

# INTELLECTUAL PROPERTY PROTECTION IN CHINA: Policing and Enforcing

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# 反垄断法 – ANTI-MONOPOLY LAW

- Came into effect August 1, 2008 – called the “Economic Constitution”
- “abuses” of intellectual property rights governed by this law
- Potential new counterclaim to action for IP rights enforcement

# 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.

# 反垄断法 – ANTI-MONOPOLY LAW

- Article 55 and Articles 13(4) and 15(1) suggest that the intellectual property laws are viewed as something separate but equal to the Anti-Monopoly Law, similar to the U.S.
- Some in China and elsewhere would argue that intellectual property laws are subordinate to the antitrust laws

# 反垄断法 – ANTI-MONOPOLY LAW

- **Private Right of Action:**

**第五十条** 经营者实施垄断行为，给他人造成损失的，依法承担民事责任。

## **Article 50**

The undertakings that violate the provisions of this law and cause damage to others shall bear civil liability.

First case filed August 1, 2008 – IT administrative monopoly, 2<sup>nd</sup> case – insurance trade association

Complaint re Microsoft reportedly delivered to MOFCOM, SAIC, and NDRC August 1, 2008

# 反垄断法 – ANTI-MONOPOLY LAW

What is meant by an “abuse of intellectual property rights” in Article 55?

To date no new guidelines or regulations

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

# 反垄断法 – ANTI-MONOPOLY LAW

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

# 反壟斷法 – ANTI-MONOPOLY LAW

- Provisions of the Interpretation are very similar to the provisions of the EU TTBER issued in April 2004
- But in the AML Article 17(5) – tied selling is restricted only if it is not part of “competing on the merits”
- That the AML is less restrictive than the SPC Interpretation suggests changes are coming

# 反壟斷法 – ANTI-MONOPOLY LAW

March 2008 legislative meetings

SIPO Deputy Director Li Yuguang said that China has suffered significant losses because of barriers posed by foreign IPR, particularly technical standards

General belief that there is significant abuse of IPR in China

# 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
- 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 U.S. agreement
- 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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