



An Eye on Shanghai:

An On-the-Ground Perspective on Intellectual Property
and Investment Issues and Strategies

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 底特律中華商會
Detroit Chinese Business Association

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**Intellectual Property Strategies
in Doing Business in China**

Top 10 Practical Issues

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Three Points to Make

- Acquire IP assets in China;
- Conduct your due diligence carefully;
- Prepare to enforce and do enforce.



Myths about Chinese Legal System

- Case law is binding;
- There is discovery;
- It takes millions of dollars to litigate in China;
- Judges are selected from experienced legal practitioners;
- Litigation is lengthy;
- Arbitration is cheaper than litigation;
- Foreign companies are treated unfairly;
- Lost in translation.





Issue No.1

My former distributor is copying my product in China, but I have not filed patents covering the product, and my Chinese trademark application is pending. The worst I have heard is that this former distributor filed a patent application based on my product in China.



Issue No.2

My former licensee has continued to use my IP after the license expired.





Issue No.3

My licensee/distributor in China now makes extra products by its connections bearing my trademark, and selling at a price that is 40% lower with poor quality.



Issue No. 4

Normally my US parent registers IP in China, then licenses to my China operations to use the IP. I was told it may not be an efficient plan.





Issue No. 5

My company is intended to buy a technology company in China, but the due diligence reveals that the target has not kept good records on IP. My business people want to go ahead but my legal department says no.



Issue No. 6

I am working with a State Owned Enterprise (SOE) in China on a JV. The Chinese government requires me to transfer my most up to date technology to the Chinese party, also share my future improvements, and one thing I don't feel comfortable is that the Chinese party will own my technologies at the end of JV.





Issue No. 7

I want to do R&D in China as there are so many universities and research institutes full of cheap and talented students, professors and researchers. But I am not sure if I can hire them as an independent contractor and whether I can obtain unencumbered ownership of the research result.



Issue No. 8

My people in China reported that they suspect that some local companies may infringe our IP after they have done the comparison. My US counsel tells me to send a cease desist letter right away.





Issue No. 9

My top engineers in China recently quit and started a competing business.



Issue No. 10

I know a big SOE in China is infringing my IP, how to approach it for a license?





Summary

- Acquire IP assets in China when there is a strategic need;
- Conduct a careful due diligence when you are about to distribute, license, form a company and acquire a target in China;
- Enforcement is always centralized in order for your China IP strategy to work.



Intellectual Property Strategies in Doing Business in China

Questions?

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**A Snapshot of China's
Development Path**

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Snapshot of China's Development Path

- China: A Nation of Contrasts
- Central Government's Loss of Control
- Impact on Current Legal & Regulatory Environment

 



China: A Nation of Contrasts

- Income Disparity Driving Social Instability
- HR Issues
 - Rapidly Increasing Wage Rates
 - Shortage of Middle-Managers
 - Retention Tension
 - Increase in Labor Disputes

 



Central Government's Loss of Control

- Land Scarcity
- Environmental Degradation
- Urban Property Bubble



Impact on Regulatory Environment

- Passage of New Labor Contract Law
- Pressure on FIEs to Unionize
- “National Security” Creeps into M&A Approval Process and Anti-Monopoly Review
- Level Playing Field for Corporate Income Tax





Labor Contract Law (Effective 1/1/08)

Sets standards for:

- Lay-offs
- Severance Payments
- Grants more power to “state-sanctioned labor unions” (ACFTU)
- New Limitations Regarding Use and Length of:
 - Probationary Periods
 - Non-competition Covenants



Scope of Labor Contract Law

- LCL affects ALL domestic and foreign employers in China
 - Covers any new contracts, employee handbooks and company rules, AND
 - Pre-existing labor contracts, employee handbooks and company rules will need to be revised or re-drafted to comply with the LCL





Highlights of LCL

- Non-competes remain lawful but duration capped at 2 years
- Shorter term and higher minimum pay during probationary periods
- Preference for Open Term Contracts and Severance Liabilities
- Worker Layoffs



Pressures to Unionize in FIE Sector

- Wal-Mart and Taiwan's Foxconn unionized
- Unionization enhances CCP's ability to police political activities and maintain social stability
- FIEs being instructed by ACFTU officials to organize enterprise union or face unspecified legal consequences





Role of ACFTU in China

- ACFTU more interested in collecting dues than actually representing rights and interests of its members
- Typically organizes social and educational outings, like trips to the Great Wall
- In disputes, typically acts as mediator between labor and management



Risks Associated with ACFTU

- Most companies co-opt union by making sure mid-level managers are elected to leadership in the enterprise union
- Although weak in practice, ACFTU has significant power
 - Company must consult with union on all fundamental matters, such as restructuring
 - Union rep must attend meetings related to worker rights and interests





China's New M&A Regulations

- Scope of Coverage
- Key Provisions
- Issues and Concerns



National Security Impact on M&A Approvals

- Protection of Key Industries and Famous (Chinese) Brands
- Anti-Monopoly Review Under M&A Regulations and New Anti-Monopoly Law





Regulatory Changes in Tax

- Trends in Tax Incentives
- New Unified Corporate Income Tax
 - Unified Tax Rate
 - Tax Incentives Based On Industry Sector (No Longer Based On Location)



A Snapshot of China's Development Path

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