



**GLOBAL MARKETPLACE — EYE ON CHINA:
ROUNDTABLE SERIES**



**IP Enforcement in China 2010:
Myth or Reality?**

November 1, 2010
Silicon Valley, California



Welcome



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- Moderator
 - James C. Chapman, Foley Private Equity & Venture Capital Partner
- Speakers
 - Alan Cox, Senior Vice President, NERA Economic Consulting
 - Victor Xue, Executive Vice President and board member, US-China Green Energy Council
 - Catherine Sun, Foley Shanghai Office Managing Partner and Asia Practice Chair



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Discussion Topics



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GLOBAL MARKETPLACE — EYE ON CHINA: ROUNDTABLE SERIES

- What are the current trends in IP enforcement in China?
- What are the most notable developments in IP enforcement in China over the past two years?
- What is the impact of the currently available IP enforcement mechanisms on a company's business strategy in China?



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Discussion Topics (Cont.)



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- How does one determine the optimum combination of IP protection methods with an eye toward enforcement?
- What type of damages are available in an IP dispute in China and how do these differ from damages available in other geographic markets?
- What are the best practices for IP enforcement against a company's manufacturers, joint venture partners and resellers?



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Discussion Topics (Cont.)



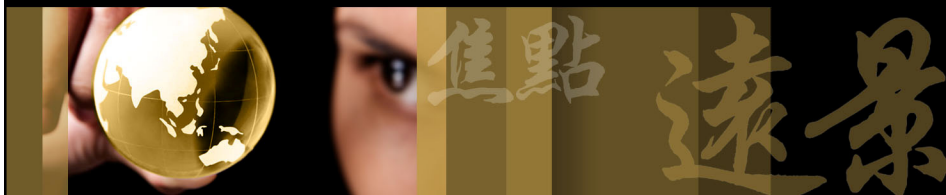
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- What is the current role of the Chinese government in IP enforcement?
- Since employee turnover in China is high, how can a company protect its IP from employees and former employees?
- What will the IP enforcement landscape look like five years from now?



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Intellectual Property Rights Protection In China: Trends In Litigation and Economic Damages

Alan J. Cox, Ph.D.
NERA Economic Consulting

Intellectual Property Rights (IPR) Protection In China

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- Evolution of IP protection in China
- Importance of damages in IPR protection
- NERA study of 179 judicial cases in China
- Third Amendment of the Chinese Patent Law
- Article 55 of the AML and other IP/Antitrust issues

Intellectual Property Rights (IPR) Protection In China



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IPR Protection Increases as Economies Mature

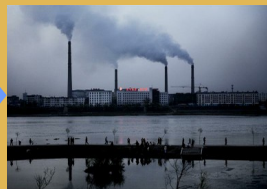


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Agrarian



Manufacturing



Knowledge-based

Increasing IP Protection



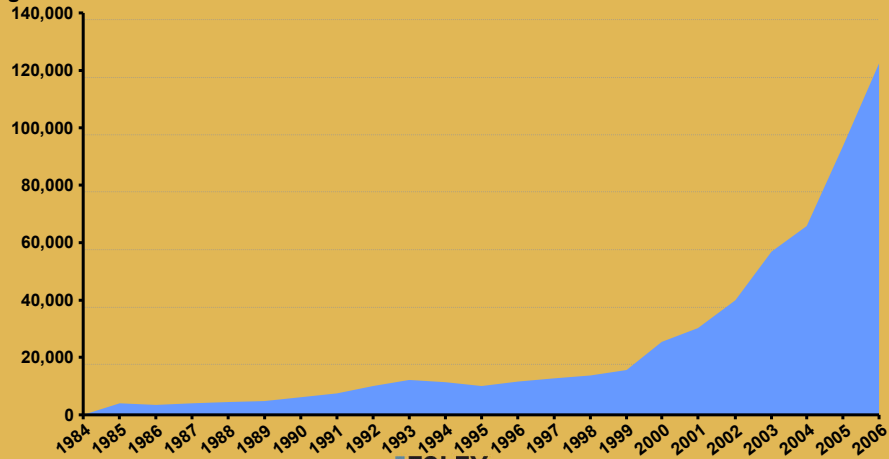
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Filings At the Chinese Patent Office Having Risen Dramatically Since 2000

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Number of Patent Filings Per Year



Source: WIPO.

