal care products
  - Cost of the development of good is very high relative to the cost of production – software
  - There are high tariffs or taxes – liquor, tobacco

# 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

# ANTI-COUNTERFEITING

- China has IP laws that meet international standards
- Chinese courts do enforce IP rights, and particularly IP rights held by foreign parties
  - Foreign companies are very successful in Chinese Courts. Beijing Intermediary Court as 1<sup>st</sup> instance foreign companies are successful 70% of the time and make up 90% of the claimants.
- To a large extent the threat to IP from counterfeiters can be costed and managed

# ANTI-COUNTERFEITING

- Monitoring
  - 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.
  - Trade shows, eBay, small commodities markets in key areas of China, wholesalers, key retailers, places where legitimate products are made and sold



# ANTI-COUNTERFEITING

- Don't forget internal monitoring
  - Implement plant security measures
  - Use non-competition covenants for the partner and for key personnel, and provide for specific and adequate compensation for the covenants (if there is appropriate compensation these provisions are enforced in China, even against employees)
  - In supplier's plants have a representative on site

# ANTI-COUNTERFEITING

- 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

# ANTI-COUNTERFEITING

- 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

# ANTI-COUNTERFEITING

- Many OEMs do longer production runs than authorized, many toys for sale in Chinese stores were designed for the U.S. market
- One option is to monitor or control the supply of a key component to control volume
- Use clearly written contracts with OEMs, know your supplier and their principal(s) – have an enforcement plan

# ANTI-COUNTERFEITING

- Do not use your standard form U.S. supplier agreement
- prepare for enforcement in China with a civil law form of contract in Chinese
- U.S. judgments cannot be enforced in China
- Include audit and inspection clauses

# ANTI-COUNTERFEITING

## Internet Distribution

- Have Chinese speaking staff monitor the internet
  - Alibaba: <http://china.alibaba.com/>
  - Taobao (auctions) <http://www.taobao.com/>
- Or subscribe to a service

# ANTI-COUNTERFEITING

## Organizations

- American Chamber of Commerce – PRC
  - <http://www.amcham-china.org.cn/amcham/home/index.php>
- China Association of Enterprises with Foreign Investment – R&D Based Pharmaceutical Committee
  - <http://www.rdpac.org/english/gate.asp>

# ANTI-COUNTERFEITING

- Business Software Alliance - China
  - <http://www.bsa.org/country/Public%20Policy/China.aspx>
- QBPC—Quality Brands Protection Committee (企业联合打假组织) –
  - <http://www.qbpc.org.cn/>



# ANTI-COUNTERFEITING

- International Federation of the Phonographic Industry (IFPI)
  - <http://www.ifpi.org/>
- U.S. China Business Council
  - <http://www.uschina.org/>
- AGMA – Alliance for Gray Market and Counterfeit Abatement
  - <http://www.agmaglobal.org/>

# Appropriate Enforcement

What will have the most significant economic effect on the counterfeiter and the least on you?

- Criminal enforcement against the counterfeiter – greatest effect, but most difficult to do

# Appropriate Enforcement

- Some suggest administrative action against the retailer or landlord – problem of motivation of AIC, and may be too many
- In other cases action against one retailer will stop retailers from ordering from that supplier.

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