



Best Practices: Intellectual Property Protection in China

Intellectual property (IP) is a longstanding, critical concern for companies operating in China. IP enforcement has consistently placed among the top handful of issues raised by US-China Business Council (USCBC) member companies every year in USCBC's annual membership survey. Concern about IP enforcement remains a major factor influencing company strategies and operations in China. China's IP laws and regulations increasingly reflect international standards, and China has indeed made steady efforts to better protect and enforce IP rights. However, challenges remain, including lingering issues with China's IP legal framework in areas such as trade secrets, uneven enforcement, and significant procedural barriers that frustrate company efforts to protect IP in China. At the same time, counterfeiters and infringers in China are increasingly sophisticated. They often exploit procedural loopholes, proactively seek to invalidate legitimate patents and trademarks, deploy advanced techniques such as reverse engineering, and find new ways to infiltrate legitimate distribution networks and build their own parallel networks.

Decades in the trenches have equipped multinational corporations with hard-won expertise and a set of strong preventive best practices, including internal controls and external engagement with key stakeholders. To be successful in China, companies should develop an integrated IP protection strategy that reflects the nature and extent of the IP problems they face and is grounded in a realistic assessment of internal goals and resources.

This best practices document lays out key strategies and tactics that companies should adopt in their attempt to identify and protect their IP in China, both to prevent IP problems before they occur and to tackle IP infringement once

discovered. To protect their IP in China, companies should follow several steps:

Craft and Implement a Corporate IP Strategy in China

- Conduct an initial audit of the company's China operations to determine IP assets, IP risks, and assign appropriate levels of protection to those assets based on the risk of infringement.
- Review the company's internal IP controls to determine whether they provide sufficient protection. Make adjustments based on the IP audit, and dedicate resources in alliance with the company's IP protection goals.
- Classify IP-relevant information according to its level of sensitivity, and integrate that classification into information control and operational procedures.
- Make IP protection a core responsibility of the entire China management team, not merely a function of the legal or brand protection teams, and adjust internal information flows and reporting structures to reflect those responsibilities.
- Regularly communicate the value of IP protection – and the appropriate ways to handle IP – to key stakeholders, including government officials, employees, contract manufacturers, business partners, and customers. While the level of IP consciousness among Chinese citizens is growing, regular communication of the importance of IP is critical to instill a sense of ownership of company IP among key stakeholders.
- Take clear steps to document company IP protection policies and efforts as such documentation can play an important part in infringement disputes, particularly in areas like trade secrets.

Understand the IP Legal Landscape

- Review not only China's core IP laws and regulations, such as the Patent, Trademark, Copyright, and Anti-Unfair Competition laws, but the growing body of other laws and regulations that impact China's IP environment, including (but not limited to) the Corporate Income Tax, Antimonopoly, and Labor Contract laws.
- Ensure that the legal protection the company is seeking for its IP in China is available. For example, many software products that are eligible for patent protection in other jurisdictions are not in China, and are more commonly protected as copyrighted products.
- Monitor laws, regulations, and judicial interpretations to ensure that the company's IP enforcement strategies are valid under Chinese law. Examples of areas that may require scrutiny include employment contracts, IP licensing arrangements, and evidence collection procedures.

Adopt Preventive Measures to Protect IP

Register IP in China

If a company doesn't file its copyrights, patents, and trademarks in China, its IP has no formal protection there. Companies should register (or record) eligible IP in China as early as possible. Companies should also understand the full range of IP for which they might file, including multiple types of patents (utility model, design, and invention), as well as trademarks and copyrights.

- **Patents** Companies should file applications with the State Intellectual Property Office (SIPO) for IP that they view as valuable to their business for both core and fringe technologies. Companies should ensure that their patents are properly translated before filing. Filing can be done directly with SIPO or via international patent arrangements such as the Patent Cooperation Treaty.
- **Trademarks** Companies should broadly register their core trademarks with the China Trademark Office, including the English name, Chinese character name, and Chinese pinyin name for core brands with the China Trademark Office. When filing, companies should carefully select the product categories and sub-categories in which to file, and check

China's online trademark database for similar trademarks filed by competitors and infringers, including marks filed in categories outside a company's core products. Many companies have experienced challenges in which a local competitor registers a very similar trademark in a different product category, a practice allowed under the Trademark Law.

- **Copyrights** Though registration is not required, entities should consider registering their works with the National Copyright Administration, since registration provides a public record and can serve as useful evidence in copyright disputes.

