

Protecting Intellectual Property Rights in China

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Protecting intellectual property rights (the "IPR") is the key component of a successful investment in the People's Republic of China ("China") for many chemical companies. China is probably the most dangerous intellectual property jungle in the world. With pre-planning and careful consideration, an US investor can protect its IPR in China, but measures must be taken up front on issues involving workplace security, employees' labor contracts, confidentiality obligations to Chinese partners and product selection. For the chemical industry, access to processing information may need to be limited by keycard access; or it may be prudent to withhold the most advanced technology from China. Only employees with specific clearances should be allowed to have laptops and it may be advisable to eliminate printers from sensitive process areas so that control technology cannot be easily copied. In addition to these practical workplace steps, registration in China is necessary in order to effectively protect valuable IPR.

I. Registration of IPR

Trademarks are protected on a first-to-file basis. Thus, unless bad faith can be shown as to the first applicant or the trademark in question is "well-known," registration will be granted to the first applicant when two or more applicants are applying for the same trademark. China is a signatory to the Nice Agreement Concerning the International Classification of Goods and Services and has adopted the international registration regime under the Madrid system.

Unlike the US, where priority will be given to the prior creation, patents and designs are also protected on a first-to-file basis in China. As such, patents should be registered as early as possible. China is a member of the Paris Convention. Consequently, filing in a member country within applicable time limits can also provide priority in China.

Copyrighted materials shall be registered with the China National Copyright Administration. Unlike trademark and patent registrations, copyrights are not granted on a first-to-file basis.

Domain names are protected on a first-to-file basis. A foreign company must have a business existence in China (a wholly foreign owned enterprise, a joint venture company, or a representative office) to register a ".cn" domain name.

II. Enforcement of IPR at the Administration Level

Unlike the US, litigation as a means of addressing IPR violations is seldom used in China. Instead, China utilizes administrative enforcement of IPR rights, which takes relatively less time and is less expensive than litigation. Various government agencies are entrusted with enforcement powers to investigate, raid and seize, impose fines and issue administrative penalties to counterfeiters and IPR infringers.

The State Administration of Industry and Commerce (the "SAIC") and its agencies above the county level throughout China are empowered to enforce trademark rights. The SAIC and its local AICs can conduct trademark infringement investigations on their own initiative but oftentimes will not undertake such investigative actions unless there are reliable evidence and leads. The SAIC and its local AICs have the authority to raid suspected counterfeit manufacturing facilities, shut down shops which sell counterfeit products, confiscate counterfeit goods, issue administrative penalties and impose fines. The SAIC and its local AICs are also charged with handling disputes regarding

business names, registered trademarks, and trade secrets. The SAIC has a good reputation for efficiently handling trademark enforcement actions.

The China Patent Office and its local sub-offices have the same power as the SAIC to enforce patent laws but its offices are not located in many Chinese locales. Moreover, due to the nature of patent infringement cases, complicated technical issues are often involved, and thus administrative resolutions of patent disputes do not occur as often in the patent area as is true with trademark disputes.

Enforcement of copyrights is vested with the National Copyright Administration, which is empowered to order the cessation of infringing activities, confiscate illegal income, confiscate and destroy illegal copies, and impose fines.

The General Administration of Customs (the "GAC") and various customs houses at Chinese ports offer an efficient means to combat counterfeiting activities at the port. The Customs inspectors for the GAC typically monitor registered trademarks and look for suspicious knock off goods. Typically, with sufficient evidence and leads, Customs officials will seize and destroy shipments of counterfeit products before they leave China and will impose fines on the counterfeiters after relevant administrative procedures. Experience has shown that utilizing the GAC's network and the Customs monitoring system are efficient and effective ways to counter IPR infringement in China.

Lastly, the Administration of Quality Supervision, Inspection and Quarantine is entrusted with the power to handle cases involving quality and health. In the past year, this issue has gotten more attention given the media reports of contaminated products originating from China such as toothpaste with ethylene glycol, lead paint in toys, and counterfeit pharmaceuticals.

Criminal liability, including imprisonment, can be imposed for IPR violations. Certain financial thresholds must be satisfied to trigger criminal liability. Under relevant provisions of the Chinese Criminal Law and judicial interpretations of the Supreme People's Court, trademark infringers can be imprisoned for no more than three years and fined if the turnover derived from the unlawful use of registered trademarks exceeds RMB 50,000, or, if the illegal profits from such unlawful use is over RMB 30,000. A "serious offense" in this regard will bring a prison term between three and seven years and fines will be imposed if the illegal turnover is in excess of RMB 250,000, or, the illegal profits from such unlawful activities are over RMB 150,000. Similar punishments also apply to patent and copyright infringements.

In conclusion, China has a relatively complete IPR legal system, but lacks efficient enforcement. To protect IPR in China in a more efficient and economic manner, administrative enforcement offers a good alternative to litigation, and is highly recommended. This requires diligent monitoring of intellectual property by tracking websites and marketplaces, and notifying the proper agencies with evidence of IPR violations.

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