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**4:30 PM - 6:00 PM**

## **907 – IP in China - Developing an Effective Strategy**

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## Faculty Biographies

### **Jane Caskey**

Jane Caskey is global practice leader of Norton Rose Group's intellectual property practice. She currently sits as a member of our Canadian management committee.

Ms. Caskey practices intellectual property law, including all aspects of trademark and patent litigation including expertise in remedies and damages references, trade-mark prosecution, and opposition work. She is also involved in advising clients on strategy, branding issues, identifying and commercializing IP rights, IP support in corporate commercial transactions and trademark portfolio management and strategy. Ms. Caskey has particular expertise in the pharma/life sciences industry.

Ms. Caskey has extensive experience as an advocate at both the trial and appellate levels and appears regularly before the Federal Court of Canada and the Superior Court of Justice of Ontario. She also participates in resolving client issues through negotiation/alternative dispute resolution and has broad experience as an advocate on arbitrations and mediations. Ms. Caskey is a frequent lecturer at Insight, The Canadian Institute, Federated Press and the Advocates' Society, and has written articles on IP enforcement, counterfeiting, protection and licensing of IP rights.

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## IP in China - Developing an Effective Strategy

FINANCIAL INSTITUTIONS · ENERGY · INFRASTRUCTURE, MINING AND COMMODITIES · TRANSPORT · TECHNOLOGY AND INNOVATION · PHARMACEUTICALS AND LIFE SCIENCES

### Supplementary Materials

ACC Annual Meeting

Jane Caskey

Global Head of IP

October 2, 2012

### Trademark Law Overview

(1)

- Legislative branch: PRC Trademark Law
  
- Administrative branch:
  - State Administration for Industry and Commerce
  - Regulations on the Implementation of the Trademark Law
  
- The Judiciary:
  - Trademark Interpretations Issued by the PRC Supreme Court

## Trademark Law Overview

(2)

- Trademark – a sign that individualizes the goods or services of an entity and distinguishes them from the goods or services of its competitors
- PRC Trademark Law (2<sup>nd</sup> Revision) (1 December 2001)
  - Can register visually perceptible signs, including words, figures, letters, numbers, 3D signs and color combinations and combinations of the above.
  - It must:
    - be capable of distinguishing goods/services of one entity from another
    - have distinctive characteristics;
    - be easy to distinguish; and
    - must not conflict with prior lawful rights of a third party
  - Descriptive marks generally not registrable

## Trademark Law Overview

(3)

- Trademark registration
- Trademark opposition
- Term of protection
  - Ten years from the date of approval of registration
- Use requirement
  - Registration subject to cancellation if not used for three consecutive years
- Territoriality requirement
  - The right to use a trademark is protected only within the territory where it is registered
- Trademark infringement / Passing off

## Trademark Law Overview

(4)

Proposed draft amendments to the PRC Trademark Law released on 2 September 2011

- Extends scope to single color and sound marks
- Can file applications online
- Can file multiple class applications in a single application
- Sets out acts and scenarios that constitute bad faith applications
- Amends circumstances that amount to well-known trademark infringement
- Only prior right owners or interested parties can file oppositions
- Heavier penalties for repeated infringers
- Compensation claim - evidence that registered mark has been used for past 3 years
- Codifies power of local administrative enforcement authorities
- Relief for unauthorized use of well-known trademarks in company names

## Trademark Law Overview

(5)

Comments on proposed draft amendments to PRC Trademark Law

- Wider scope of protection
- Bad faith acts and scenarios are not exhaustive
- Removes opponent's right to appeal Trademark Office decision
  - can only apply to Trademark Review and Adjudication Board to cancel registration
- Burden on trademark owners to provide evidence of use for compensation claim
- Relief for unauthorized use of well-known trademarks in registered company names does not protect other registered trademarks
- Well-known mark infringement - must be "copy, imitation or translation"
  - not "identical, similar or a translation", which is generally more preferable
- Unaddressed issue:
  - whether original equipment manufacturer, applying trademark on goods in China intended exclusively for export constitutes use and infringement of a Chinese trademark

## Patent Law Overview

(1)

- Legislative branch: PRC Patent Law
  
- Administrative branch:
  - State Intellectual Property Office (SIPO)
  - Regulations on the Implementation of the Patent Law
  
- The Judiciary

## Patent Law Overview

(2)

PRC Patent Law (3rd Revision) (1 October 2009)

