

# Intellectual Property Protection/Licensing and Doing Business in China

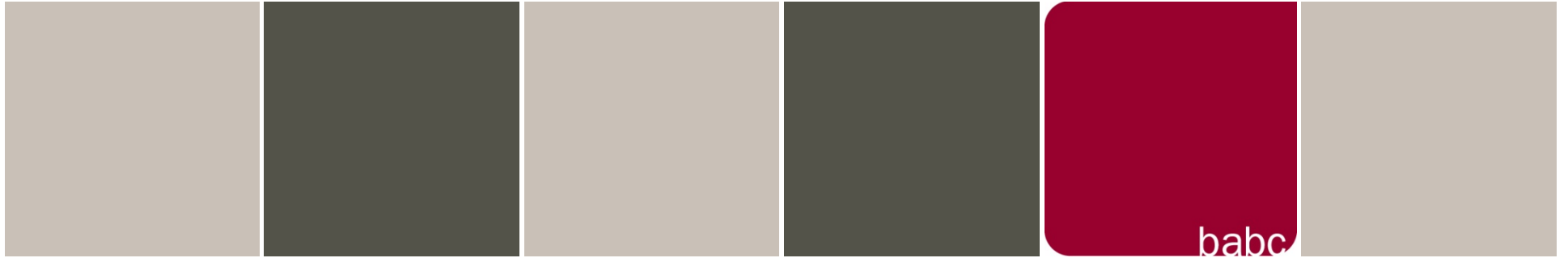
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# CHINA

## Land of Opportunity or Land of the Lost

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# China – Land of Opportunity



# Chinese culture and business practices are “different”

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- Leave your Western brain behind
- Patience truly is a virtue
- Plan on spending time – lots of time
- Understand your role as both a business person and a teacher
- Due Diligence



# Common Myths

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- **Chinese laws are unclear**
- **Chinese law do not protect foreign business interests**
- **My company does not have to adhere to Chinese laws – no one else does**

**We are programmed to receive. You can check-out any time, but you can never leave . . . .**

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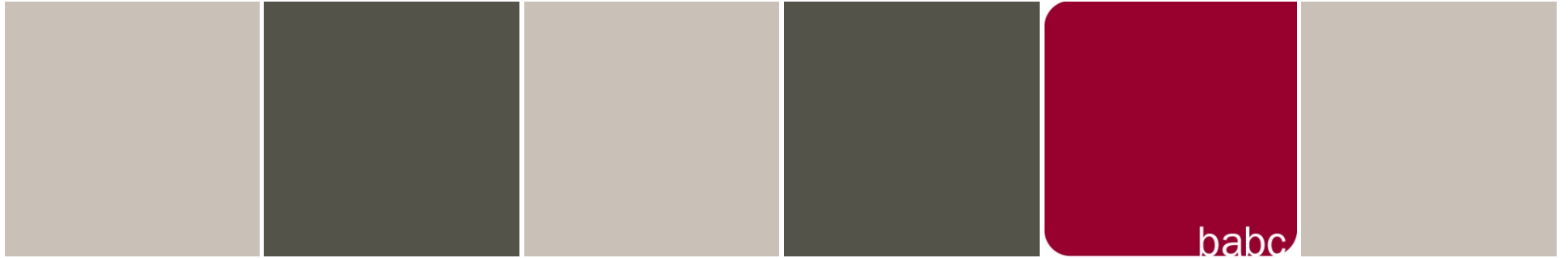




# Land of Opportunity

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- **Largest untapped consumer market**
- **Significant manufacturing capacity**
- **Strong desire to develop or acquire technology**
- **Inbound investment opportunities**
  - Equity or assets
  - License technology
  - Many recent inquiries



# Doing Business in China

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# Doing Business in China

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Different options depending on needs:

- **Contract**
- **Chinese entity**
- **Joint Venture**
  - In many respects is just a hybrid of the other two
- **Whatever you do, make sure you are set up legally**



# Common Types of Contracts

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- **Manufacturing / OEM**

- Low cost was the “first wave”
- Domestic consumption is the current trend
- One strategy is to manufacture low end for sale in China market and high end for export

- **License Agreement**

- Shifts more risk to Chinese licensee
- Requires considerable due diligence and trust

- **Outsourcing**

# Chinese Entity

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- **Representative office**
  - Very limited – only purpose is to market products and services outside of China
  - i.e. cannot do any business in China
- **Wholly Foreign-Owned Enterprise (WFOE)**
  - Some types of businesses (e.g. media) limited or not permitted to be owned by foreigners
  - Minimum capital requirement
  - Expenses can be reimbursed from this, but only if accounted for properly



# Joint Ventures

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- **Disfavored structure now**
  - Westerners tend to negotiate for the wrong things and end up without any control or leverage
  - Time consuming and expensive to set up correctly
  - Painfully difficult to unwind
- **For most deals, a WFOE or a good contract is a better option**



# Practical Advice

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- **The Chinese language is your friend, not your enemy**
  - Get an agreed translation of key deal documents at the time of the deal
  - Better than having one created in a dispute (and your dispute will be in Chinese, whatever your contract says)
  - Give thought to which version should be “official” – if your dispute will be in China, better to use the Chinese version



# More Practical Advice

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- **Dispute Resolution clauses require careful consideration**
  - Do not treat as “boilerplate”
- **Do not assume that the Western preference for all disputes to be governed by U.S. law and resolved in U.S. is the best, or even a good, approach**
- **FCPA challenges – lots of state-owned enterprises still**



# Protecting Your IP in China

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# Register, Register, Register

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- All IP is territorial in nature.
- If you haven't taken affirmative steps to protect your IP in China, you probably have **NOTHING**.
- Or worse, a Chinese party has already stolen and registered your IP in China!
- **Bottom Line:** Registration of your IP in China must be the first step to any consideration of licensing or otherwise exporting your IP to China.



