

Making the China Connection

Won't They Steal Our Good Name and Best Technology?

By Tom Ladd and Dick Troll

Doing business in China means coming to terms with a history and a set of cultural traditions much different than ours. For centuries, Chinese culture promoted copying in all aspects of life, associating academic, artistic and commercial success with flawless reproductions of past classics.

In more recent history, China adopted its own form of Communism that rejected all forms of private property, including intellectual property. Since 1979, China has developed its own brand of capitalism, which includes “new” fashioned greed. While China has adopted laws to protect intellectual property, many Chinese companies have learned to use and abuse the intellectual property system. It's a small wonder that U.S. companies struggle over whether to enter the Chinese market.

Consider one U.S. company's experience with its Chinese distributor. When the company ended the Chinese distributor's agreement, the distributor registered a trademark identical to the U.S. company's trademark in a close, but different, international classification. The distributor also obtained a design patent for the packaging the U.S. company was using in China. Then, the distributor filed a lawsuit against the U.S. company in the courts of 16 Chinese cities and caused Chinese authorities to seize more than 100,000 boxes of the U.S. company's legitimate products. The U.S. company was enjoined from using its own registered trademark. Eventually sanity prevailed, the injunction was lifted, and the design patent canceled – but not without further legal costs and significant loss of business.

Asset protection

With many reported stories like this, your company may decide to steer clear of China. However, many U.S. companies believe China offers many opportunities, including labor cost savings and an untapped consumer market. Even if your company does not enter the Chinese market, you should consider taking some relatively simple steps now to protect your company's assets.

First, register your important brands in China now as a defensive measure. Under Chinese law, whomever registers a brand first has the superior rights – even if he is not using that brand. On the technology side, patents only provide a right to exclude others from using the technology that is the subject of the patent. As our Chinese distributor example shows, if you do not protect your trademarks and patents now, Chinese manufacturers may seize the opportunity and register as the owners of your trademark or design patent.

Second, avoid handshake agreements. Any agreements with suppliers, sales representatives or distributors should contain non-disclosure/non-analysis provisions if you share confidential information with them. To avoid the “can't understand English” defense, you should ensure those agreements are

translated into the local Chinese dialect by experienced translators. Employment agreements should include non-disclosure and non-compete terms, as well as a duty to assign copyrights, new inventions and know-how to the employer.

Dispute resolution

Chinese courts expect your company to take reasonable steps to protect its intellectual property, such as registering trademarks and patents. China has a two-track system for enforcing intellectual property rights. Disputes can be brought to an administrative forum, but the civil courts and the criminal courts are available to provide relief.

Remedies available to administrative agencies include injunction, confiscation and destruction of offending goods and tooling, and fines up to 100,000 RMB (\$12,000). Court action offers the same remedies and an elevated damage limit to 500,000 RMB (\$60,000). Penalties up to seven years confinement are available in egregious cases precipitating criminal action. Patent and copyright enforcement follow a similar two-track system. Customs enforcement also is available to prohibit the importation and exportation of infringing goods.

More cases are being filed to enforce intellectual property rights in China. Unfortunately, a hearing officer or judge – who is likely inexperienced – hears those cases. And, since the intellectual property enforcement system was developed to enable admission to the WTO in 2002, there are few court decisions to guide judges and lawyers.

If you decide to enter or if you are already in China, we hope these comments will stimulate your company to audit its intellectual property position in China. But, regardless of whether you enter the country, China and the U.S. are living out the famous Chinese curse – we will most certainly live in interesting times.



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