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DOING BUSINESS IN CHINA:
PROTECTING YOUR INTELLECTUAL PROPERTY RIGHTS[1]

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I. Understanding China's Intellectual Property Laws

A. Patent Law

a. *Patentable Subject Matter*

Under U.S. patent law, there are three types of patents: utility patents, design patents, and plant patents. Under China's current patent law,[3] there are also three types of patents: invention patents, utility model patents, and design patents. China's invention patents and utility model patents correspond to the U.S. utility patent. Although both countries' design patents are nearly the same, what U.S. patent laws calls "plant patents" are not similarly protected under China's patent law.[4]

Furthermore, as in most countries, there are statutory limits to the patentability of subject matter in China. No patent right shall be granted in China for any of the following subject matters: (1) scientific discoveries; (2) rules and methods for mental activities; (3) methods for the diagnosis or for the treatment of diseases; (4) animals and plant varieties; and (5) substances obtained by means of nuclear transformation.[5] Patent right, however, may be granted for processes used in producing animals and plant varieties products.[6] Computer software is not patentable, but may be protected under China's Copyright Law (see more below).

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[1] This document has been provided for informational purposes only and is not intended and should not be construed to constitute legal advice. Please consult our attorneys in connection with any fact-specific situation under applicable laws that may impose additional obligations on you and your company.

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[3] Patent Law of the People's Republic of China ("China's Patent Law") (adopted March 12, 1984, at the 4th Sess. of the Standing Comm. of the 6th Nation People's Congress of China ("NPC"), amended September 4, 1992, and amended on August 25, 2000, at the 17th Sess. of the Standing Comm. of the 9th NPC). Available online at http://www.sipo.gov.cn/sipo_English/flfg/default.htm. (Last visited on September 29, 2005).

[4] Instead, in 1997, China issued the Regulations on the Protection of New Varieties of Plants (the "Plant Variety Regulations") as an effort to promoting the development of agriculture and forestry. The new varieties of plants, however, are less protected under the Plant Variety Regulations than the regular Chinese patent laws.

[5] China's Patent Law article 25.

[6] *Id.*

b. *First to File v. First to Invent*

The United States has a "first to invent" patent system. Furthermore, after the first public disclosure or description of an invention, or the initial offer for sale or sale of that invention, the inventor still has one more year to file a patent application.

China adopts a "first to file," rather than a "first to invent" rule. If two or more applicants file applications for a patent for the identical invention, the first filed patent shall be granted.[7] Further, China's patent law indicates that any invention, utility model, or design for which a patent right may be granted must possess novelty.[8] Novelty means that, prior to the date of filing, no identical invention, utility model, or design has been publicly disclosed in China or abroad, nor has it been publicly used or made known to the public by any other means in China, nor has any other person filed previously an application that describes the identical invention or utility model and was published after said filing date.[9] There is an exception to the novelty rule, which allows a limited conditional grace period of six-months if an invention was first exhibited at an international exhibition sponsored or recognized by the Chinese Government or first made public at a prescribed academic or technological meetings, or was disclosed by another person without the applicant's consent.[10]

c. *Compulsory Licensing*

U.S. patent law, with certain narrow exceptions, grants a patentee an absolute right to refuse to license or otherwise to permit others to practice the patented invention. Conversely, China's patent law allows for compulsory licensing for exploitation of a patent. If a qualified entity has requested for authorization from the patentee of an invention or utility model to exploit the patentee's patent and has not been successful within a reasonable period of time, a compulsory license may be granted to such entity to exploit the patent for the invention or utility model.[11] A compulsory license may also be granted in case of a national emergency or any extraordinary state of affairs.[12]

An applicant for a compulsory license has the burden to prove that it has not been able to conclude a license with the patentee for exploitation of the subject patent on reasonable terms and conditions.[13] An applicant that is granted a compulsory license for exploitation does not have an exclusive right to exploit the patent nor does such applicant have the right to authorize exploitation by any others.[14] As a practical matter, U.S. patentees in China cannot avoid compulsory licenses. With proper legal assistance from a legal counsel, however, an U.S.

