

INTELLECTUAL PROPERTY RIGHTS IN CHINA: THE GOOD, THE BAD AND THE UGLY

知识产权在中国： 善的， 恶的， 丑的

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National Association of Patent Practitioners

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Introduction

Why China?

- 1.3 billion people
- 23% of world population
- 4th largest GDP in world
- Where will the product be made?

Introduction

Problems:

- Counterfeiting, lack of IP enforcement
- Corruption
- Weakly developed rule of law
- Uncertain government policies
- Civil law legal system

Courts & IP Enforcement

- China has parallel court and administrative options
- Four levels of courts
 - Supreme People's Court – 最高人民法院
 - Higher People's Court – in each province – 高级人民法院
 - Intermediate People's Court – in major cities – 中级人民法院
 - District People's Courts – 基层人民法院

Courts & IP Enforcement

- Major courts have specialized IP benches
- Foreign cases are usually commenced in the Intermediate level courts.
- Appeals are to the Higher People's Court
- Supreme Court appeals are rare. SPC issues many interpretations of laws.
- 5000 court decisions regarding IP and technology contract disputes now available online in Chinese at: <http://ipr.chinacourt.org>

Courts & IP Enforcement

JUDGES

- 中华人民共和国法官法 (Judges Law)
- Adopted 1995, amended 2001
- As in Germany – becoming a judge is usually a career choice made after law school
- 地方保护主义 – local protectionism

Courts & IP Enforcement

JUDGES

- 河南省洛阳市中级人民法院 (Henan Province Luoyang City Intermediate People's Court) – Luoyang Seed Case
- Local company breached a contract with a European company and was sued
- To calculate damages the price of the seed had to be determined
- Provincial law had a price cap, national law specified market price

Courts & IP Enforcement

JUDGES – Luoyang Seed Case

- 30 year old woman judge relied on the 立法法 (Legislation Law)
- National law applied, upheld on appeal
- *Global Corruption Report 2007* - Transparency International
- “Corruption Perceptions Index” - China’s courts tied for 70th place with Brazil, Egypt, Ghana, India, Mexico, Peru, Saudi Arabia and Senegal.

Courts & IP Enforcement - Cases

Generally trademarks are more likely to be counterfeited than patents

Pfizer – VIAGRA



最出名的药物万艾可(伟哥、威而钢)

Courts & IP Enforcement - Cases

Patent Case

辉瑞爱尔兰药品公司 v. 中华人民共和国国家
知识产权局专利复审委员会

Pfizer Ireland v. China Patent Re-

Examination Board, Beijing Intermediate People's Court,
June 2, 2006

- Originally developed as a heart drug, original patent applications based on this aspect
- Not all countries granted patents for ED use, e.g. UK

Courts & IP Enforcement - Cases

Pfizer

- Application filed May 13, 1994
- Issued September 19, 2001
- Re-Examination Petition filed September 3, 2002
- Patent held invalid by Board July 5, 2004 – insufficient disclosure
- October 18, 2004 Pfizer filed an appeal
- Hearing March 30, 2005
- Decision June 2, 2006 – Patent re-instated

Courts & IP Enforcement - Cases

- Starbucks 星巴克 – in Shanghai (2006) and Qingdao (2005)

- Really a straight forward case of a company name including a registered trade-mark. Most press reports were incorrect. Starbucks won easily.

- Ferrero- Rocher – in Tianjin - 2005

意大利费列罗公司(FERRERO S.p.A.) v. 蒙特莎(张家港)食品有限公司

- Ferrero-Rocher had not registered their Chinese character name and had allowed infringing use by a Chinese dairy for well over ten years.

- Ferrero-Rocher lost at trial and won on appeal, case now under appeal to Supreme People's Court

Courts & IP Enforcement - Cases

- Ferrero-Rocher – cont'd
 - Commenced action in 2003 under Anti-Unfair Competition Law - 反不正当竞争法
 - Grounds for win in Tianjin Higher People's Court:
 1. In determining whether a mark is well-known regard to be had to foreign and domestic market – Paris Convention
 2. Chinese infringer could not prove independent creation of packaging
 4. Court cited Article 10bis (2) of the Paris Convention in support of the proposition that Article 5(2) of China's Unfair Competition Law should be read liberally.

Courts & IP Enforcement - Cases

- Ferrero-Rocher – cont'd

3. 根据诚实信用和公认的商业道德准则，知名商品应当是诚实经营的成果。因此，在法律上不能把使用不正当竞争手段获取的经营成果，作为产品知名度的评价依据。(Based on the principles of good faith and recognized business ethics, “well-known” status for a product must be achieved through management’s own efforts. Therefore unfair competition as specified in law cannot be used as a method for management to achieve “well-known” status for a product.)

