



# Mitigating IP Issues in China

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## Mitigating IP Issues in China



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## The Scenario

- **Your company has a goal to increase its market at home or internationally.**
  - China is an automatic priority.
- **Where China is part of the equation, the IP underpinning your company's business success is at significant risk.**
  - Manage the risk, and the effect is an annoyance
  - Ignore the risk, and the effect can be tremendously negative

## Business Models with Exposure in China

- **Product Manufacturing, Assembly, Product Design**
- **Industrial Process**
- **Software**
- **Services**
- **Product Marketing & Sales**

***All business models expose underlying IP rights to significant risks.***

## Pathway to Mitigation

- **Honest assessment of environment**
- **Relationships Matter**
- **Be proactive**
- **Diligence is key**
- **Sound legal foundation**
- **Systems security**
- **Enforcement is important**
- **Review and improve**

**Key is to trust, but verify**

## Honest Assessment

**Business culture is different in subtle but important ways:**

- **Generalizations and in-flux relationships**
- **Less belief in “rule of law”**
- **Less focus on innovation as a differentiator**
- **Concept of private property is newer**
- **Copying a design is to “honor” the design**
- **Relationships take years to develop**

**The playing field is different from the U.S., know the rules to compete effectively.**

## Honest Assessment Cont'd

### Evaluate and understand the actual risks:

- Pirated trademarks, e.g., Penfolds Australian wine brand
- Parasite brands, e.g., New Bunren vs. New Balance
- Copycat products
- Beware of insiders: current/former factory personnel and distributors, e.g., breach of limited license, dealing competing products
- Common scenario: manufacturer files on company's own design to "help" company, leaks trade secrets, "third shift" production



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## Relationships Matter

### On your team:

- Don't go at it alone until you bump into an issue
- Find a trusted advisor, e.g., business associate with experience
- Western law firm with significant Chinese offices having multicultural views
- Business partner – plan to invest time and effort to develop strong relationship



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## Be Proactive

- **Register IP early before exposure**
  - Predate wrongful registrations
- **IP rights are generally territorial in nature**
- **China is “first to file” country for both trademark and patent**
- **Types of IP rights to consider:**
  - Copyright & Software – can serve as *prima facie* evidence of subsistence and ownership of a work, prerequisite for protection/enforcement
  - Trademark – Trade and Service marks, Chinese names and marks
  - Patent – Invention, Utility model, and Design Patents
  - Trade secret
  - Domain Names and Internet Keywords
- **Record IP rights with PRC Customs**
  - Trademarks, copyrights, and patents can be registered with Chinese customs
  - Both imports and exports (*c.f.*, the U.S.)

## Diligence is Key

- **Establish trustworthiness**
- **Include intended business partners, past business associates, family members**
  - Avoid trade secret leakage to competing shadow operations run by relatives
- **Actions suggested by potential business partners, key strategic components of proposed plan**
- **Critical to investigate before investing**
  - Chain of title, encumbrances
  - Don't fail to investigate personnel and management

## Sound Legal Basis

- Operate with written contacts
  - All levels
  - All entities
  - Examples: staff, consultants, licensees, suppliers
  - Key terms: specific damages, indemnities, IP ownership, confidentiality, non-disclosure, and non-complete

*IP rights in China do not automatically transfer to employer*

## Sound Legal Basis

- All IP related arrangements should be in writing (override assumptions)
- Agreements should contain specific punishments for IPR breaches (additional grounds for enforcement)
- All agreements with employees (R&D), licenses, suppliers should contain clauses protecting IPR (e.g., ownership, non-disclosure, etc.).
- Notice – Use markings and issue notices to ensure presumed knowledge of IP rights
  - Patent No. XXXX, Patent Pending, <sup>TM</sup>, ®, ©

