

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 or Hong Kong

简介- Introduction – 基本状况 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

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

法院及知识产权的维权

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.)

专利制度 — Patent System

- Three major revisions: 1992, 2000, 2008
- Signatory to all major international treaties
 - TRIPS, Paris Convention, PCT
- Member of WTO
- Absolute novelty – **no grace period**
- Three types of patents
 - **invention** – 20 years - (substantive examination)
 - **utility model** – 10 years - (formalities only)
 - “switch” from utility model patent to invention patent
 - **design** – 10 years - (formalities only)

商标在中国 – Trade-marks in China

- First-to- File system, uses Nice Classification
- Currently three years for non-contentious registrations
- Party to the Madrid Protocol – but cheaper to file directly
- Must be well-known in China to be protected

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 – 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)

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)

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

著作权— Copyright

- China is a party to Berne Convention, WIPO Copyright Treaty 1996 and others
- Copyright Law adopted in 1990, amended in 2001, third amendments have commenced
- Registration not required for acquiring the rights, **but**
 - required for SAFE permit to repatriate royalty payments
 - relied upon by Customs
 - evidence when enforcing rights

技术合同 - Licensing

合同法 (He Tong Fa – Contract Law) – 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.

技术合同 - Licensing

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

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

技术合同 - Licensing

Technology contract broadly defined

Transferor guarantees

- legitimate ownership
- that the technology is complete, error free, effective and capable of attaining the contracted goals (Art. 349)

Transferor liable for infringement of third party's rights of transferee (Art. 352)

The party who made the improvements owns them unless clearly stipulated in the agreement otherwise (Art. 354)

技术合同 - Licensing

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

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.

维权 – Enforcement

- More patent and trademark litigation cases than any country in the world
 - New patent cases in 2008: 4074
 - New trademark cases in 2008: 6233
- Only about 5% involved foreign companies
 - Foreigners won majority of cases
 - Beijing 1st Intermediate Court: 22% of cases involving foreign parties, who won 80% (2002-2006)
 - Zhejiang High People's Court: foreigners in Zhejiang won 95% of IP cases involving foreign parties (2003-2008)

维权 – Enforcement

- Administrative (AIC)
 - no damages awarded
 - stop infringement quickly and less costly
 - evidence collection
- Litigation
 - all remedies available, including damages and injunctions
 - good evidence required (not easy in China)
- Customs Protection
- Criminal Sanctions

人民法院 – The People's Courts



商标案例 Trade-mark Cases

- 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 15 years.

- Ferrero-Rocher lost at trial and won on appeal and at the Supreme People's Court

商标案例 Trade-mark 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
 3. Infringer failed to prove that the mark was not well-known in China
 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.

商标案例 Trade-mark 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.)

商标案例 Trade-mark Cases

Sony Ericsson Case - July 2008— Bad Faith Registrations

- Sony Corporation is well-known in China as 索尼
- Ericsson also well-known under the name 爱立信
- In 2001 they formed a joint venture to manufacture and sell mobile phones
- Joint Venture incorporated in China as 索尼爱立信移动通信产品（中国）有限公司

商标案例 Trade-mark Cases

- Businessman in 广州 applied to register the mark 索爱 on March 19, 2003 – Sony opposed, but lost twice

北京市第一高级人民法院 – Beijing No. 1 Intermediate People's Court

- Applied Article 31 of the Trade-mark Law

商标案例 Trade-mark Cases

- Purpose of Article 31 – to prevent violations of the principle of good faith – 诚实
- Court said the joint venture was widely reported in the press
- so businessman is presumed to have known about it
- his actions 不正当性 – do have clear legitimacy

判案原则的发展- Development of Doctrine

H-D密执安公司诉北京哈雷商贸中心, 北京市第二中级人民法院, (2007)二中民初字第10758号 – November 25, 2008

Can the trademark be used by others to describe the product? (known as “nominative fair use”)

In China this case and others say – only if used as little as possible

Harley-Davidson won overall

In Canada the cases are not as clear

中国法院中的涉外纠纷

Foreigners in the People's Courts

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



中国法院中的涉外纠纷

Foreigners in the People's Courts

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

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 Fiat considered this to be the side view, but the average consumer would be more interested in the front view.

- the design patent does not protect the size and technical parameters of the shape

外观设计专利案例 - Design Patent Cases

Neoplan's Starliner



Zhongda'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



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

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 – 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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