[7] China's Patent Law article 9.
[8] China's Patent Law article 22.
[9] China's Patent Law article 22-23.
[10] China's Patent Law article 24.
[11] China's Patent Law article 48.
[12] China's Patent Law article 49.
[13] China's Patent Law article 51.
[14] China's Patent Law article 53.

patentee may seek to terminate a compulsory license if the circumstances justifying the compulsory license cease to exist and are unlikely to recur.[15]

B. Trademark law

a. *Registrable Marks*

China's current Trademark Law[16] protects registrable marks, referred to as any visually perceptible signs capable of distinguishing goods or services.[17] Registrable marks include words, devices, letters, numerals, three-dimensional signs, combination of colors, and the combination of such signs.[18] Registrable marks shall have distinctive character and shall not conflict with the legal rights acquired earlier by other persons.[19]

Some signs are not registrable marks and their registration is prohibited by China's Trademark law. These signs include: (1) signs that consist exclusively of the generic names, designs, or model numbers of the goods with respect to which the trademark is used; (2) signs that consist exclusively of direct indications of the quality, primary raw material, functions, intended purposes, weight, quantity or other characteristics of goods; and (3) signs that are devoid of any distinctive character.[20]

b. *First to Register v. First to Use*

China's Trademark Law adopts a "first to file" rule for trademark registrations, rather than a "first to use" rule generally employed in the United States. If two or more applicants apply for registration of identical or similar trademarks with respect to identical or similar goods, the application filed the earliest shall be approved.[21] If the applications are filed on the same day, the first used trademark shall be approved, and applications of other persons shall be refused and not be published.[22]

China recognizes two important international trademark treaties that are closely connected with China's trademark registration system. The first treaty is the *Paris Convention* to which both the United States and China are members. According to this treaty, a United States company that has applied for registration of a trademark outside China can claim the earlier outside filing date for the same mark in China, as long as an application in China is filed within six months from the date of filing outside China.

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[15] Implementing Regulations of the Patent Law of the People's Republic of China (issued on December 21, 1992, by the Patent Office, and revised and re-promulgated on December 28, 2002, by the State Council) article 72-73.
[16] Trademark Law of the People's Republic of China ("China's Trademark Law') (adopted August 23, 1982, at the 24th Sess. of the Standing Comm. of the 5th NPC, revised in 1993 by the 30th Sess. of the Standing Comm. of the 7th NPC and revised in 2001 by the 24th Sess. of the Standing Comm. of the 9th NPC). Available online at http://www.sipo.gov.cn/sipo_English/flfg/default.htm. (Last visited on September 29, 2005).
[17] China's Trademark Law article 8.
[18] *Id.*
[19] China's Trademark Law article 9.
[20] China's Trademark Law article 11.
[21] China's Trademark Law article 29.
[22] *Id.*

The United States and China are also member countries of the *Madrid Protocol*, a centralized international trademark filing system. Under the Madrid Protocol, a U.S. company may apply for registration of a trademark in the United States and extend its protection to China by notifying the Madrid Union Office of the particular trademark application. A U.S. company, however, should also realize that a Chinese company may use the same procedure to apply for trademark protection in the U.S.

c. *Registration of Chinese Version of Foreign Language Trademark*

Homonyms are very common in the Chinese language; therefore, a foreign language trademark could be translated into many different Chinese versions. For example, Starbucks can be translated as Xingbake because Xing means "star" in Chinese and "bake" phonetically sounds like "bucks."

A U.S. company had better register a Chinese version of its non-Chinese language trademark if such Chinese version of the trademark is to be used in its business. Even if such Chinese version of the trademark is not used in China, a US company is still strongly encouraged to register it in the Chinese language if it is well acknowledged and accepted by Chinese customers. Furthermore, a U.S. company should ensure that its Chinese version of a trademark will communicate the intended meaning of its non-Chinese language trademark across the many dialects and regions of Greater China.

