

# Plan Ahead to Minimize Intellectual Property Perils in China

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**E**ver since Chinese leader Deng Xiaoping announced China's "Open Door" policy in December 1978, U.S. companies have flocked to China, lured by the cheap manufacturing costs and potentially huge con-

sumer market.

Throughout this period, the protection of intellectual property (intellectual property or "IP" includes patents, trademarks, copyrights, and trade secrets) has been a primary concern for those considering doing business in China. Early on, the question being asked was, "Is doing business in China worth the risk to our IP?" More recently, the question has been, "Is not doing business in China worth the risk to our survival?" Often times, the answer is no.

It is widely recognized that China has serious problems with IP protection. Eighty percent of companies polled in the American Chamber of Commerce's *2005 Business Climate Survey* indicated they regard IP enforcement in China as "ineffective or totally ineffective." So why do IP-intensive companies, including many from our backyard (Microsoft, Nike, Starbucks, InFocus, and Pixelworks, to name a few) continue to do business in China? And why are more and more companies going to China despite the acknowledged IP risks?

The answer to both questions, in my view, is that, in an increasingly flat and competitive business world, many companies have little or no choice but to go to China in order to survive. Furthermore, in order to survive doing business in China, they have no choice but to strategically manage their IP risks there.

As a business professional doing business or considering doing business in China, maybe you're debating whether to bring in the company's technological "crown jewels" or "secret sauce." Or maybe you're determining how to protect your valuable brand. Regardless of the issue driving you to consider IP protection, it is important to adopt a holistic approach rather than a piecemeal one.

In my opinion, the best method is a multidimensional approach that I refer to as "IP risk management." IP risk management, or "IPRM," is a strategy that uses proactive and pre-emptive measures for obtaining, protecting, and enforcing IP rights.

Unfortunately, many companies in China

adopt a one-dimensional approach to IP protection that relies solely on enforcement (taking administrative or legal action to stop infringements, for example). This approach, in my view, is overly legalistic and reactionary and, in the end, not very effective. In China, IP protection must go beyond legal enforcement to be effective.

My paradigm for IPRM in China has three components: a strategic component, an operational component and a legal component. The role of each component in a company's IPRM strategy will vary depending on the circumstances. You should carefully consider how each component fits with your particular situation.

The **strategic component** involves identifying the IP issues, determining options for resolving those issues, and analyzing the costs and benefits of each option. This component requires a company to first incorporate IPRM as an integral part of its China strategy and then address some important questions, including the following:

- What is the legal framework for IP protection in China?
- What IP is implicated or placed at risk by doing business in China?
- What IP rights are owned in China, and should additional rights be obtained?
- Is it worth bringing the IP into China at all? And if so, how can it be done in a manner that best protects and minimizes risk to the IP?

The **operational component** is a by-product of the strategic component and focuses on non-legal measures to protect IP assets. While it can be the most important part of an IPRM strategy, it is often the most overlooked. Some operational measures to consider include:

- *Implement appropriate security measures – Prevention is the best medicine in China. Preventative security measures may include limiting access to facilities, securing IP in a certain location, installing monitoring equipment, and/or establishing (and enforcing) relevant policies and procedures.*
- *Screen potential employees, vendors, and partners – Theft of IP by employees and business associates is common in China. Legal remedies exist, but they are time-consuming, costly and uncertain. If you take your IP seriously, you should take the screening process seriously. Ask questions of prospective employees to evaluate ethical and moral standards. Always conduct due diligence on*

*potential business associates.*

- *Execute strong contracts – In China, a written contract may be the only evidence in an IP dispute. Therefore, it should be standard practice to have written contracts address IP issues. Contracts in China should address, as appropriate, the following issues: IP use, IP ownership, confidential information, non-compete agreements, audit rights, injunctive relief, dispute resolution, choice of law and controlling language.*

The IPRM process often begins and ends in China with the **legal component**, starting with procuring IP rights in the country, such as a Chinese patent grant or trademark registration. If operational safeguards fail, it may end with enforcing those IP rights against infringers. When procuring and enforcing IP rights in China, you should consider the following:

- *There is no use requirement for registering trademarks in China. Consider registering more rights than currently used or needed, including variations of trademark, Chinese version, similar goods and related classes.*
- *In China, there are three types of patents: invention, utility model, and design. There is no substantive examination for utility model or design patents. Consider applying for utility model and design patents under certain circumstances.*

- *China's laws provide two routes to enforce IP rights: An IP holder can either take administrative action or initiate court proceedings. Administrative actions are most suitable for simpler cases where the IP owner wants quick action but no damages. Court proceedings are more appropriate for complex cases, and where the IP owner wants damages and deterrence.*

The above paradigm for IPRM in China does not eliminate the risk of theft or infringement of IP in China, but it reduces the risk as much as possible under the circumstances. You may not have a choice whether to do business in China and assume substantial risk to your IP. Do you really have a choice whether to manage that risk? ■

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