Balance global IP protection needs with China market opportunities in transferring or licensing IP

- Conduct a realistic assessment of the business risks and benefits of transferring IP to China. For many companies, this means keeping vital designs and latest-generation technologies overseas while bringing to China IP that supports their business in country.
- Negotiate clauses in technology transfer and licensing contracts to address company needs on royalty rates and ownership of improvements. Companies should recognize differences in how China's legal framework treats ownership of improvements and liability, and that negotiated royalty rates in China are frequently lower than in other markets.
- Register technology licensing contracts as required under the Ministry of Commerce's Technology Import and Export Administrative Regulations.

Design the manufacturing process to protect IP

- Compartmentalize critical steps in the design and production processes for IP-intensive products – and the equipment used to manufacture these products – to limit the likelihood that any one employee has access to all the information needed to copy IP.
- Consider incorporating into the production process technologies and techniques that are difficult to copy, such as chemicals, foils, inks, labels, papers, stamps, and threads.
- Incorporate IP protection needs into facility design. Some companies, for example, limit IP exposure by ensuring that sensitive

information is kept in low employee traffic areas or behind unmarked doors.

Utilize information technology tools to track and protect information

- Consider tracking data flows and employee file transfers (both paper and electronic), engage internal stakeholders such as the human resources department in early conversations about developing and implementing policies that monitor employees in this manner.
- Closely monitor or prohibit the use of flash disks, portable hard drives, laptops, cell phone cameras, and other devices that could be used to capture and transmit sensitive information.
- Establish IT mechanisms to limit employee access to sensitive information, such as separate computer terminals or specialized passwords.

Focus on human resources

- Run background checks on key hires to check for any IP-related “red flags,” and include noncompete and nondisclosure agreements in employee contracts.
- Educate employees regularly about the firm’s confidentiality requirements, and about the practical and reputational consequences of IP violations.
- Delineate based on job title and function which employees have access to what types of information.
- Control and monitor employee access to sensitive equipment and facility areas based on job title and function.
- Conduct exit interviews with departing employees to recover any sensitive materials and remind them of confidentiality obligations.

Carefully select, monitor, and engage with business partners

- Conduct comprehensive due diligence on suppliers and distributors prior to any agreement and on a regular basis thereafter. As part of that due diligence, investigate how those companies view IP, including IP they access through business partnerships and their own IP.
- Include IP protection clauses in all contracts and agreements. Regularly engage business partners to share the importance of those

clauses to the ongoing business relationship, and ensure that partners fully understand what those obligations mean for both parties.

- Regularly engage business partners to reiterate the importance of IP protection, and, where appropriate, partner to boost IP protection efforts, such as supplementing monitoring resources or jointly engaging with government officials.
- Manage supplier, vendor, and distributor relationships through multiple personnel to limit the ability of local staff to abuse business networks.
- Review information that could be sent to third parties before transmission to ensure that it is not sensitive, or that the benefits of sending it outweigh the risks of it being leaked.

Build internal lines of communication on IP

- Establish an anonymous internal hotline, as well as an outside hotline for confidential communication with suppliers, distributors, customers, and other third parties to report IP infringement.
- Build a database of company infringement cases and infringers and make it available to key employees across the company’s China offices. Such a database can help educate staff about the types of infringement that a company may face, and increase the likelihood of spotting future problems.

Engage IP enforcement bodies

- Build relationships with government officials at multiple levels in IP-related government agencies and courts relevant to the company’s industry, before any problems arise. Key agencies include not only core IP agencies like local branches of the State Administration of Industry and Commerce and the Ministry of Public Security, but also agencies that could impact a company’s IP protection efforts, such as the General Administration of Customs and local branches of the General Administration of Quality Supervision, Inspection, and Quarantine.
- Educate local officials responsible for allocating the resources for and enforcing IP protection about the company’s IP protection needs. For companies facing problems with exported counterfeits, this includes recording IP with Customs in Beijing and educating local customs officials about the company’s products in order to monitor for counterfeits.

Work with outside IP service providers and industry associations

- Engage with industry associations, including IP-, industry-, and country-specific associations, to exchange best practices for IP protection, identify cases of infringement, and (if appropriate) develop collective strategies and actions to advocate on concerns.
- Build ties with, and conduct due diligence on, IP service providers and investigative firms to identify enforcement resources that fully comply with relevant Chinese regulations.
- Work with local and national media as appropriate to address negative publicity that could accompany an IP case against a domestic company.

