



IP Risk Mitigation for China

The Freedom to Operate in
China

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Offices: Australia (liaison), China, Hong Kong,
India, Indonesia, Philippines, Thailand, UAE,
United Kingdom, USA (liaison), Vietnam

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Your Company's IP – The Invisible Edge

- Exclusive right to the use of your trademarks.
- Exclusive right to exploit your inventions.
- Exclusivity gives you an edge over your competitors.
 - Maintains your competitive edge against competitors - foreign and domestic
 - Mitigates against copycats and counterfeiting
- Freedom to use your IP free of interference.

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Traditional IP Risk applied to China – Preventing 3rd Parties From Using Your IP

- If you do not register your trademarks or file for patents, you leave the door open for other parties to copy your goods or use your technology.
- The commercial risk.
 - Unnecessary competition - someone may compete with you without having to invest in R&D.
 - Depreciating goodwill of your brands, through inferior quality goods bearing your trademarks.
 - Eroding your profit margins.
 - Etc.

Greater IP Risk for China – Freedom to Operate

- What if a 3rd party misappropriates your IP rights for China?
 - 3rd party registers your trademarks.
 - 3rd party files patents for your technology and designs.
- Answer: The 3rd party would be entitled to the exclusive use of your trademarks and patented technology in China.
- Consequence: Your company cannot use your trademarks or technology in China.

Lack of Freedom to Operate in China

- Forced to take on a business partner.
- Abandon the Chinese market.
 - Abandon 1.3 billion consumers.
- Prepared to pay license fees for your own IP.
- Sued for IP infringement in China.
 - Damages & Injunctions
 - Not unique to China, however special considerations for China as global manufacturing center.

Lack of Freedom to Operate in China

- What if your global supply chain is sourced from China exclusively and you are enjoined from manufacturing in China due to trademark or patent infringement?
- You cannot ship your goods out of the country or continue to manufacture.
 - Seizure by administrative authorities
 - Seizure ex officio by Customs
 - Lost cost benefits of manufacturing in China.
 - Default on global contracts.

Misappropriation of China IP Rights

- 3rd parties are registering the IP rightfully belonging to foreign companies with operations in China and then selling or licensing the IP rights back to the rightful owners.
- The greater your company's reliance on China, the greater the risk to your company.
- This has been an ongoing problem.
 - Many foreign companies have not taken steps against this problem.
 - Problem getting worse with 'windfall' mentality.

IP Windfall – Transactional Cases

- Apple – Paid CDN \$3.65 Million to protect iPhone trademark for China.
 - i-phone "confusion" with "iPhone".
- Hyundai – Reportedly paid CDN \$6.70 Million to purchase their trademark for mainland China.
- These transactional cases in conjunction with civil IP cases have driven up the price for purchasing or licensing Chinese IP rights.

IP Windfall – IP Litigation

- *Beijing Jia Yu Dongfang Wine Co. Ltd. v. COFCO Ltd (Greatwall Case)*
 - Trademark - RMB 10,614,090 (CDN \$1,560,000)
- *Schneider v. Chint Electronics*
 - Utility Model Patent – Settlement of RMB 157,000,000 (CDN \$23,000,000)
- *G2000 v. 2000*
 - Trademark – RMB 20,000,000 (CDN \$2,940,000)

Recent developments with IP Speculators

- Additional problems associated with the perception of an IP windfall, is that 3rd parties (now with counsel) have learned from their past experiences to maximize their gains.
 - Some registrants no longer sell IP rights - annual license.
 - Percentage of company's China operations.
 - Exclusive rights for China (e.g. distributor).
 - Pfizer Viagra trademark - Weige - offered to Pfizer for USD \$1.00 in exchange for exclusive distributorship for China)

Your IP Asserted Against Your Company

- Vulnerable to administrative action.
 - Manufacturing facility could be raided in enforcement action.
 - Goods detained at Customs.
- Vulnerable to civil action
 - Injunction against manufacturing or selling your branded goods in China.
- As a technology company, your business is IP driven.
 - If you cannot exploit your technology in China, what are you left with?

Apple and the IPAD Trademark for Mainland China (2010)

- IPAD trademark for China owned by Proview International – Rumored asking price \$3.6 million.
- Shenzhen Great Loong Brother Industrial Company claims that the Apple iPad infringes its patents for GPS.
- Shenzhen Great Loong Brother Industrial Company offers to pay more than whatever Apple offers for IPAD trademark.
 - Also willing to manufacture their own IPADS for China in a partnership.
- Apple manufacturing iPad in China.

Proview's Attorney Statement Concerning Apple's Manufacture of iPad in China

- "In China, the protected fields of Proview's IPAD trademark include domestic production and sales of similar products".
- [W]hile iPad is not yet for sale in China, the manufacture of iPad in China is already an infringement, and the trademark owner has the right to raid the factory and ask the Customs to detain and confiscate exported products.

Best Advice – Secure your Chinese IP Rights

- Best advice: Secure your IP rights for China.
- Core trademarks, core design patents, core utility model patents, and domain names and copyright if necessary.
- Costs are relatively cheap, when compared to the purchase of a Chinese trademark or patent right
 - Cost to purchase TM right - CDN\$30,000-CDN\$43,000.
 - Usually less than CDN\$1,000 to register a trademark.
- Best advice in 4 take home messages.

Take Home Message (1) – Secure your Chinese IP rights

- If you are currently conducting business in China, in the form of a partnership, joint-venture, offering services, selling goods, OEM manufacturing, or any other similar types of activities.
- You should have already filed applications for your core trademarks and patents.
 - Trademark filing is less than \$1,000 per class if there are no obstacles to registration.
 - Utility model patents and design patents require no substantive examination – costs vary depending on the complexity of the patent, however, no costs associated with office actions.

Take Home Message (2) – Review your Chinese IP rights

- If you have already filed your trademarks and patents, be sure you have proper coverage.
- Get experienced professionals to assist you with China patent and trademark matters.
 - A poor TM or patent application will cost you.
 - G2000 Trademark infringement case – \$2.8 million.
 - Clothing manufacturer forgot to list the goods socks, gloves, scarves, ties, belts, sashes, and veils in their trademark registration.

Take Home Message (3) – Secure your Chinese IP rights

- If you are not currently conducting business in China, whether conducting business (partnership, joint-venture, offering services, selling goods, OEM manufacturing, or any other similar types of activities), ask whether this **MIGHT BE** part of your company's future plans?
- If the answer is 'yes' to the **possibility** of conducting business within China, secure your trademark and patent rights – domain names and copyright if necessary.
 - The fact that you are in attendance today would argue strongly that your company would answer 'yes' to the above question.

Take Home Message – (4) Secure your IP rights before discussing China

- For companies that have not yet begun to do business with China, file for your China IP rights **before** beginning any discussions with 3rd parties on China related matters.
- Many cases where 3rd party received idea to register rightful owner's China IP directly from the rightful owner.

Conclusion

- China offers Canadian companies incredible opportunities.
- A successful entry involves being able to operate freely in a predictable commercial environment.
- Failure to register your IP rights can jeopardize your China strategy.
- As a technology company your worst case China scenario would involve a 3rd party utilizing your own IP portfolio against yourself due to a lack of foresight.

Conclusion – 4 Take Home Messages

1. Secure your IP rights for China if you are currently doing business in China.
2. If you have already registered your IP rights for China, a review of your IP position may be a good idea.
3. Secure your IP rights for China if your company is considering doing business in China.
4. Secure your IP rights for China before engaging in discussions with 3rd parties.



Thank you

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