

Pursuing the Chinese Market While Protecting your Technology

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APMA August 2005 Newsletter

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China is recognized as an important market for a wide variety of companies including those in the automotive industry. In fact, virtually every major North American, European and Japanese auto manufacturer has developed a relationship with a local Chinese auto manufacturer to produce vehicles in China for the Chinese market. However, China has received a significant amount of bad press over the years for failing to crack down sufficiently on IP (Intellectual Property) infringement. This has left many North American companies eager to tap the Chinese market, but fearful that their technology will be copied with utter disregard to any IP rights they may have. Many companies have been left wondering: Is IP infringement as rampant in China as the press would have us believe? Is the problem systemic? How can the Chinese market be entered without losing one's technology shortly thereafter to piracy?

In fact China's patent law is relatively well developed and is similar to Canada's patent laws in some ways. In spite of this, however, there is a significant amount of piracy and IP infringement going on in China today. Thus, if you are going to succeed, you must have a plan for dealing with the eventuality of piracy of your technology.

Typically, the type of IP infringement that takes place in China involves direct copying of a product. Thus, infringing products are often relatively easy to identify.

China does not, however, have an equivalent to the discovery process that is part of the judicial system here in North America. Therefore, other means are required to determine the extent of an infringement. The two most common means are private investigators and government raids of the infringer's premises.

There are two legal procedures a company can pursue to stop an infringer. The first is an administrative action, and the second is a civil action. Administrative actions are relatively fast (they can be resolved in as little as two weeks) and cost relatively little to complete. Once the government is satisfied that infringing activity is taking place, the government raids the infringer's premises to obtain evidence relating to the infringement and to the infringer's sales. Through an administrative action, one can obtain an injunction against the infringer to prevent further infringement. However, one can expect little or nothing in the form of compensation or damages from the infringer. Civil actions take longer and cost more than administrative actions. However, through a civil action, a patent owner can collect damages from the infringer in addition to obtaining an injunction.

Local protectionism still persists in many parts of the country, but it is primarily in rural areas. Additionally, it is based largely on economic factors. A local government body will often look more sympathetically upon a company that is contributing to the local economy than it will look upon a company from outside

the region that is trying to shut down that local company. A good strategy, therefore, is to pursue an action in any of the major urban centres if possible, (eg. Shanghai and Beijing), where economic development is far less of an issue to the local government bodies and where the judiciary is more knowledgeable on IP law. If selecting the court in a major urban centre is not possible, then you should select, if possible, a court in a different jurisdiction than the one in which the infringer is based, since this at least eliminates the favouritism that could result from their role in the local economy.

Note that each technology is different and the types of infringement that can take place will be influenced at least partially by the technology being pirated. A crucial first step, then, is to start by discussing your technology with a local Chinese law firm and seeking advice from them and from a local Chinese private investigator at the outset, to develop a plan for obtaining and protecting your IP. Your Canadian IP firm can recommend Chinese firms with whom they have worked and have had positive experiences. Typically, your Canadian firm would also liaise with the Chinese firm and would manage the patent process in China.

In addition to taking steps to provide IP protection for your product, you should also consider ways of preventing some of the know-how required to make the product from entering China in the first place. For example, you could manufacture a key component outside of China and bring it into China for incorporation into the rest of the product, which can be made locally. Alternatively, you can consider ways of preventing all of the know-how from existing within a single Chinese company, for example, by splitting up production of the product between two or more local Chinese companies.

If you are considering introducing your products to the Chinese market, and you are concerned about how to protect your technology, we would be happy to answer any questions you may have, and to assist you in developing and carrying out a sound protection strategy. Bereskin & Parr has over 40 years of experience in acquiring patent rights for its clients in Canada, the United States and worldwide.