d. *Well-known Trademarks*

A well-known trademark means a trademark that is widely known to the relevant sectors of the public and enjoys a relatively high reputation in China.[23] Coca-Cola, McDonalds, Disney, and Wal-Mart are typical examples of well-known trademarks in China that are entitled to a higher level of protection. An entity can acquire a certificate of well-known trademark from the trademark office in China. The certificate is good for three years and can be renewed after the end of the three years. In proving a certificate of well-known trademark, the trademark office shall consider the following factors: (1) the degree of knowledge or recognition of the trademark in the relevant sector of the public; (2) the duration of the use of the trademark; (3) the duration, extent and geographical area of any promotion of the trademark; (4) the record of successful enforcement of rights in the trademark; and (5) other evidence certifying that the trademark is well known.[24]

As mentioned above, a well-known trademark enjoys certain special protections and privileges. For example, China's trademark law prohibits registration of a trademark if such trademark is identical with or similar to an interested party's well-known trademark that is not registered in China on identical or similar goods and is likely to create confusion. China's trademark law also prohibits registration of a trademark if such trademark is identical with or

[23] Provisions on the Recognition and Protection of Well-known Trademarks (Provisions on Well-known Trademark) (issued April 17, 2003 by the State Administration for Industry and Commerce) article 2. Available online at http://www.ccpit-patent.com.cn/references.htm. (Last visited on September 29, 2005).
[24] Provisions on Well-known Trademark article 3.

similar to an interested party's well-known trademark that is not registered in China on identical or similar goods and is likely to mislead the public and damage the interests of owner of the well-known registered trademark.[25]

Furthermore, China's trademark law seems to employ a first to use rule, rather than a fist to register rule for registration of well-known trademarks. When an application to register a trademark has been refused due to the similarities to a previously registered trademark, evidence of prior use will be helpful for the purpose of challenging the registration if such trademark provided to be "well-known" under the law.

C. Copyright law

a. *Copyrighted Works*

U.S. copyright law protects all published and unpublished works of all nationals no matter where they are domiciled, within or outside the United States. In contrast, China's current copyright law[26] does not protect unpublished works of foreign authors. Works of Chinese citizens, whether published or not, enjoy the full protection of the Chinese Copyright Law.[27] Works of a foreigner, however, are protected by China's copyright law only if such works are first published in the territory of China, or if such works are first published outside China, the foreign authors are nationals of a country belonging to a copyright agreement or treaty of which China is a member, or such works are published in an country that is a party to a treaty with China.[28]

Categories of works protected by China's copyright law are similar to their counterparts under U.S. copyright law. China's copyright law, however, is not applicable to the following: (1) government-issued laws, regulations, resolutions, decisions and orders; (2) news on current affairs; and (3) calendars, numerical tables and forms of general use, and formulas.[29]

For copyright protection, foreign copyright owners do not have to apply for registration of their works with China's National Copyright Administrative ("NCA") office. However, it is suggested that foreign copyright owners register their works voluntarily with NCA to establish evidence of ownership against copyright infringement.

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[25] Provisions on Well-known Trademark article 6.
[26] Copyright Law of the People's Republic of China ("China's Copyright Law") (adopted on September 7, 1990, at the 15th Sess. of the Standing Comm. of the 7th NPC, amended on October 27, 2001, at the 24th Sess. of the Standing Comm. of the 9th NPC). Available online at http://www.sipo.gov.cn/sipo_English/flfg/default.htm. (Last visited on September 29, 2005).
[27] China's Copyright Law article 2.
[28] *Id.*
[29] China's Copyright Law article 5.

b. *Computer Software*

Computer software is protected by both China's copyright law and the Regulations on Computer Software Protection.[30] Computer software is defined as computer programs and relevant documents.[31] Consistent with the copyright law, the Computer Software Protection Regulations state that only Chinese citizens enjoy the full benefits of copyright in the computer software they have developed, whether published or not.[32] Foreigners enjoy benefits of copyright in the computer software, however, only if they their software is first published in China or they are nationals of a country that was a party to a copyright agreement or a treaty with China.[33]

China's computer software protection does not extend to the ideas, processing, operating methods, mathematical concepts or the like used in software development.[34] Computer software copyright comes to existence as soon as its development has been completed.[35] Registration of computer software is not required by law in order to obtain copyright protection, but is recommended for the reasons stated above.