Actively monitor for instances of infringement

- Send representatives to look for counterfeiters at industry trade shows and trade fairs, such as the Chinese Export Commodities Fair (Canton Fair).
- Review distribution networks at all levels regularly for weak links and possible entry points for counterfeit products.
- Monitor IP publications, including the PRC Patent and Trademark gazettes, for new patents and trademark applications to see if they infringe on the company's IP.
- Establish and publicize clear reporting channels for outside stakeholders to report cases of IP infringement.
- Check the Internet regularly for infringing domain names and for websites that are used as platforms for counterfeit products. These include e-commerce sites such as Alibaba and Taobao.

Confront IP Infringement When Discovered

Contact infringers and their service providers

- Send cease-and-desist (C&D) letters to infringers. C&D letters can be a cost-effective way to stop infringement in some cases, especially those involving small infringers. These letters, however, also alert infringers that a company is aware of their presence, which could prompt them to move, change names, or otherwise alter their operations in

ways that could inhibit a company's ability to gather evidence.

- Work with Internet marketplaces and Internet service providers, such as Alibaba and Taobao, to remove infringing goods or pirated materials from websites, and to take down websites providing infringing products or content.

Build clear cases against IP infringers

- Conduct a careful review of internal documents that can demonstrate infringement, including physical and electronic evidence. Companies should be aware that documentary evidence (as opposed to oral testimony or non-official documents such as marketing materials) carries more weight with Chinese officials.
- Work with vetted IP investigative firms to collect evidence on the company's behalf, monitoring firm activities to ensure that evidence is collected legally.
- Consider possible locations where the company could file an infringement case, and collect evidence accordingly.

Utilize official enforcement channels to pursue infringers

- Weigh various channels available to halt infringement in China, including administrative, civil, and criminal channels. In determining a course of action, companies should consider company resources, timelines for action, and the strengths and weaknesses of each channel. *(For more on the pros and cons of various enforcement channels, see the next page.)*
- Engage with local government officials to convince them to conduct enforcement proceedings. Consider using a company's contributions to local development or tying the case to larger goals such as product safety or public health, to illustrate to local officials the value of pursuing a case. Such ties can sometimes give companies access to additional penalties under other laws, such as the Food Safety or Environmental Protection laws.
- Consider "venue shopping," or bringing infringement proceedings in jurisdictions (and through enforcement channels) with a better record of IP enforcement.

Considerations for Using Official IP Enforcement Channels

Companies have access to three main enforcement channels in China: administrative actions, civil cases, and criminal cases, each with their respective pros and cons of engagement.

Administrative actions

If requested, administrative authorities—particularly the local administrations of industry and commerce—can carry out raids and investigations to check for IP infringement.

- **Pros** These actions are easier and faster than civil or criminal suits, can halt IP infringement, and can result in fines. Many companies and administrative agencies have significant experience using administrative channels, making the process easier.
- **Cons** Although administrative agencies carry out raids, companies should be prepared to undertake significant preparatory investigations before submitting a request for administrative action to local authorities. In addition, infringers cannot be sentenced to jail time.

Civil cases

Civil suits are heard by specialized intellectual property tribunals in China's civil courts, generally with an intermediate people's court serving as the court of first instance.

- **Pros** In addition to halting infringement, civil suits also allow the rights holder to recover damages and to receive injunctive relief. Civil courts may be better equipped to handle complex cases when administrative authorities are unable to make a determination of infringement.
- **Cons** Civil suits can be costly and time-consuming. Companies bear the responsibility of collecting evidence but don't benefit from a formal discovery process and often have difficulty getting outside evidence admitted to the court. The burden of proof in these cases lies with the plaintiff. These cases can take even longer when an infringer initiates patent invalidation proceedings with the State Intellectual Property Office or a trademark opposition case with the China Trademark Office, suspending the suit pending a decision.

Criminal cases

Criminal cases are first investigated by local public security bureaus (PSBs), which then transfer cases to criminal tribunals in the people's court with appropriate jurisdiction. The court of first instance usually falls at the sub-provincial level.

- **Pros** Judges in criminal cases can not only order infringement to stop, but also sentence IP violators to jail time.
- **Cons** Criminal actions are difficult to set in motion, as they can be transferred from administrative authorities only if the infringement value meets minimum thresholds. In practice, these thresholds are extremely difficult to meet, even when infringers have a sizable inventory of infringing goods. This may be due to inadequate records of sales by infringers and the Chinese practice of basing the value of the infringing goods on the market price of the infringing goods (instead of the market price of the legitimate product). The IP rights holder must generally undertake all of the investigative work and package a complete case for the local PSB, as local police may lack the necessary resources to conduct a thorough investigation. In practice, many PSBs are reluctant to tackle difficult or complicated cases.