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Enforcement of IPR In China

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- China has a unique two-pronged system for enforcement
 - Administrative
 - Judicial
- Reliance on judicial procedure appears to be increasing

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Number of Patent Cases Is Rising Rapidly

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	<u>First Instance Trial</u>	<u>Second Instance Trial</u>
2007	17,877	2,865
2008	24,406	4,759
Rate of Increase	36.5%	66.1%

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Why Damages Are Critical

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- Adequate to compensate holder of IPR
- Adequate effectively to discourage infringement
- Appropriate to not discourage attempted design-around

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NERA Study

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- Collected data on 179 cases between 2002 and 2008
- Covered patent, trademark and copyright matters

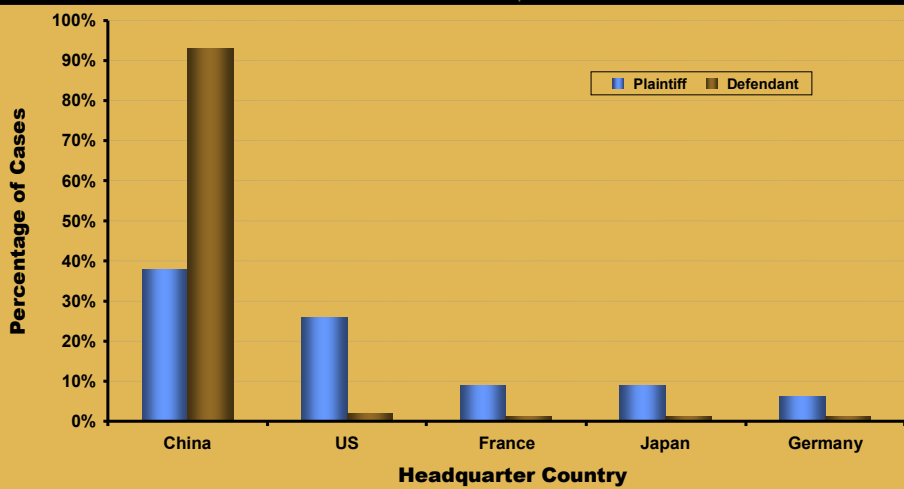
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Chinese Firms Are Defendants Much More Often Than They Are Plaintiffs

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Most Frequently Named Companies



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Number of Cases	Company Name
8	Columbia Picture Corp.
7	Walt Disney Paramount Pictures SONY
6	Universal City Studios 20th Century Fox Warner Music Alfred Dunhill Puma
5	Lacoste
4	Louis Vuitton Parker Pen Adidas-Salomon
3	Nike; Levi Strauss & Co.



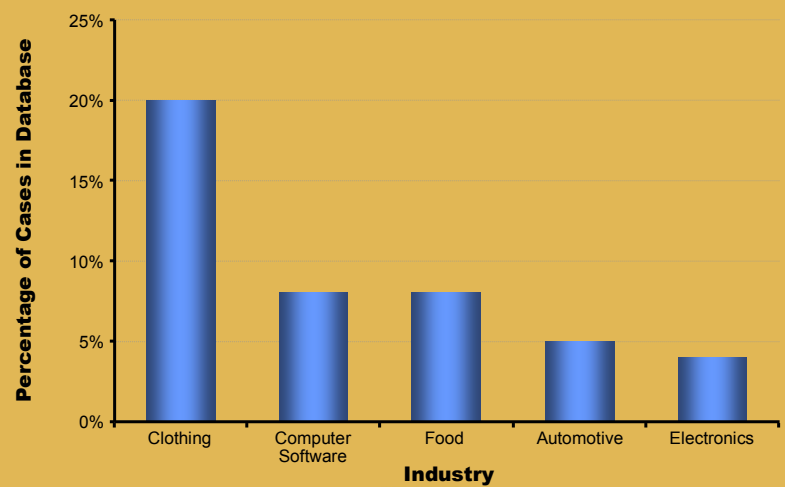
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Distribution of Cases By Industry