Courts & IP Enforcement – Cases

- **Lego Case** 英特莱格公司 (INTERLEGO · AG) v. 可高 (天津) 玩具有限公司, Beijing 2002
 - patent protection on basic brick expired
 - Lego sought protection based on claim of trademark in configuration of basic brick
 - claimed customer confusion with competing bricks
 - generally unsuccessful in Western countries except on narrow labeling grounds
 - In China successful under design patent and copyright law

Courts & IP Enforcement – Cases

DAMAGES

浙江华田工业有限公司 v. 雅马哈发动机株式会社 (Zhejiang Huatian Industries, Ltd. v. Yamaha Engine Corporation) April 25, 2007

- Jiangsu Higher People's Court awarded damages of 8.3 million yuan (\$1.1 million USD)

Courts & IP Enforcement – Cases

DAMAGES

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

- 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 use as a trademark
- On appeal Zhejiang Higher People’s Court awarded 3 million yuan (\$393,576.00 USD) to the Chinese company

商标在中国 – Trademarks in China



商标在中国 – Trademarks in China – cont'd.



商标在中国 – Trademarks in China – cont'd.



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

商标在中国 – Trademarks in China – cont'd.

Chinese character versions of a trademark will inevitably be developed

Examples:

- Quaker Oats – 老人牌 – old man brand
- Toblerone – 三角牌 – triangle brand
- Polo – 三脚马 – three legged horse (doubtful)

商标在中国 – Trademarks in China – cont'd.

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 – Trademarks in China – cont'd.

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 – Trademarks in China – cont'd.

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 – Trademarks in China – cont'd.

麦当劳 – McDONALD'S – wheat should work

Other Possible Names:

卖函涝 – 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 – Trademarks in China – cont'd.

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)

商标在中国 – Trademarks 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

Pfizer's Trademark Problems

- “VIAGRA” trademark applied for in the U.S. on April 12, 1996
- Viagra was approved for use by the U.S. FDA on March 27, 1998
- May 1998 Guangzhou Welman applied in China for the trademark “伟哥” (wei ge)
- August 1998 Pfizer applied for the same Chinese mark

Pfizer's Trademark Problems

- July 24, 1998 Pfizer applied for the mark “万艾可” (wan ai ke)
- March 11, 2003 Pfizer applied for the shape and color of the pill as a trademark
- But the Chinese public has come to know the drug as 伟哥, not 万艾可.

Pfizer's Trademark Problems

辉瑞产品有限公司 v. 北京健康新概念大药房
有限公司 (Pfizer Products v. Beijing Health

New Concept Big Pharmacy) Beijing Intermediate People's
Court – December 27, 2006

- Pfizer won based on its registration of the shape and color of the pills

辉瑞产品有限公司 v. 广州威尔曼药业有限公
司 (Pfizer Products v. Guangzhou Welman)

February 2, 2007

- Pfizer lost its claim that 伟哥 is its famous unregistered mark and unfair competition, and is now appealing

Patent Law – 专利法

- Currently being amended
- China is party to Paris Convention and PCT
- Types of patents
 - Design patents - 10 years -not examined – abuse problem
 - Utility patents – 10 years - are examined
 - Invention patents – 20 years - more restrictive on issues of obviousness and prior art

Patent Law – 专利法

- Article 60 The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the losses suffered by the patentee whose right was infringed or the profits, which the infringer earned through the infringement. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under contractual license.
- Article 61 – right to an interim injunction – not often used

Copyright Law - 著作权法 (版权法)

- China is a party to the Berne Convention and the Universal Copyright Convention
- **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)

- 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
- Measures – Art. 12 – methods for maintaining confidentiality during registration

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.

Trade Secrets – 商业秘密

- Included in Anti-Unfair Competition Law - 反不正当竞争法
- Defined in Art. 10 as
 - any technology information or business operation information which is unknown to the public, can bring about economic benefits to the obligee, has practical utility and about which the obligee has adopted secret-keeping measures.
- Art. 25 - fines of 10,000 to 200,000 Yuan, provisions for State enforcement
- Employee non-competition covenants are upheld

Trade Secrets – 商业秘密

劳动合同法 – New Employment Contract Law

Adopted June 29, 2007 – in force January 1, 2008

Art. 23 Confidentiality provisions to maintain the confidentiality of trade secrets and maintaining intellectual property may be included.

