

1



U.S.-China Business and Trade Issues: A Discussion With the Chinese Consul General

March 4, 2011
Milwaukee, WI

FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

2

Speakers

(Listed in order of appearance)



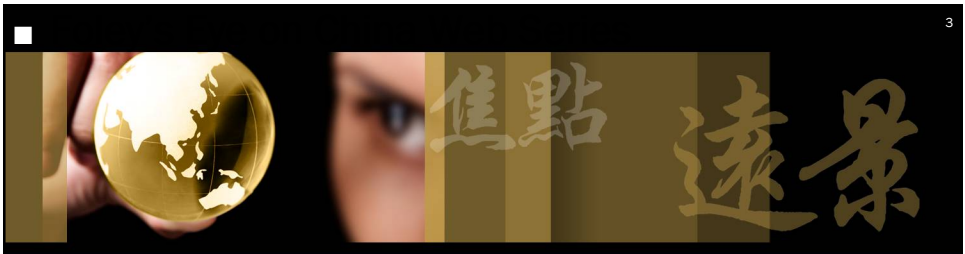
EYE ON CHINA

- Nancy Sennett, Foley Milwaukee Office Managing Partner
- Tim Sheehy, President of the Metropolitan Milwaukee Association of Commerce (MMAC)
- Z. Julie Lee, Foley International Business Transactions Partner
- Barry L. Grossman, Foley Intellectual Property Of Counsel
- Guoqiang Yang, Consul General of the People's Republic of China to Chicago

FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP



Presenter: Z. Julie Lee

International Business
Transactions Partner
Foley & Lardner LLP



Drafting Effective and Enforceable Contracts



- **Draft Effective and Enforceable Contracts**
 - The best contract is the one that will be complied with by all parties without the involvement of courts or arbitration commissions
 - No matter in which country a U.S. company does business, it is imperative that the U.S. company work scrupulously with its legal advisor to ensure that contracts are clear



Drafting Effective and Enforceable Contracts (cont.)



EYE ON CHINA

- **Understand the Mandatory Provisions of Chinese Law**
 - If a party includes in a contract standard disclaimer language excluding or limiting the party's liabilities, the disclaimer must be highlighted through the use of font, symbols and other means; and, at the request of the other party, the party including such disclaimer must explain the meaning of the disclaimer
 - Special considerations in a technology transfer agreement
 - Special considerations in an exclusive distributorship agreement



©2011 Foley & Lardner LLP

Drafting Effective and Enforceable Contracts (cont.)



EYE ON CHINA

- **Negotiate Enforceable Contracts**
 - Include a special section dealing with service issues in contracts with Chinese partners
 - Align your partner's goal with yours
 - Find creative solutions when dealing with unfamiliar Chinese legal restrictions, e.g., escrow and holdback arrangements



©2011 Foley & Lardner LLP

Drafting Effective and Enforceable Contracts (cont.)



EYE ON CHINA

- **Negotiate Enforceable Contracts (cont.)**
 - Think short-term as well as long-term
 - Special considerations in dispute resolution provisions
 - If both English and non-English versions of contracts are prepared, need to make sure the non-English version is accurate even though English version controls



©2011 Foley & Lardner LLP

Drafting Effective and Enforceable Contracts (cont.)



EYE ON CHINA

- **Negotiate Enforceable Contracts (cont.)**
 - Actively manage the negotiation process and leverage your international business expertise
 - May need to explain standard international business practice to a business partner not sophisticated on international matters



©2011 Foley & Lardner LLP

Drafting Effective and Enforceable Contracts (cont.)



EYE ON CHINA

- **Effectively Manage a Signed Contract**
 - Maintain constant communication
 - Monitor how the other party performs its obligations
 - Understand that an agreement alone may not bring the desired outcome
 - Learn the art of enforcing a contract in a foreign country



©2011 Foley & Lardner LLP

Managing M&A in China



EYE ON CHINA

- **Common Investment Structure**
 - Direct acquisition by U.S. company of equity interests in Chinese companies
 - Indirect acquisition by U.S. companies through offshore SPVs of equity interests in Chinese companies
 - Creative structure through offshore SPVs, onshore foreign invested enterprises, and related-party contracts



©2011 Foley & Lardner LLP

Managing M&A in China (cont.)