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Median Damage Claims and Awards for All IP

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Median Damages Claimed	\$87,500
Median Damages Awarded	\$13,100
Median Damages Awarded As Percent of Median Damages Claimed	15%

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Damages Claimed and Damages Awarded In China By Type of IP

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	<u>Patents</u>	<u>Copyright</u>	<u>Trademark</u>
Median Damages Claimed	\$77,677	\$213,000	\$65,478
Median Damages Awarded	\$34,722	\$18,109	\$18,488
Median Damages Awarded As a Percent of Median Damages Claimed	45%	9%	28%

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Damages Claimed By and Damages Awarded to Chinese and Foreign Companies (All Types of IP)

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	Chinese Plaintiffs	Foreign Plaintiffs
Median Damages Claimed	\$266,887	\$65,478
Median Damages Awarded	\$12,500	\$21,630
Median Damages Awarded As a Percent of Median Damages Claimed	5%	33%

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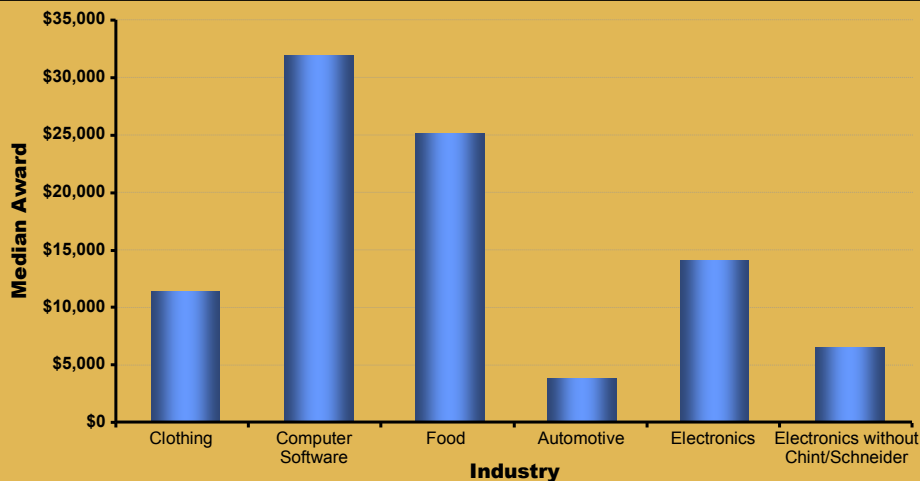
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Median Damages Awards By Industry

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Highest Annual Reported Awards

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2004:	\$50,000
2005:	\$1,100,000
2006:	\$210,226
2007:	\$44,300,000
2008:	\$2,780,000
2009:	\$3,000,000 *

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Damages-Related Features of the Third Amendment to China's Patent Law

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- Absolute novelty standard
- The innocent user/seller defense
- Compulsory license
- Preliminary injunction procedures
- Pre-suit evidence preservation
- Statutory damages