Certain senior employees and employees with a confidentiality obligation a non-competition restriction may be agreed upon of up to 2 years (Art. 24), provided that monthly compensation is paid to the employee for the term of the restriction. If the employee breaches this covenant he shall pay liquidated damages.

Contract Law – 合同法

合同法 (He Tong Fa) – in force October 1, 1999

- Contains both general and specific provisions
- Art. 6 - 当事人行使权利、履行义务应当遵循诚实信用原则 – The parties shall observe the principle of good faith in exercising their rights and fulfilling their obligations.

Contract Law – 合同法

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 contrary to the principle of good faith

Contract Law – 合同法

Art. 60 – the parties shall observe the principle and fulfill the obligations of notification, assistance and confidentiality in accordance with the nature and aims of the contract and trade practices.

Art. 126 – parties to a foreign-related contract can choose laws

Contract Law – 合同法

Arts. 322 - 364 技术合同 (Technology Contracts)

- Common Provisions
- Technological Development Contracts
- Technological Transfer Contracts
- Technical Consultation Contracts and
Technical Service Contracts

Art. 329 Any technology contract that illegally monopolizes technologies, impedes technological progress or infringes upon technological results of others is null and void

Contract Law – 合同法

2002 Technology Contract Regulations

- Administration of Technology Import and Export
- Administrative Measures on Prohibited and Restricted Technology Exports
- Administrative Measures on Prohibited and Restricted Technology Imports
- Catalogue of Technologies Prohibited and Restricted for Import
- Circular (MOFTEC & SAFE) Administration of Foreign Exchange Sale and Payment Related to Technology Import Contracts – Feb 20, 2002

Contract Law – 合同法

Supreme People's Court (最高人民法院) Interpretations and Minutes

- Interpretation of the Supreme People's Court concerning some issues on the Application of Law for the Trial of Cases on Disputes over Technology Contracts – Dec. 16, 2004
- Second National Foreign-related Commercial and Maritime Trial Work Meeting Minutes – Dec. 26, 2005 – on conflict of laws and when Chinese courts should take jurisdiction (not available in English)

Competition Law – 竞争法

- Draft Anti-Monopoly Law (反垄断法) had second reading in the NPC Standing Committee June 24-25th – no mention of IP or IP abuse in current draft
- Concerns regarding intellectual property abuse expressed in regulations and Supreme People's Court Interpretation of 2004

Competition Law – 竞争法

- Examples in SPC Interpretation:
 - Restricting one party from doing new research
 - Restricting one party from obtaining competitive technology
 - Unreasonable restrictions on exploitation
 - Unreasonably restricting sources for materials
 - Prohibiting challenges to the effectiveness of the subject technology

Enforcement Strategies

- Start early – register in China
- Focus on paper evidence – notebooks, contracts, letters etc. – civil law focuses on this type of evidence, and there is no discovery
- Do not start negotiations without first retaining advisors with specialized knowledge of China
- China does not enforce foreign judgments, U.S. judgments in particular

Licensing Strategies

- 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
 - Make sure that your project is economically feasible
 - Be careful not to base your business plan on WTO-noncompliant rules

Licensing Strategies

- **Early Choices** cont'd:
 - Know the authority of the government that you are dealing with (understand the true division of powers)
 - Know your limit on losses from the project in advance, do a thorough risk analysis
 - 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

Licensing Strategies

- 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
 - 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

Licensing Strategies

- Prepare A Strong Contract:
 - Specify exact terms of payment and performance
 - Ensure that the terms conform to the law, do not rely on your Chinese partner
 - Make provision for inspections and audits, possibly including for the components or inputs, and use them

Licensing Strategies

- Prepare A Strong Contract cont'd:
 - Carefully describe the scope of the grant
 - Ensure that that each page is signed and that the contract is properly signed and sealed. Are two signatures required?
 - 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

Licensing Strategies

- Prepare A Strong Contract cont'd:
 - Be careful in choice of arbitrator and arbitration rules, CIETAC has had serious problems recently
 - Consider negotiating for the right of discovery
 - 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

Licensing Strategies

- Prepare A Strong Contract cont'd:
 - 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
 - If possible chose a Chinese venue in which you have other investments
 - 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)
 - Obtain government approvals as required

Licensing Strategies

- Monitor Security Implementation:
 - Use surveillance equipment or firewalls
 - Negotiate to have a representative on site?
 - Ensure that proper security protocols are in place for trade secrets
 - Conduct regular training on security measures

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