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IP Protection In China: Have A Strategy In Place *Before* You Go

The Editor interviews J. Benjamin Bai, Ph.D., Partner, Jones Day.

Editor: Dr. Bai, would you tell our readers something about your professional experience?

Bai: I am a partner in Jones Day's Houston and Beijing offices, where I focus on intellectual property litigation in China and the U.S. I also represent European, U.S. and Chinese clients in building their IP portfolios. I have a bachelor's degree in polymer chemistry from the University of Science & Technology in China. After spending a year in its graduate school, I decided to come to the U.S. to pursue a Ph.D. at Rice University. After completing the program, I went to work for General Electric in Columbus Ohio. Shortly thereafter, I decided to attend law school.

Editor: What prompted you to leave a promising engineering career – one that was already underway – to go to law school?

Bai: Prior to graduating from Rice, I was involved in a patent application that my research group was pursuing and came to understand that there is a place in the legal profession for technical people. That was the start of my interest, and going to work for GE represented something of a transition to law school and the profession.

Editor: How did you come to Jones Day? What were the things that attracted you to the firm?

Bai: After practicing U.S. IP law for seven years, I became a shareholder at Jenkins & Gilchrist, but I was not satisfied because I had no opportunity to utilize my Chinese background. Jones Day has a very large

presence in China. It also has a strong U.S. IP practice. And it is a global firm. Those were the three criteria I used in reviewing law firm opportunities. In fact, Jones Day was the *only* firm that met all three.



**J. Benjamin
Bai**

Editor: I understand that you commute on a regular basis between Beijing and Houston. How does that work?

Bai: The practices in Houston and Beijing are different, but there is considerable interface. For example, many of our clients are in the U.S. or Europe. When China goes to sleep, I become the contact person for them. When I sleep, our Beijing office takes over. This results in 24/7 coverage, which the clients appreciate. I also have an opportunity to review the work done by our Beijing office.

Editor: Would you tell us something about Jones Day's China operations?

Bai: The firm started to go international in the mid-1980s. Our first office in the region was opened in Hong Kong in 1986. A Taipei office followed in 1990, followed by Shanghai in 1999. The Beijing office was opened in 2003. The four offices are comprised of about 150 lawyers, and they are Chinese, American, Canadian, British, Australian and Singaporean in nationality.

Editor: Does each of the firm's offices focus on particular practice areas?

Bai: The four offices do different things because they represent three different jurisdictions: mainland China, Hong Kong and Taiwan. Local issues require the exper-

tise of local lawyers. However, there are many different cross-border issues, and that usually means staffing a project from two or three of the China region offices. For example, we recently handled a mainland China bank's IPO in Hong Kong that entailed the expertise of people from our Beijing, Shanghai and Hong Kong offices.

With respect to practice areas, the Beijing office represents the entire Chinese practice, including M&A work, litigation, IP, oil and gas, capital markets, and so on.

Editor: Who are the clients that you see in Beijing? U.S. and international enterprises seeking to do business in China? What about Chinese enterprises?

Bai: We do more work for international corporations seeking to do business in China than for Chinese clients. The latter, however, is not insubstantial. We represent some of the largest Chinese companies conducting business overseas, and this work is on the increase. Normally, these companies do not engage an international firm for China-specific issues, but where there is an international dimension – Chinese bank IPOs in foreign markets, Chinese high tech companies going public in Hong Kong, London or the U.S. or Chinese enterprises acquiring foreign companies – we usually find ourselves on the short list.

Editor: Please take us through the protection of IP rights in China. For starters, if a company has patent protection in the U.S., Europe and Japan, what action should it take in seeking to bring its products to China?

Bai: IP rights are largely territorial. If you have a U.S. IP right, particularly a patent, it does not provide you with any protection in China. Accordingly, the first step is to

Please email the interviewee at bbai@jonesday.com with questions about this interview.

ensure that you *have* patent rights in China. It is essential to file your key patents in China and to do it in a way that makes your rights enforceable.

With respect to copyrights, registration is not essential because the Berne Convention permits U.S. copyright holders to sue for infringement in China. Nevertheless, registration in China confers some procedural advantages on the holder of the copyright.

Trademarks *must* be registered in China, which is a first-to-file jurisdiction. That is, if GE failed to register its trademark in China, then, irrespective of the worldwide recognition that mark enjoys, it is open to a legal dispute if someone else registers the mark first. In addition, very often foreign companies forget to choose an appropriate Chinese name for their English-language trademarks, which can cause trouble down the road.