11

EYE ON CHINA

- **Conducting Effective Due Diligence**
 - Checklist and due diligence inquiry must be country specific and industry specific
 - Depending on industry, special areas of inquiry may include:
 - Business licensing and registration
 - Labor issues
 - Environmental issues
 - Intellectual property registration, protection, and infringement
 - Taxes



©2011 Foley & Lardner LLP

Managing M&A in China (cont.)



12

EYE ON CHINA

- **Managing M&A in China**
 - Understand the role of the government
 - Legal requirements relating to capital structure and impact on financing options
 - Total investment amount
 - Registered capital amount
 - Timing of payment requirement and impact on escrow and holdback arrangements
 - Understand and bridge gaps in culture and valuation methodology



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees



13

EYE ON CHINA

■ Non-Disclosure Agreements

- NDAs are permitted to protect confidential information from unauthorized disclosure or use during and following termination of employment
- Although initially difficult for employers to prevail in labor arbitration, trend now is increasingly favoring employers



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees (*cont.*)



14

EYE ON CHINA

■ Non-Competes

- Traditionally used for employees with access to competitively harmful information
- Was not codified in PRC law until passage of Labor Contract Law (effective 1/1/08)
- Non-competes may be used in labor contracts for up to a maximum of 2 years after termination of employment
- May only be enforced against senior management and technical personnel



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees (cont.)



15

EYE ON CHINA

■ Non-Competes (cont.)

- Special compensation must be paid
- Labor Contract Law silent on calculation of amount of consideration
- Calculation still left up to local implementing regulations, many of which are also silent
- Good rule of thumb: In the absence of specific local rules, 4-6 months' salary for each year of non-compete term



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees (cont.)



16

EYE ON CHINA

■ Liquidated Damages Clauses

- The Labor Contract Law authorizes employers to include liquidated damages clauses in labor contracts for employee training expenses
- Meant to punish employees that leave soon after receiving special training (overseas, academic, etc.)
- Employers might consider special training for technical staff as incentive to remain employed



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees (cont.)



17

EYE ON CHINA

- **Employee Inventor Reward and Remuneration**
 - The revised PRC Patent Law imposes an obligation on an employer to “reward & remunerate” an employee inventor “at a reasonable rate”
 - Patent Law expressly provides that a “Chinese entity” and an employee inventor may agree by contract on the reward and remuneration
 - Employers are strongly encouraged to include specific provisions for a system of reward & remuneration in the company’s policies and procedures and labor contracts



©2011 Foley & Lardner LLP

Dealing with Relationship with Employees (cont.)



18

EYE ON CHINA

- **Employers Be Ready**
 - Since 2009, there has been a sharp increase in labor disputes, especially against foreign invested enterprises
 - “Free of charge” arbitration system provides easy access
 - Prior system required at least RMB 500 filing fee which likely weeded out weak claims
 - New system encourages disputes regardless of merits of the case
 - Adopt HR best practices for labor disputes in China



©2011 Foley & Lardner LLP



Presenter: Barry L. Grossman

Intellectually Property
Of Counsel
Foley & Lardner LLP



"The only thing we have to fear is
fear itself."



EYE ON CHINA

- *"Joy Global eyes growth in China"*
- *"A.O. Smith completes acquisition of Chinese water filtration firm"*
- *"Plexus to expand factory in China"*
- *"Sensient opens fifth plant in China"*
- *"Oshkosh Corp. opens new plant in China"*
- *"Johnson Controls expands in China"*



And, it's not just Wisconsin companies



21

EYE ON CHINA

- “General Electric Plans to Invest \$2 Billion in China”
- “Dolby Laboratories opened its first Research and Engineering Center in Beijing last year”
- “Microsoft Research Asia [Beijing] has grown into an organization that has filed patents for more than 1,000 technologies.”
- “Lilly to open diabetes research center in China”



©2011 Foley & Lardner LLP

Myths, Perceptions, and Reality



22

EYE ON CHINA

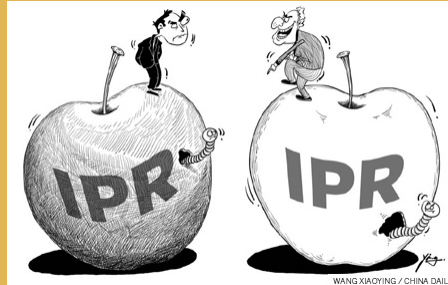


©2011 Foley & Lardner LLP

We All Can Improve ...