# Register What and Why?

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- **Trademark**

- First to file wins
- No actual use required
- Takes a long time to get (36-40mo)
- Hard to dislodge a prior filer
- No registration, no enforcement



# Register What and Why?

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## ■ Patent

- First to file wins, regardless who is the original inventor
- Certain patents are relatively easy to obtain and hard to invalidate
  - Utility Model Patent (similar to U.S. design patent)
  - Design patent (product packaging, car shape)
- No registration, no enforcement

# Register What and Why?

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## ■ Domain Name

- .cn, .com.cn
- Too easy to register
- Extremely difficult to get your domain name back (unless “Chinese well-known marks”) (not likely)

## ■ Copyright

- Registration is not mandatory for protection (unlike TM and PT)
- But is prima facie evidence in infringement case



# Registration Basics

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## ■ Trademark

- Consider registering both English and Chinese translation (and phonetic equivalent term)
- More restrictive examination than the U.S.
- Must use within 3 years from registration
- Incontestable after 5 years of use
- Record assignment or license
  - Failure to record within 3 months can subject your trademark to invalidation or cancellation

# Registration Basics

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## ■ Patent

- Accurate Chinese translation of PT application is absolutely crucial
- No grace period for “publication”
  - Public use in China or publication anywhere will bar registration
  - Unlike the U.S.
- Assignment or license must be recorded
  - Assignment becomes effective only after recordal
- Protection period varies depending on the type of patent
  - Invention patent (substantive examination, 20yrs)
  - Utility model patent / Design patent (no substantive examination, 10yrs)



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**The key to protect your IP in China is to be proactive rather than reactive.**



# Last But Not Least, A Few Gentle Reminders

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# DOING BUSINESS IN CHINA

## LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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### A. U.S. EXPORT & RE-EXPORT LAWS

#### General Comments

- Goods, Services & Technology
- Purely Commercial; Military Applications
- Dual Use: Commercial & Military or Proliferation Applications

#### – Technical Arena

- Internal Planning and Follow-Through: The Necessity
- Multiple Agencies Have Jurisdiction/Choosing the Wrong One
- Repeated Shipments
- Technology Exports



# DOING BUSINESS IN CHINA

## LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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### A. US EXPORT & RE-EXPORT LAWS (continued)

- Penalties
- Foreign Trade Zones
- “Helping Hands” – Freight Forwarders, Trade Groups, NAITA, Others

### B. CHINA-SPECIFIC MATTERS

- What, Where, How, To Whom, Why, & When - Know Your Exports/Re-exports
  - Personal Items When You Travel
  - Advisory Lists
  - Warning Signs



# DOING BUSINESS IN CHINA

## LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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### B. CHINA-SPECIFIC MATTERS (continued)

- Know Chinese Requirements for Imports and Personal Items
  - Time Requirements
  - Costs
  - Worrisome Possibilities
- Customs Inspections/Documentation
- “Friends” in China – Importer, Freight Forwarders, On-Site Personnel, Others



## DOING BUSINESS IN CHINA

### LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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#### C. TECHNOLOGY INITIATIVES - General Comments

- Technology R & D Centers
  - General Requirements - Forms and Scope of Business
  - Chinese Tax Benefits
  - Establishing a Technology Company
- Technology Transfers Into and From China
  - Type of Technology and Transaction
  - Sale or Assignment of Technology
  - Licensing Technology



## DOING BUSINESS IN CHINA

### LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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#### C. TECHNOLOGY INITIATIVES - General Comments (continued)

- Costs and Time Requirements
- Tax Matters
- Importance of Planning: Transaction Structure; Local Experts

#### D. TECHNOLOGY LICENSING TRANSACTIONS – General Comments

- Import/Export of Licensed Technology
- Intra-Company and Affiliate Transactions

# DOING BUSINESS IN CHINA

## LAST BUT NOT LEAST, A FEW GENTLE REMINDERS:

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### D. TECHNOLOGY LICENSING TRANSACTIONS - General Comments (continued)

- Registration of Technology Licenses
- Royalties Paid to and by Chinese Company
- R & D Services by Chinese Company
- Tax Matters

### E. FOREIGN CORRUPT PRACTICE ACT

- Leave Your Western Brain Behind; **BUT**, Comply with U.S. Law
- Employee Training – Do No Inadvertently Cross the Line
- Understand Interplay Between FCPA and Local Law
- FCPA Compliance Program
- FCPA Best Practices