

China's IP Isn't Entirely Out of the Haze Yet  
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How well will China enforce your intellectual property rights? Companies thinking about doing business in China ought to know a few facts before jumping into what's predicted to be the biggest untapped market.

China has come a long way since it first bid for WTO membership. China has modified its intellectual property laws drastically to comply with the Agreement on Trade-Related Intellectual Property Rights (TRIPS). Not all problems have been ironed out, however. China is aware that strong intellectual property protection is a key factor for its economic future. Furthermore, the country is aware that foreign investors will be scrutinizing and assessing whether the potential gains of their investments will outweigh the risk of losing valuable intellectual property rights (IPR).

### **Patents, Copyrights & Trademarks**

If you're filing a patent in China, you'll be happy to know that China's patent law has been extended from 15 years to 20 years in accordance to TRIPS. Like Europe, China adheres to the "first-to-file" system. Prior to the recent amendments, several administrative actions by the State Intellectual Property Office (SIPO)<sup>1</sup> were immune to any legal proceedings, which meant that final decisions were not subject to judicial review. The amendments have now made it possible to have final decisions on validity and ownership of utility models and industrial designs decided by the People's Court.

Copyright law has changed as well. Recent changes have extended protection to mask work and models. Owner's rights were also extended to include the right to limit on-line transmission of copyrighted material.

As for trademarks, like patents, final decisions have been taken out of the hands of the State Administration of Industry and Commerce, or the SAIC. Instead, judicial review falls to the Trademark Review and Adjudication Board.

The main complaint in the past was that enforcement of IPRs in China was ineffective. Punishment was so lax that it did nothing to deter any future infringers or even compensate the plaintiffs. Now, however, persons found guilty of trademark or copyright infringement are required to pay actual damages or statutory damages up to ¥500,000 RMB (about \$60,400 USD) if actual damages cannot be assessed. For patent infringement, the amount of statutory damages would be less clear.<sup>2</sup> Actual damages means lost profits, infringers' gains, or reasonable royalties. Criminal liability is also an option to punish infringers.

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<sup>1</sup> Despite the inclusive name, the SIPO in effect functions as the patent office. Trademarks are regulated by the State Administration of Industry and Commerce, or the SAIC. Copyright is under regulation of the National Copyright Administration of China, or the NCAC.

<sup>2</sup> Statutory damages for patent infringement would be calculated based on a "reasonable determination of certain times of the royalty fees of the patent." Patent Law of the P.R.C., Chapter VII, Article 60.

## **Problem Areas**

China still isn't entirely compliant with the TRIPS Agreement yet. For one, Chinese law prohibits patenting of inventions which "violate the laws of China," and "are contrary to social morality." What exactly does that mean? Your guess is as good as mine.

A recent survey showed several companies complaining that they had lost valuable technologies in China through unfair means, such as theft by employees. The cases of selling design specifications and technical data are especially rampant in the area of sophisticated technologies. The concepts of ethics and compliance with the law in the realm of scientific and technical research are often not incorporated into Chinese mentality.

Enforcement of IPRs brings on long delays. When finally addressed, enforcement actions are often arbitrary and non-transparent. The enforcement of IPRs in China on the administrative level can be conducted by a number of governmental structures. Local officials may be reluctant or even resistant to the enforcement of newly-developed IP laws in fear of antagonizing a powerful local structure or hampering the neighborhood's source of livelihood, since infringing enterprises often provide local sources of revenue and employment.

Lack of qualified personnel also factors into enforcement efforts. Since the Chinese legal system experienced a rapidly expanding number of significant changes in recent years, legal and technical expertise for administrative and judicial implementation of these changes remains limited even though special training programs in IPRs have been created. This problem differs depending on geographic location. Beijing and Shanghai courts and administrative agencies are more familiar with IP issues, whereas lack of understanding is more prevalent in more remote regions. It's still a matter of time before the number of qualified IP specialists catch up to the demands of the growing Chinese economy.

## **Practical Tips for Companies Doing Business in China**

Companies should utilize various tactics to reduce the risk of loss of their IPRs. First, a business should form joint ventures with local enterprises rather than outright licensing their technology. This way the foreign company can better control the use of its proprietary information.

Second, businesses can reduce the risk of unfairly losing technical data by splitting various production processes among different facilities. Consequently, no one facility has the full know-how.

Third, both foreign and Chinese companies can take special measures to prevent tarnishing of their product by low-quality counterfeiters by selling only to customers requiring a guarantee of quality, such as hospitals or governmental agencies. Establishing a full vertical distribution chain fully monitored by the producer also permits the producer to closely monitor the quality of the product. However, these methods are quite costly and thus are not largely available to smaller and less-established companies trying to enter the Chinese market with a new product.

China's intellectual property legal system has had tremendous changes since joining the WTO, but the country still has a long way to go. Companies wishing to protect their technology shouldn't be discouraged at all from doing business in China.

Instead, be forewarned and take some simple precautionary measures to avoid misappropriation of intellectual property.