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## CHINA AND YOUR CLIENT'S INTELLECTUAL PROPERTY

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### China Today

The unauthorized use of intellectual property (IP) in China has been widely reported and is broad in scope. It's been estimated, for example, that 90% or more of the movie, music and software copies in circulation there are pirated, and that up to 20% of some consumer products are counterfeit.<sup>1</sup>

Like everything else about China these days, however, the legal landscape for intellectual property protection is changing rapidly. There were more patents filed in China in 2004 than in the European Patent Office, and approximately half of those were filed by Chinese nationals.<sup>2</sup> Moreover, most IP litigation in China is between Chinese nationals and involves Chinese-owned IP rights.<sup>3</sup> As the use of intellectual property protection by Chinese domestic businesses increases, the enforceability of IP rights in China is likely to improve for both domestic and foreign enterprises.

In addition, protecting a client's IP in China can mitigate some of the risks of doing business there. Clients contemplating a business venture in China should therefore take steps to protect their IP rights as part of the due diligence process.

### Steps to Protect Your Client's IP

#### Step 1: Know what you have.

A client considering doing business in China first needs to take stock of the IP assets that would be involved in the venture. In addition to patents and trademarks, for which protection may already have been sought, clients should identify trade secrets and other valuable information that would need to be disclosed.

The particular IP assets to consider will vary from deal to deal, of course. The IP to consider for a contract manufacturing arrangement for example might include manufacturing know-how and/or a company trademark.

#### Step 2: Identify the value drivers.

After determining the IP assets relevant to a proposed business venture, the value drivers for the deal should be identified. Knowing which IP assets have the most value will allow your client to prioritize the resources needed to protect those assets. If a company's brand drives the sale of a product that's to be made in China, for example, trademark protection for that brand should be prioritized.

### **Step 3: Cover your bases at home.**

Since the U.S. is going to be the largest market for most U.S.-based clients looking to do business in China, protection for a client's key IP assets should be shored up in the U.S. first, regardless of what happens in China. Registering unregistered trademarks and copyrights, for example, can better prepare your client to stop the distribution of unauthorized goods that make their way to the U.S. from a source in China.

Registered trademarks and copyrights can be used not only to sue the distributors of such unauthorized goods, but also to stop them at the border. By recording trademarks and copyrights with U.S. Customs and Border Protection (CBP, formerly the Customs Service), CBP can be enlisted to stop shipments of pirated goods.

### **Step 4: Protect your IP in China.**

Intellectual property can be owned and enforced (to some degree, at least) in China by a U.S. entity, and China's patent, trademark and copyright laws are in fact similar to those of other industrialized jurisdictions like Europe and Japan. IP assets must be registered in China before any enforcement there is possible, though.

#### *Trademarks.*

Trademarks are granted on a first-to-file basis, and therefore can be owned by a trademark "pirate" who applies to register your client's mark before your client does. This is an issue even if your client is only contract manufacturing in China for export to the U.S., as the pirate would have the ability to block the export from China of goods bearing the client's mark. The early registration of trademark and other IP rights is therefore in part a defensive measure.

#### *Patents.*

As with trademarks, China grants patents on a first-to-file basis. There is no grace period under Chinese law for filing a patent application after the public disclosure of an invention, so patent application filings need to occur before any commercialization of an invention. Practically speaking, in most cases only designs or technologies that haven't yet been introduced to the market or otherwise made public will likely be available for protection in China.

#### *Copyrights.*

Early registration of key copyrights is also advisable, given the relative ease with which many copyrighted works can be duplicated. Having a copyright registration on hand when your client begins operating in China allows the copyright to be enforced as soon as enforcement becomes necessary.

#### *Trade Secrets.*

There is no registration system for trade secrets, so protection is a matter of taking practical and legal measures to maintain the confidentiality of any know-how used in China in a business venture. The best way to protect trade secrets in China is to limit their disclosure to employees or business partners there to the extent possible, and to bind such individuals by confidentiality agreements when disclosure is necessary. Establishing a relationship with business partners in China is likely to be the best defensive measure.

## Step 5: Follow-Through in China.

Once your client begins doing business in China, protecting the client's IP assets becomes a matter of vigilance in detecting infringement and in pursuing infringers, when practical. While the fines levied in China against IP infringers may be low by American standards, swift enforcement is available against infringers of trademarks, copyrights, and design patents. A well-connected business partner can also enhance the chances for successful IP enforcement actions.

While the cost of stopping the sale of knock-offs by street vendors is likely to be prohibitive, registering IP rights will at least allow your client to take action against, and in some cases shut down, larger operators. IP can also provide your client with leverage, for example against a contract manufacturer who decides to run an extra shift for its own account.

## Investing in the Future

In spite of public perceptions to the contrary, therefore, protecting intellectual property in China can be worthwhile for a U.S. business. Moreover, intellectual property protection is, in large measure, an investment in the future, and the future of IP protection in China appears to be brighter than it has in the past. China now has specialized IP courts, and it's been estimated that 500,000 - 1,000,000 officials are now involved in the protection and enforcement of intellectual property rights.<sup>4</sup> Clients should therefore be advised to consider IP protection in China before doing business there.

## References

1. Mark A. Cohen, Intellectual Property Attaché, U.S. Embassy, Beijing, "Changing the China IPR Paradigm: A Roadmap," October, 2006.
2. World Intellectual Property Organization, Statistics Database, 2006.
3. Mark A. Cohen, *op. cit.*
4. *Ibid*

## Author

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