II. Enforcement and Protection of Intellectual Property Rights in China

A. Double-track System: Administrative Track and Judicial Track

China has a double-track enforcement system, also called a two-track system, to protect intellectual property rights. According to this double-track system, a party may bring an action against an infringer in a court or, alternatively, file a complaint to solve the dispute in the competent administrative office. Administrative resolution is not mandatory prior to a judicial resolution.

A list of major administrative authorities for intellectual property rights enforcement are as follows: (1) State Intellectual Property Office ("SIPO"), responsible for patent affairs administration and handling patent disputes; (2) State Administration on Industry and Commerce ("SAIC"), in charge of enforcement of trademarks and cracking down on trademark infringement; (3) National Copyright Administration Office ("NCA"), in charge of local copyright affairs administration including copyright enforcement. (4) Quality & Technology Supervision Bureau ("QTSB"), responsible for handling infringement of registered trademarks; (5) General Administration of Customs ("GAC"), in charge of banning the import/export of goods that infringe on intellectual property rights. In addition, those major administrative authorities may transfer serious intellectual property infringement cases to the Public Security Bureau ("PSB") and People's Procuratorates ("Procuratorates") to initiate criminal investigation.

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[30] Regulations on Computer Software Protection ("Computer Software Protection Regulations") (promulgated on December 20, 2001, and effective January 1, 2002, by Decree No. 339 of the State Council of the People's Republic of China). Available online at http://www.ccpit-patent.com.cn/references.htm. (Last visited on September 29, 2005).
[31] Computer Software Protection Regulations article 2.
[32] Computer Software Protection Regulations article 5.
[33] *Id.*
[34] Computer Software Protection Regulations article 6.
[35] Computer Software Protection Regulations article 14.

The Chinese judicial system consists of four levels of People's courts: (1) the Supreme People's Court at the national level; (2) the higher people's court at the provincial level; (3) the intermediate people's court at the municipal level; and (4) the basic people's courts at the county level. Generally, the intermediate people's courts hear the first trial of intellectual property case.

B. Administrative and Judicial Remedies

a *Damages*

Damages for intellectual property rights infringement may be calculated based on the losses suffered by the owner of the intellectual right or unlawful profits gained by the infringer through the infringement. When it is difficult to determine either the losses suffered by the owner or unlawful profits gained by the infringer, the damages should usually be assed within the range of Chinese Yuan 5,000 to 500,000 (about US$600 to US$60,000).[36]

b. *Preliminary Injunctions*

Where the owner of an intellectual property right or an interested party has evidence showing that another person is infringing or will soon infringe on the owner or interested party's intellectual property right and that if such an infringing act is not stopped in a timely manner, irreparable injury will be caused to the owner's legitimate rights and interests, the owner or interested party may, before instituting legal proceedings, apply to the people's court for relief prohibiting the act and preserving the intellectual property.[37]

c. C*riminal Remedies*

If an intellectual property infringement constitutes a criminal offense, the infringing party could be punished with imprisonment or criminal detention of no more than three years, with a fine, or simply be assessed a fine. If the infringement is of a more serious nature, the infringing party could be punished with imprisonment of at least three years but no more than seven years, and with fine[38]

[36] China's Trademark Law article 56; China's Copyright Law 48; Judicial Interpretations of the Supreme People's Court on Application of Laws in Trials of Patent Related Lawsuits (issued on June 22, 2001, by Supreme People's Court of China) section V.

[37] China's Trademark Law article 57; China's Copyright Law 49-50; Several Regulations of the Supreme People's Court on the Specific Applicable Laws for Stopping Patent Right Infringement before Legal Action (issued on June 7, 2001, by Supreme People's Court of China).

[38] Criminal Law of People's Republic of China ("China's Criminal Law") (Adopted on July 1, 1979, by the 2d Sess. of the 5th NPC, amended on March 14, 1997, by the 5th Sess. of the 8th NPC) article 213-218.