## Systems Security

- **Safeguard Systems**
  - Identify and track IP
  - Limit access and disclosure to sensitive business aspects and files
  - Control production to prevent overruns and theft of trade secret
- **Security controls**
- **Snap audits**
- **Snap inspections**
- **Understand what you have and adopt suitable measures to safeguard (especially for non-registerable IP)**
  - Policies restricting access to proprietary information
  - Limit disclosure of sensitive technical and business information
  - Split strategic processes and source key components from multiple suppliers
  - Minimize inventory of critical components and use of crucial raw materials
  - Monitor use of important tools and sensitive data
  - Build-in anti-counterfeiting elements (e.g., RFID tags, redundancy code in software)

## Enforcement Matters

- **Why is it important?**
  - Demonstrates company's vigilance and dissuades others
  - 2-year limitation period on enforcement actions
- **3 Routes for Enforcement**
  - **Administrative Actions** – most common
    - Patent, trademark, copyright, trade secrets
    - Customs and border measures
  - **Civil Court Actions**
  - **Criminal Complaints** – least common and have thresholds
- **Select enforcement route depending on nature of case (infringement vs. piracy), objective of action (damages vs. injunction), and other factors**

## Enforcement – Administrative Actions

- **Enforcement bodies**
  - Administration for Industry and Commerce (AIC)
  - Quality & Technology Supervision Bureau (QTSB)

### Pros

- inexpensive and fast

### Cons

- local protectionism
- penalties usually not a deterrent
- damages for infringed party not likely available

## Enforcement – Customs Actions

- **General Customs Administration**
- **Process:**
  - recordation
  - interception of suspected infringing goods
  - proprietor applies to inspect the goods / pays security deposits
  - investigation and determination by the Customs

### Pros

- available for both imports and exports
- inexpensive

### Cons

- effective only when you know which port or border the infringing goods are going through
- storage charges, other expenses are high



## Enforcement - Civil Court Actions

- **People's Court**

Pros

- damages and injunctive relief available

Cons

- evidentiary burden on plaintiff is high
  - discovery process of the U.S. is unavailable in China
- high costs
- low damage awards
- lack of independence of judiciary in many local courts

## Enforcement - Criminal Actions

- **Enforcement body**

- **Public Security Bureau (PSB, i.e. Police)**

Pros

- can be brought by PSB or injured party
- deterrent damages possible (fine and imprisonment)
- potentially lower cost than civil court actions

Cons

- evidentiary standard is high
- difficult to get administrative cases transferred to PSB for criminal prosecution
- not all types of IPR infringements can be criminalized

## Review and Improve

- **Keep records:**
  - Key actors
  - Key actions
  - Coincidences
- **Analyze records and procedures periodically and assess changes, improvements**

## Benefit of Early IP Registration- Trademark

- **Cost-benefit of TM registration and enforcement**
  - TM registration <\$3K (good for 10 years, renewable for < \$2K)
  - TM opposition vs. pirate application based on prior right
    - (with TM registration) ~\$5K, 1<sup>st</sup> instance only
    - (w/o TM registration) ~\$10K if possible at all
  - TM cancellation vs. pirate registration based on prior right
    - (with TM registration) ~\$5K, 1<sup>st</sup> instance only
    - (w/o TM registration) ~\$8K if possible at all
  - AIC administrative raid (with TM registration) ~\$10K, straightforward case
    - (w/o TM registration) not possible or >>>\$10K
  - Court infringement action (i.e. with registration) \$20K+, substantially uncontested
    - unfair competition action (i.e. w/o TM registration) \$30K+, varies w/ evidence

## Benefits of Early Registration- Patents

- **Cost-benefit of Patent registration and enforcement**
  - Design registration: ~\$2.5k (1.5 years to obtain, Term = 10 years from filing)
  - Utility Patent: ~ \$10k (2.5 years to obtain, Term = 20 years from filing)
  - Utility Model Patent: ~ \$3k (1 year to obtain, Term = 10 years from filing)
- **Enforcement**
  - AIC administrative raid (with Design registration) ~\$10K, straightforward case
  - Court infringement action (i.e. with registration) ~\$100k+, substantially uncontested
    - Less than US, still uncertainty

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### Questions?



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## How Do I Learn More? Interactive dialogue

### IP Litigation Impact of New Technologies: AI, Smart Devices, and Cryptocurrencies

March 28, 2018



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**Thank you!**