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Taking advantage of China 'thaw' in IP protection

By Doris Estelle Long

The historic visit of China's President Hu Jintao last week was notable for its strong focus on intellectual property rights. Ultimately, Hu pledged to improve enforcement efforts in China. In the post summit euphoria, optimists view this pledge as a positive demonstration of renewed government willpower to enforce foreign IP rights. Pessimists point out that similar promises have been made since 1992 when the first Memorandum of Understanding on the Protection of Intellectual Property was signed between China and the United States. Regardless of which view you accept, there is no question that China remains a tempting market. With more than 1.3 billion people, China is already the second-largest U.S. trading partner with strong ties to several Chicago-based companies. But before any company decides to take the "China plunge," some hard-headed, advanced legal planning is needed to prevent the unintended distribution of its intellectual property to the public.

There is no question that government willpower to enforce IP rights can have a positive impact on the staggering number of piracy cases involving China. During the 2008 Beijing Olympics, the Chinese government mounted a concentrated, multiagency effort to combat unlawful use of Olympic symbols. A similar rededication of enforcement efforts regarding IP piracy now would be a welcome development, building on some recent improvements, particularly with respect to the courts in major cities in China.

But enhanced enforcement may not counterbalance the serious concerns created by China's "indigenous innovation" policy. In 2006, in a report issued by China's State Council titled "Guidelines on National Medium- and Long-Term Program for Science and Technology Development," a new policy was announced with a goal of China becoming "an innovative nation in the next 15 years and a world power in science and technology fields by the middle of the 21st century." To achieve this goal, the policy calls for China not to purchase "any core technologies in key fields that affected the lifeblood of the national economy and economic security." In 2009, China altered its government procurement policy by requiring all products include "indigenous innovation" ("zizhu chuangzin"). Encouraging local innovation is an age-old economic development technique. Even the United States used high tariffs and other protectionist policies to support the textile and other industries in its early stages of economic development. But in today's globalized economy, with manufacturing already migrating to countries with the lowest labor costs, such protectionist policies threaten to stall further global economic recovery and rewrite the rules of intellectual property protection.

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The actual impact of China's indigenous innovation policy differs depending on the industry. Reports indicate the automotive industry has been particularly hard hit by the policy as China seeks greater access to electric vehicle technology. Any new entrant should investigate the issue carefully to be certain it won't be forced to turn over its intellectual property to Chinese partners to secure a beneficial marketing niche. Although Hu agreed to revisit its policy on "indigenous innovation" by "delinking" the issue from the broader question of government procurement, it is not yet clear what such "delinking" will constitute.

The wisest course for any company doing business in China is to be proactive in protecting its intellectual property rights. A critical first step is to consider registering any trademark connected with goods or services sold or manufactured in China. Like most countries, China only protects trademarks that are registered with the Chinese Trademark Office. While international treaties, such as the Agreement on Trade Related Aspects of Intellectual Property (TRIPS), recognize the certain "well-known" marks can be protected without such domestic registration, China has established an optional "famous marks" registry. To qualify, marks must be "widely known to the relevant sectors of the public and enjoy a relatively high reputation in China." Such registration for qualifying marks should further reduce enforcement costs.

In addition to registering English language marks, companies should also strongly consider translating their marks into Chinese characters and registering those transliterations. Such translations require a certain cultural sensitivity. One of the early transliterations for the closest sounding Chinese characters for Coca-Cola translated to "bite the wax tadpole," not quite the meaning Coca-Cola intended. Absent such transliterations, however, some Chinese courts have denied relief against Chinese character marks that infringe foreign language marks.

Companies should plan now to protect any potentially patentable inventions. Under the 2009 amendments to its patent laws, China has adopted an absolute novelty standard. In the United States, inventors generally have a one-year grace period to publicize or commercialize their invention before filling a patent application. In China, under Article 22 of the 2009 Patent Law, such activities would create an absolute bar to protection.

While patent protection might be advisable for inventions that meet China's patentability standard of novelty, inventiveness and practical applicability (Article 22), such protection also contains certain risks not present in the U.S. system. Under the 2009 amendments, failure to "fully exploit" a patent in China may result in the grant of a compulsory license (Article 48). It appears that importing the patented article may not be sufficient. Article 69 specifically allows the importation of gray market patented goods. Such provisions could severely restrict the economic value of a Chinese patent to foreign holders.

Using trade secret law as an alternative to patent protection remains problematic. Although Article 10 of China's Unfair Competition law prohibits misappropriation of trade secrets, industrial espionage remains a growing problem.

In a recent report, the International Trade Commission warned that China's indigenous innovation policy may create an environment that encourages the misappropriation of foreign intellectual property rights. Fortunately, this environment is alleviated to a certain degree by encouraging advances in enforcement that are already evident including increasing seizures of counterfeit goods by Chinese authorities and more consistent judicial decisions, upholding IP rights, at least from courts in the major cities. If the promised increased attention to IP enforcement bears fruit, the China thaw may provide welcome new opportunities for Chicago businesses to participate in the rapidly expanding China market.

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