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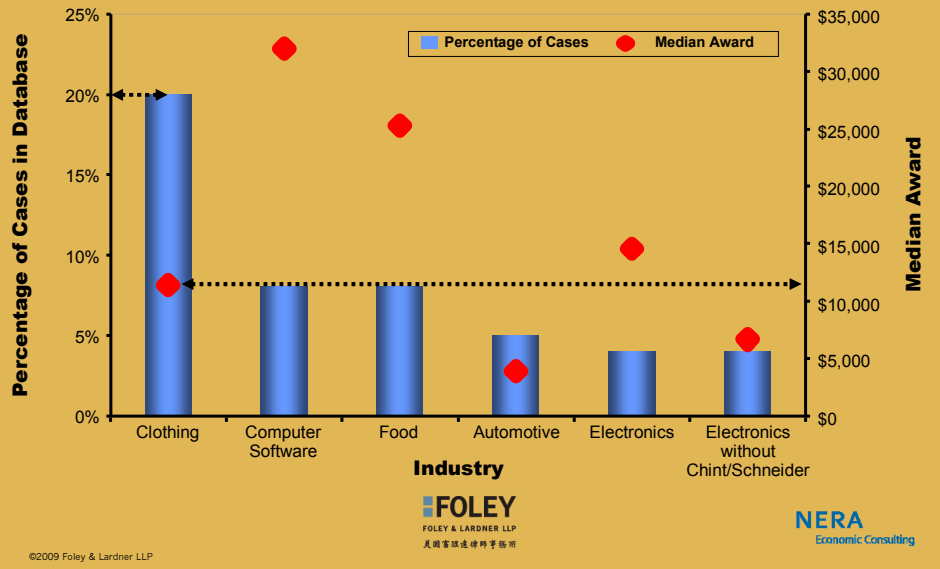
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Percentage of Cases and Median Awards

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A Macro View of IP and Enforcements in China

Victor Xue

US-China Green Energy Council

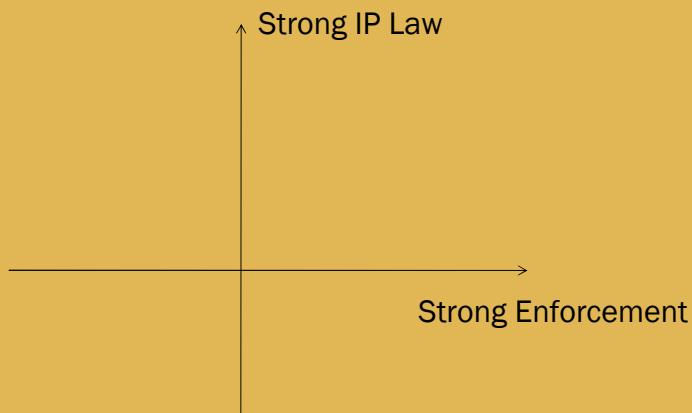
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Drivers

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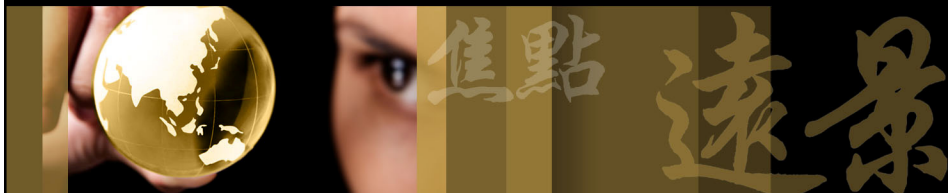
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Best Practices for Protecting Your IP in Emerging Markets - China Perspective

Catherine Sun
Foley & Lardner LLP



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The Dynamics of the Intellectual Property (IP) Legislation in China



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- Joined the World Intellectual Property Office (WIPO) on June 3rd, 1980
- PRC Trademark law took effect on March 1, 1983
- Joined the World Trade Organization on November 11, 2001
- Third Amendment to the Patent Law effective on October 1, 2009
- Third Amendment to the Trademark Law is pending



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IP Legislation in 2009-2010



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- The Third Amendment of the Patent Law and Its Implementing Regulations
- Judicial Interpretation on Adjudication of Patent Infringement Cases
- Amendment of the Copyright Law
- Law on Preserving State Secret (Draft Amendment)



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Major Modifications of the Patent Law

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- Novelty Standard-worldwide disclosure serve as prior art
- National Security Review
- Joint ownership-consensus to enforce or commercialize required
- Maximum statutory damages increased to RMB1 million
- Statutory inventor compensation applicable to both SOEs and private sectors if no stipulation
- Claim construction, prosecution history estoppel, conditions to file declaratory judgment have been clarified



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Amendment of the Copyright Law (Effective April 1, 2010)

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- Removed Article 4 “Prohibited publication cannot be protected” to provide a more consistent wording with the TRIPs, to honor the final decision of the US-China WTO dispute;
- Copyright mortgage requires recordation.