Editor: What about a transfer of IP assets by an American parent to its Chinese subsidiary?

Bai: There are a number of potential pitfalls here. U.S. companies are used to transferring assets from one subsidiary to another or from the parent to a subsidiary. Under Chinese law, a foreign wholly-owned subsidiary is considered a Chinese entity, and if the parent is a foreign corporation, the transfer is subject to the Chinese technology import and export regulations. Under these regulations there are prohibited technologies, which cannot be transferred, and restricted technologies, which can only be transferred with governmental approval. There are freely transferable technologies as well, but there is still a need to register the licence agreement if one is going to be able to repatriate cash out of China.

One of the biggest mistakes I have seen is in American lawyers addressing overseas issues with an American mentality and state of mind. There are times when that is simply not possible.

Editor: Suppose a foreign enterprise has taken all the right steps to protect its IP, and it discovers that a former employee or joint venture partner is nevertheless using it for its own purposes. What recourse does the foreign owner have to enforce its rights?

Bai: The foreign owner should sue in Chinese courts, which points to the need to have structured the basic IP agreement properly.

In China most IP suits are handled by the People's Intermediate Courts. There are about 500 IP competent intermediate courts. The jurisdictional requirements are similar to those in the U.S.: suit is brought where the defendant has a presence or where the infringement occurred. The wrong venue invariably leads to bad results. In the major cities, a foreign company has a good chance of enforcing its rights – assuming, of course, that it has a good case – but in remote areas even a good case is difficult to win. It is important, therefore, to include a contractual provision that recites a jurisdiction favorable to enforcement.

To improve the chances of winning a suit in China for violation of IP rights, it is possible to ask the police to help in a serious case. Under Chinese criminal law, serious cases of infringement are criminal.

It is also possible to sue for an injunction in Chinese courts. Note, however, that if there is no confidentiality agreement between the parent company and the individual employee there is probably no standing for the parent company to sue. If the agreement was between the joint venture entity and the employee, and the joint venture no longer exists, there is no entity with standing to sue. To obviate such a result, we recommend a three-way confidentiality agreement among the parent, the joint venture and the employee. This points to the need to have a good IP strategy in place before going to China.

Editor: What impact is the need for Chinese enterprises to have their IP protected having on the government's enforcement of the IP rights of foreign enterprises?

Bai: China's increasing efforts to protect IP are primarily a result of two factors: the impact of international pressure and the increasing value of the IP portfolios of domestic industries. In 2006 alone, the number of invention patents granted to Chinese entities exceeded 120,000, while those accorded foreign entities approximated 80,000. Numbers do not tell the whole story, of course. In terms of quality of patent, the foreign companies are still in the lead. The gap is closing, however, and I foresee an increase in patent disputes between domestic and foreign enterprises in the future.

Editor: And the laws governing inventor remuneration? How do China and the U.S. differ with respect to an employer's responsibility to compensate an

employee for the latter's inventions?

Bai: In the U.S. we do not have to give employee-inventors any additional compensation. Assignment of the invention to the company is a matter of course. However, in many jurisdictions – Japan and Germany among them – adequate compensation of employee-inventors is required. While this law is on the books in China, so far it relates only to state-owned enterprises. Private enterprises are “encouraged” to follow the guidelines applicable to government-owned concerns. Also, there have been no court decisions interpreting the law. In any event, I can see a time when a Chinese employee-inventor will take a U.S. company to court and argue persuasively that equity requires him to be adequately compensated. Foreign companies need to be aware of this situation.

Editor: Looking ahead, what issues do you expect to be addressing in the IP arena in China over the next couple of years?

Bai: China is trying hard to improve its IP laws. There are a number of things that must be addressed. There is little in the way of discovery in China, which means that the plaintiff has the difficult burden of proving infringement in the absence of any meaningful discovery process. Damages evidence is hard to come by, which helps to explain why damages are low. We hope to see some progress on these issues in China's IP arena in the next few years.

Editor: And where would you like to see Jones Day's China practice in, say, five years?

Bai: I am hopeful that our IP practice – currently the largest patent practice in China among all the international firms – will double over the next few years. I think, given the potential for growth in China, that is also true of the other areas in which we are involved, including M&A, capital markets and private equity.

Let me conclude my remarks by saying that American corporations and practitioners will regret passing up business opportunities in China because of a perceived lack of IP protection in the country. That is really not the case. It is essential, however, to obtain the best advice and guidance available. That will enable a foreign enterprise to proceed with its agenda for China with full confidence in the integrity of its IP.