III. Trade Secrets and Non-competition Clauses

A. Trade Secrets/Business Secrets

Trade secrets, also known as "business secrets," are protected by China's Anti-unfair Competition Law,[39] and some rules and provisions of contract law, civil law, and criminal law. Business secrets are defined as nonpublic technical information and operational information, which can bring economic benefits to the owner of the rights, and for which the owner has adopted measures to keep the information secret.[40] Business secrets infringement includes: (1) obtaining the owner's business secrets by stealing, promising gain, resorting to coercion or other improper means; (2) disclosing, using, or allowing others to use the owner's business secrets obtained by the means mentioned in (1); and (3) disclosing, using or allowing others to use business secrets obtained by breaching an engagement or disregarding confidentiality requirements of the owner.[41] It is a business secret infringement for a third party to obtain, use or disclose the others' business secret if such third party knew or should have known the acts were illegal as mentioned above.[42]

Under the Anti-unfair Competition Law, when any party infringes the business secrets of another, the violator may be ordered to stop the illegal act and may have a fine of at least Chinese Yuan 10,000 Yuan (about US $1,250) and no more than Chinese Yuan 200,000 Yuan (about US $25,000) imposed.[43] There are also other sanctions under the law including civil remedies such as damages, and criminal penalties for serious violations.

To protect its business secrets in China, a U.S. company should implement affirmative measures to keep the trade secrets by ensuring that the business secret is not published, but kept secret. Such affirmative measures include: (1) maintaining and marking documents as "confidential" and "trade secret"; (2) limiting or restricting access to trade secret subject matter; and (3) executing Confidential Agreements or Non-disclosure agreements with employees and business partners.

B. Non-competition Agreements

A non-competition agreement can restrict employees who possess trade secrets from leaving and taking a position with a competitor of the employer or setting up a competitive business themselves. A non-competition agreement is generally enforceable as long as it is reasonable in nature and employees are paid a certain amount of compensation. However, based on different local rules and practice, two local people's courts may reach two completely different decisions on whether a compensation clause is needed or what constitutes a sufficient

[39] Law against Unfair Competition of the People's Republic of China ("Anti-unfair Competition Law ") (adopted on September 2, 1993, at the 3rd Sess. of the Standing Comm. of the 8th NPC, promulgated on September 2, 1993, effective on December 1, 1993 by Order No. 10 of the President of the People's Republic of China). Available online at http://www.ccpit-patent.com.cn/references.htm. (Last visited on September 29, 2005).
[40] Anit-unfair Competition Law article 10.
[41] *Id.*
[42] *Id.*
[43] Anti-unfair Competition Law article 22-27.

amount of compensation.[44] Therefore, when a U.S. employer wishes to include a non-competition agreement or clause in it employment contract, it is critical for a legal counsel to check the relevant local rules and regulations.

IV. Conclusion

For the purpose of protecting intellectual property rights in China, it is suggested that U.S. companies do the following: (1) register their trademarks, patents, and copyrights quickly and as appropriate with the assistance of legal counsel and local Chinese intellectual property agencies licensed by the Chinese government; (2) obtain proper employment contracts to protect inventions and trade secrets; (3) establish and keep good relationships with major administrative authorities; (4) promptly report intellectual property right infringements to the administrative authorities and actively collaborate with those authorities in their investigations; (5) if necessary, file a law suit before the court and ask for preliminary injunction against infringement from the court, or file a complaint with an administrative authority with a request for relief through Chinese prosecutors for criminal action.

[44] China is a civil law country, and case law is therefore not binding as precedent. It is possible that different people's courts may issue different opinions on the same or similar legal issues. For example, in a recent intellectual property case tried by Kaifeng Intermediate People's Court in Henan Province, the court held that employers may have their employees signed a confidentiality agreement with a non-competition clause, but are obligated to provide appropriate compensation to their employees during the non-competition period. Six months later, in another intellectual property case tried by a basic People's court in Beijing, the court held that a non-compensation clause may be valid even if there is no compensation clause as long as the living standards of the employee do not deteriorate after leaving the company. Case reports are available online at http://www.ccpit-patent.com.cn/news.htm (last visited on September 29, 2005).