- Overseas patent applications are permitted:
  - if invention completed in China, must first submit it to Patent Administration Department (PAD) for "confidentiality examination"
  - Failure to comply results in refusal of grant of corresponding patent in China
  
- Novelty requirement
  - Will not meet novelty requirement if technical solution known to public in China or abroad before date of filing
  - Prior use or publication of relevant "state of the art" outside China can be used as evidence to invalidate a patent in China for lack of novelty

## Patent Law Overview

(3)

- SIPO is given the power to:
  - conduct administrative action against anyone passing himself off as owner of registered patent
  - inspect documents, conduct on-the-spot investigations, seize infringing products and forfeit illegal profits obtained
  - impose fines
- Court can order statutory damages from RMB 10,000 to RMB 1 million
- Chinese entity must reward and remunerate an employee inventor at a reasonable rate
  - Can be agreed by way of contract
  - Includes foreign-invested wholly-owned foreign entities, equity joint ventures or co-operative joint ventures

## Patent Law Overview

(4)

Comments on PRC Patent Law (3<sup>rd</sup> Revision)

- Designed to encourage foreign companies to devote more research and development resources to China
- Unclear how the examination is conducted by the PAD
- Novelty requirement may assist in elevating the quality of Chinese patents
- Foreign companies should keep detailed records of their R&D activities
- Should include provision in employment contracts for a scheme of reward and remuneration and procedure to resolve any disputes
- Some suggestion by foreign companies that their patents take much longer to be processed than domestic counterparts

## Patent Law Overview

(5)

### Revised Measures for Compulsory Licensing of Patent Implementation (1 May 2012)

- Previously, applicant can seek compulsory licence
  - If unable to obtain fair and reasonable licence after reasonable period of negotiation, and implementation of invention or utility model that is a significant advance is reliant on such licence
  - On grounds of public health; and
  - In an emergency
- **New measures** - 2 more grounds for compulsory licence applications
  - Patent not used for 4 years from application date or 3 years from grant or
  - Act of claiming the patent right violates the Anti-monopoly Law
- Grounds of public health expanded
- Previously limited to contagious diseases - restriction now lifted
  - Scope of compulsory licence formerly limited to domestic market - now extended to exports.

## Patent Law Overview

(6)

### Comments on revised Measures for Compulsory Licensing of Patent Implementation (1 May 2012) Body copy text 22pt

- Companies may start to search for unused patents as basis for applying for compulsory licences
  - unclear what would constitute sufficient "use" to avoid compulsory licence.
  - State Intellectual Property Office will determine the issue on a case-by-case basis
- No instances of compulsory patent licensing in China — new measures may change this — concern for pharma innovators.



## Patent Law Overview

(7)

- 50% of IP cases in China are brought by foreign companies from four countries: the US, Germany, Japan and France
- Suggestion of bias in favour of domestic entities vs foreign corporates
- Lobbying efforts of foreign industry groups less effective as importance of inbound investment decreases
- Venue issues - foreign entities are less likely to succeed in regional courts

## Copyright Law Overview

(1)

- Legislative branch: PRC Copyright Law
- Administrative branch
  - National Copyright Administration
  - Regulations on the Implementation of the Copyright Law
- The Judiciary
- International treaties
  - Berne Convention
  - TRIPS Agreement
  - WIPO Copyright Treaty

## Copyright Law Overview (2)

- Protects original works of authorship
  - “works” - original intellectual creations in literary, artistic and scientific domain, capable of being reproduced in tangible medium
- Protects an expression of an idea
- Term of protection
  - Copyright arises when work is completed
  - Article 7(1) of the Berne Convention: term is for the life of the author and fifty years after his death
- Limitation on copyright
  - Fair use
  - Compulsory licensing

## Copyright Law Overview (3)

### PRC Copyright Law (1 April 2010)

- Previously – copyright protection not provided to works prohibited in PRC from publication or dissemination.
- Such express denial of protection removed
- Article 4 now simply states that publication and dissemination shall be governed by the law
- Entitlement to copyright protection does not mean entitlement to publication or dissemination
- Article 26: pledge of copyright must be registered
- No longer states that pledge agreement only becomes effective upon registration
- Failure to register, risk losing priority claim