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Technology Transfer

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- The Regulations for the Administration of Import and Export of Technology, issued by the State Council clarify procedures for approval and registration of imported technology January 1st 2002- Always changing
 - Established three categories for imported and exported technologies:
 - freely imported and exported technology; no prior application necessary only after the technology has been imported
 - restricted technology; and
 - prohibited technology.



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Technology Transfer

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- Registration - online via the China International Electronic Commerce Network
- The Ministry of Commerce (MOFCOM) is responsible for registering technology imports for large projects, including projects that need approval from the State Council and projects funded partly by the national budget or by foreign government loans
- Provincial-level foreign-trade bureaux are in charge of registering other contracts involving the import of freely tradable technology



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Technology Transfer

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- For restricted technology, an application for import license must be filed with MOFCOM, before and after the technology-import contract has been signed and after approval of the license
- May be required to produce certificate when applying for foreign-exchange settlements, including overseas remittances of royalties



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Licensing Risks in China

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- The licensor bears statutory liability for any infringement of third party patents
- The improving party enjoys the right over improvements of licensed technology
- The assignor or licensor must warrant that it is the “lawful holder”, or “authorized” assignor or licensor of the technology and that the technology is “complete, error-free, valid, and capable of accomplishing contracted technical objectives”
- Currency and foreign exchange control risks
- Auditing rights by licensor



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Statistics of IP Cases

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- 30,626 IP cases were filed in 2009, and 30,509 cases were decided;
- 2009 filed patent cases: 4422; trademark cases: 6906; copyright cases: 15,302; technology contracts: 747; unfair competition: 1282;
- Decided cases related to foreign parties: 1361; related to Taiwan, Macau and Hong Kong: 353;
- Decided IP criminal cases: 3660.

(Source: PRC IP News)



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Landmark IP Cases 09-10

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- Patent Case-Strix
- Trademark Case-Pfizer
- Copyright Case-Tomato Garden
- Trade Secret Case-Tianjin Bohai
- Domain Name case-Exxon Mobil



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More Cases Filed Against Foreign Companies

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- Chint and Schneider settled in Zhejiang;
- Founder vs. Blizzard in Beijing;
- Xi'an Zhong Dian vs. Microsoft in Xi'an;
- Holley vs. Samsung in Hangzhou.



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How to Enforce IP in China?

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- Negotiation
- Mediation
- Arbitration
 - Face saving (*mianzi*) still dictates resolution of disputes by non-court actions
- Administrative Actions
- Civil actions
- Criminal actions
 - Criminal actions mostly are applicable to trademark and copyright offenses



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Administrative Enforcement

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- Agency for Industry and Commerce (AIC) and Technology Supervision Bureau (TSB)
- Suitable for trademark and simple design patent infringement only
- Quicker & Cheaper
- Evidence collection tool
- No damages



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Civil Court Actions vs. Administrative Actions

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- Specialized IP courts
- Suitable for copyright & complex patent cases
- Remedies include damages, injunction, and public & private apology
- Unique characteristics:
 - rocket docket
 - very little discovery
 - damages are historically not high



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Future Trends

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- Damages are higher and higher;
- More and more patent cases;
- More and more criminal cases;
- More and more domestic Chinese plaintiffs;
- Courts started to try “three in one” mode to hear the cases;
- More cases and transactions related to new technology and internet.



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Questions & Answers

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