EYE ON CHINA



FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

China's Patent Law



EYE ON CHINA

- Implemented April 1, 1985
- Amended in 1992, in 2000, and in 2009
 - broader scope
 - better protection
 - increased penalties
- Effective IP protection and enforcement is important to the continued growth and success of China's economy

FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

“National Patent Development Strategy (2011-2020)”



25

EYE ON CHINA

- An economy that relies on innovation rather than imitation



©2011 Foley & Lardner LLP

Obtaining Patent Protection



26

EYE ON CHINA

- Three types of patents in China: invention patents, utility-model and design patents
- More than 1.2 million patent applications in 2010
 - about 90 percent filed by Chinese applicants



©2011 Foley & Lardner LLP

Enforcing Patents in China



27

EYE ON CHINA

- A growth market in patent litigation
- *Chint v. Schneider* - \$23 Million Reasons to Believe in the Value of Chinese Patents (2009)
- Most money damage awards are under \$100,000
- Separate infringement and validity actions



©2011 Foley & Lardner LLP

■ Courts

- Intermediate People's Court
- High People's Court
- Supreme People's Court
- Specialized IP divisions in most courts
- In 2009, about 4,500 new patent law suits
- remedies may include monetary damages and injunctive relief



28

EYE ON CHINA



©2011 Foley & Lardner LLP

Issues



29

EYE ON CHINA

- Inconsistent outcome/lack of predictability
- Mixed experiences with judges
- Some courts favor local companies
- Obtaining evidence



FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

Maximizing Protection



30

EYE ON CHINA

- Obtain patents
- Retain control over the assembly operation
- Source key components from different suppliers
 - due diligence on suppliers and distributors
- The government can be your ally
- Enforce your rights

FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

Still Room for Improvement ...



31

EYE ON CHINA

- 2010 USTR Special 301 Report, April 30, 2010
- Examined IPR protection and enforcement in 77 countries
- Priority Watch List – still includes China
- 79 percent of IPR-infringing product seizures at the U.S. border were of Chinese origin (2009)



©2011 Foley & Lardner LLP

China is working on it ...



32

EYE ON CHINA

- Special Campaign on Combating IPR Infringement
- Will last from October 2010 to March 2011
- Provincial governments to establish concrete action plans
- A significant recognition that IP protection is an important to the economic and social development of China



©2011 Foley & Lardner LLP

From October 20 to November 30



33

EYE ON CHINA

- 708 cases concerning IPR infringement
- RMB 835 million
- 1,586 suspected criminals have been caught
- 342 manufacturing facilities have been destroyed

FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

In the future ...



34

EYE ON CHINA

- Collaboration
- Cooperation
- Continuous improvement



FOLEY
FOLEY & LARDNER LLP
美國富強律師事務所

MMAC
Metropolitan Milwaukee
Association of Commerce

©2011 Foley & Lardner LLP

Follow-up Information



35

EYE ON CHINA



Z. Julie Lee
International Business
Transactions Partner

Foley & Lardner LLP
Phone: 414.294.5504
E-Mail: zlee@foley.com

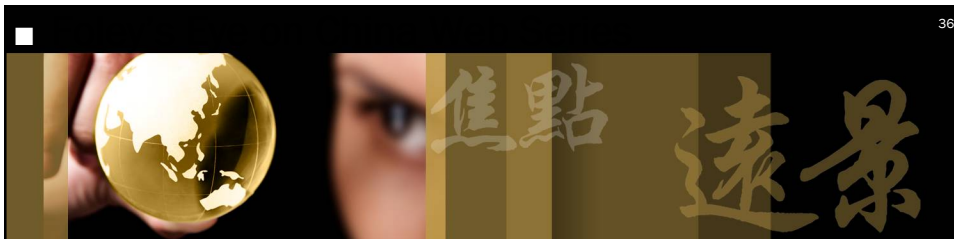


Barry L. Grossman
Intellectual Property
Of Counsel

Foley & Lardner LLP
Phone: 414.297.5724
E-Mail: bgrossman@foley.com



©2011 Foley & Lardner LLP



36

Thank You!
感谢您!



©2011 Foley & Lardner LLP