## Copyright Law Overview (4)

### Draft amendments released on 31 March 2012

- Extends scope of copyrightable works
- Copyright registration prima facie evidence of copyright ownership
- Resale royalty rights - author to share proceeds from each resale of its original work
- Clearer rules on copyright ownership of joint works, employees' works, audio-visual works and commissioned works
- "Fair use" circumstances where consent or payment not required
- Protection available for all technical protection measures - on or off the Internet
- Network service providers not obliged to review information relating to copyright
- Increases maximum statutory damages
- Allows punitive damages for repeated wilful infringement

## IP Litigation in China

- IP litigation numbers from 2010 to 2011
  - 35% increase in patent litigation
  - 53% increase in trademark litigation
  - 42% increase in copyright litigation
- Overwhelming majority of actions brought by Chinese firms
- Reflects increasing importance of IP as an asset worth protecting
- Implications for foreign firms' IP protection strategies – Chinese patent holders much more likely to assert an issued patent than US counterparts

## IP Litigation in China – Unfair Competition Action

### **Qihoo 360 v Kingsoft (2011)**

- Kingsoft (a Chinese software company) brought a claim against Qihoo 360 (an NYSE listed developer) relating to Qihoo 360's virus scan software
- Qihoo 360's program prompted users to delete Kingsoft's software on installation stating that it interfered with its product
- Court found for Kingsoft, stating that Qihoo 360 had committed unfair competition by defaming and forcefully uninstalling Kingsoft's product
- Qihoo 360 was ordered immediately to remove deletion functionality and to pay Kingsoft RMB 300,000 plus to publish an apology and retraction on their website for 7 consecutive days

## IP Litigation in China – Patent Action

### **Schneider Electric v Chint (2007)**

- Largest damages c. \$45 million ever awarded in a patent infringement case in China
- French Company (Schneider) v Chinese (Chint) — actions brought by Schneider apparently as a commercial tool to buy Chint - Chint counterclaimed
- Held Schneider's claims dismissed and Chint's counterclaims valid - Schneider ordered to pay within 10 days of judgment

## IP Litigation in China – Copyright Action

### Microsoft v Dazhong Insurance (2010)

- Microsoft challenged Dazhong Insurance, a large Chinese insurance company claiming that the company used more than 900 copies of pirated versions of Windows and Office
- Microsoft alleged that it had informed Dazhong of its breaches over a number of years, and requested that it be ordered to cease the use of the pirate software
- Court found for Microsoft, awarding them USD 318,000 damages

### Disclaimer

The purpose of this presentation is to provide information as to developments in the law. It does not contain a full analysis of the law nor does it constitute an opinion of Norton Rose Canada LLP on the points of law discussed.

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## Key IP issues to consider before opening an R&amp;D site in China

October 2, 2012

James Kellerman

Assistant General Counsel (Patents), GlaxoSmithKline

1. What will the R&D center do / work on?
  - What are the goals for the center?
  - Why is the company opening the R&D center?
  
2. Who will your company hire to do R&D?
  - People in China, Returnees, Foreigners? All 3?
  - How many existing employees will transfer?
  - Where will leaders come from?
  
3. What language will be used at the site?
  - To what extent will employees be expected to operate in English?
  - What language will be used for reports and other documents?
  - What language will be used in meetings?
  - What language will be used for lab notebooks?
  
4. When will the patent attorneys get involved?
  - Important strategic decisions to make early.
    - Where / how will you file patent applications?
    - Which entity will own the IP?
    - How will you “remunerate” inventors?
  - Education is critical.
    - Early and often are far better than late and infrequent.
  - Relationships are especially important in China.
  - Things move fast!
  
5. Who will the first patent attorney at the site be?
  - An existing employee or a new hire?
  - Foreigner or native Mandarin speaker?
  - Are there other attorneys at the site?
  
6. How will you learn about the legal environment?
  - Attend meetings?
  - Who will you get advice from?
    - “Western” firm or local firm?

7. Who will you hire in the patent department?
  - Native Mandarin speakers?
  - Returnees with “Western” experience?
  - How will you manage the workload as the site grows?
  
8. How will you continue to build / maintain relationships within R&D?
  - Things change fast.

## China Inventor Remuneration Strategy

October 2, 2012

James Kellerman

Assistant General Counsel (Patents), GlaxoSmithKline

The following general summary and issues are for consideration in developing an inventor remuneration strategy for inventions made in China.

### Background

- Article 16 of the PRC Patent Law
  - requires “the entity granted a patent right” to award inventors:
    - a reward upon patent grant, and
    - reasonable remuneration based upon the extent of exploitation
  - not amended in the 3<sup>rd</sup> Amendment
- Implementing Regulations to the PRC Patent Law
  - New Articles 76-78 went into effect February 1, 2010
  - Rule 76: employers can either enter into an agreement with inventors or adopt a policy that lays out the reward and remuneration to be paid under Article 16.
  - Rule 77: If no agreement or policy is in place the entity shall pay 3000 RMB per invention patent and 1000 RMB per utility model or design.
  - Rule 78: If no agreement or policy is in place the entity shall pay a percentage of not less than 2% of the business profits each year for exploiting an invention or utility model patent to the inventors or not less than 0.2% for a design patent.
    - a lump sum is an acceptable alternative
  - Rule 78: If no agreement or policy is in place the entity shall pay a percentage of not less than 10% of the licensing fees if a patent is licensed to another entity.
- Other relevant laws may apply:
  - PRC Contract Law
  - Technology-related laws
  - Local laws

### Do you need to do anything?

- Inventor remuneration obligations must be addressed on an entity-by-entity basis.
- Purely commercial based organizations may not need anything, whereas purely R&D based organizations likely do. Manufacturing based organizations may or may not need a program.
  - You may be able to enter into an agreement with inventors after an invention is made.

### Should you choose a policy or individual agreements?

- Existing employees



- Existing employees may not accept the terms offered in an individual agreement. Will you negotiate individual terms or do you prefer that all employees to receive the same benefits?
- Existing employees do not have to agree to the terms in a policy. In light of this, there may be a higher “reasonableness threshold” for existing employees who, despite having the opportunity to make comments during the consultation process may in the end have no choice. This risk is likely reduced when an employee enters into a new employment agreement with the company.
- Transparency
  - A company-wide policy may be seen as more fair by all employees since no one will worry that another employee got a better deal from the company.
  - One risk with this approach is that it may be “all or nothing.” If the policy is not deemed “reasonable” then you may be left with nothing in place.
- Efficiency
  - Implementing a policy may be less of an administrative burden than individual agreements.
- Global policy already in place?
  - If your company has a global inventor remuneration policy should you use it in China? If the global policy is discretionary, confidential, or likely to change over time it is probably better to have a separate policy for China.
- Why not both?
  - A combined strategy (policy plus individual agreements) may provide the best protection for the company. A policy can cover the payment scheme and individual agreements can reinforce the policy with acknowledgements.

### **If you choose a policy:**

#### **What should you include in it?**

- What is your overall approach or philosophy for the policy: do you want to benefit more people with lower awards or benefit fewer people with higher awards?
  - Payment for invention disclosure?
  - Payment for filing a patent application?
  - Payment when a patent application publishes?
- Will the policy cover other inventor compensation / award obligations under national and or local laws?
- Will the policy apply to employees who leave the company?
- Will the awards be shared if more than one inventor?
- Will the policy provide a reward upon patent grant?
  - More or less than amount provided in Rule 77?
  - What about divisionals?
- Will the policy provide remuneration for patents that cover a product in China?
  - Lump sum or on-going payments?
    - At patent grant or product launch?
  - Based on revenue or a set amount?
  - Based on type of patent?

- What about divisionals?
- Will the policy provide an award when you license a patent?
- Will the policy include awards for “exceptional circumstances”?
- Will payments under the policy be made within a certain period of time or at certain dates throughout the year?
- Will the policy indicate who determines inventorship?

#### **What consultation process will you follow?**

- PRC Labor Contract Law requires that employers must undertake a consultation process when implementing rules and regulations that have a direct bearing on the immediate interests of the employees.
  - Specific obligations not specified
- Will you release a draft to all employees or designated representatives?
  - Period of time for comments?
  - How comments must be submitted?
- Will you conduct information session or meetings to collect comments?
- How will you release the final version of the policy?

#### **What else can you do to mitigate the risk to the company?**

- An Intellectual Property agreement (separate from employment contract) addressing confidentiality and invention assignment obligations in China is fairly common. This agreement could be amended to include acknowledgements regarding the policy, including:
  - Policy is reasonable
  - Employer (Chinese entity) is responsible for reward and remuneration regardless of entity that files / obtains the patent
  - Company is free to decide not to file an application or to abandon an application
  - Policy covers all inventor award / compensation obligations that may apply, not just Article 16
- Other provisions to consider:
  - Dispute resolution
  - Inventorship determination
  - Personal contact / bank details if employee leaves the company

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