



**Presentation to Association of Corporate  
Counsel, Chicago Chapter  
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**By corporate counsels in Hong Kong**  
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**Questions received from ACC**

1. JOINT VENTURE (RY, CW)
  - How to set up a JV in China? What process must you go through to invest in a new company in China?
  - How to get out of joint ventures?
2. IMPORT (CW)
  - What process must you go through to import and export goods to and from China?
  - Are there clear guidelines on the licensing of software by western companies to Chinese companies? Is there a different treatment where imported software is then localised?
3. IP PROTECTION & LITIGATION (RY)
  - Protection of IP: patents, well-known trademarks, software, copyrights
  - How is patent and trademark litigation conducted?

The material represents the author's personal view. The author does not have PRC legal qualification.

## Questions received from ACC

### 4. LABOR MANAGEMENT (CW, JR)

- Can one hold one's technical employees with non-compete agreements?
- How to be successful while following American business practices in dealing with gifts and gratuities and purchasing practices?

### 5. DISTRIBUTION & ROYALTIES (RY)

- Have people had experience in terminating and replacing distributors?
- How to collect from distributors; administer service-oriented distribution network?
- What are reasonable royalty rates ?

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## Questions received from ACC

### 6. DISPUTE RESOLUTION (JR, RY)

- What are the most effective alternative dispute resolution processes?
- Is mediation available (Western-style & not 'directive')?
- What are people's experience with CEITAC arbitration?
- How do local investors collect money from state-owned companies?

### 7. LEGAL SERVICES (All)

- How to get legal assistance at a reasonable price?

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## Topic: PRC JOINT VENTURE

Trend

Pitfalls

Developments

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## PRC Joint Ventures

(Equity) JV No longer vehicle of choice

- ◆ Establishment procedure changed: PPL stage eliminated. Approval deadlines
- ◆ Trend towards offshore JVs, esp regulated industries; BUT new SAFE regulations
- ◆ FITCs / conversions; logistics parks
- ◆ Rumours of scrapping tax incentives

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## PRC Joint Ventures

One thing has not changed: pitfalls aplenty

- ◆ Land Use Rights
- ◆ Labour market / enforcing non-compete
- ◆ Decrease of capital and liquidation
- ◆ The 50/50 syndrome
- ◆ Due diligence
- ◆ Financing

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## PRC Joint Ventures

The good news is (vs 10 years ago):

- ◆ Increase in sophistication levels: business acumen, language, long term thinking
- ◆ Progress often due to lack of preparation / professional advice rather than red tape
- ◆ Solid professional advice is available – just often not locally => Role of Hong Kong

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## Topic: IMPORT INTO PRC

Goods

Software

Procedural protection for IP

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## Import of Goods

- Apply to the General Administration of Customs.
- 4 steps: declaration; inspection; duty assessment; payment and release of goods.
- Only qualified person to perform clearance procedures – use of custom agents.

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## Import of Goods (continued)

- Various valuation methods. Interpretation and procedures differ by location.
- Strategy:
  - consolidate use of customs agents; monitor and control;
  - due diligence of customs authority of the location;
  - centralize contacts with customs.

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## Import of Software

- No approval required to import unless falls within restricted category or prohibited category in <<Administration of Technology Import and Export Regulations>>.
- Encryption software need approval from the State Encryption Management Commission.
- If no approval required, register software contract with Ministry of Commerce.

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## Import of Software (continued)

- Software contract registration is not mandatory. Practically required for importer's application to the State Administration of Foreign Exchange to buy foreign currency for paying software license fees.
- Trading unregistered software is prohibited under <<Measures for the Administration of Software Products>>. Importer to register the software itself at Ministry of Information Industry. Enforcement is spotty.

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## Procedural protection for IP

- ◆ Has process for software owner to register with the National Copyright Administration. Registration is useful (but not essential) to prove ownership for copyright enforcement purposes.
- ◆ Registration is voluntary. Should weigh benefit against risk of disclosing source codes (as required for registration).

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## Topic: IP RIGHTS UNDER PRC LAW

**Legal Concepts**

**Practical Approach**

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## Intellectual Property Rights (continued)

The theory:

- ◆ China party to all international treaties
- ◆ Offers best possible protection on paper

In practice, main issues are:

- ◆ Enforcement
- ◆ Language
- ◆ Trend to use threat of criminal sanctions or Customs route rather than civil court action

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## Intellectual Property Rights (continued)

### Suggestions:

- ◆ Register IPR : cheaper than challenging
- ◆ File oppositions: cheaper than cancellation
- ◆ Seek recognition as well-known mark
- ◆ Tight control licensees (rejects/overruns)
- ◆ Challenge website registration
- ◆ Maintain validity of IPR
- ◆ Consider Hong Kong for IP sensitive areas

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## Topic: PRC LABOR MANAGEMENT

**Non-compete provision**

**Hospitality**

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## Non Compete

- Company can enforce post employment non-compete restriction if it is backed by a compensation paid to the individual.
- The amount that is adequate as compensation to enforce restriction varies by location.
- A company that takes on individuals who are still under employment contract may have to pay damages to the original employer.
- System of “employment file transfer”.

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## Hospitality

- Establish compliance procedures.
- Where the individual invitee is a government official, penalty is different.
- Consider if the other party is owned by government, or subject to government procurement rules.
- Know the customer's internal Code of Conduct. Seek corporate official acceptance from customer.

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## Topic: DISTRIBUTION IN PRC

Restriction on FIE

Liberalization

Agency Concept

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## Distribution

- Replacement experience limited
- ◆ Trading was forbidden territory for FIEs
  - ◆ Local distributors were large State-owned ImpEx Corporations: monopolists
  - ◆ Trade JVs/FITCs mainly for own products
  - ◆ Real 3<sup>rd</sup> party distribution only starting now
  - ◆ Contract law: compensation for damages on termination of “mandate contract” (= agency), no specific rules for distribution

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## Topic: DISPUTE RESOLUTION

Court System

Arbitration

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## Dispute Resolution

- “Effective dispute resolution” is an oxymoron
- ◆ Courts not independent: judges hired, fired and paid by local Government
  - ◆ Shortage of qualified staff: low pay/status
  - ◆ Foreign court orders hard to enforce, save provincial level “treaty” HK-Guangzhou
  - ◆ Threat of criminal sanctions may be most effective means of exercising pressure

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## Dispute Resolution

Arbitration is the norm

- ◆ CIETAC has the largest case load of any international arbitration body by far
- ◆ New CIETAC Rules 2005: address many concerns –but not cost
- ◆ Panel still likely predominantly Chinese
- ◆ Foreign arbitration preferred: HKIAC, LCIA
- ◆ Beware of defective standard clauses, e.g. ICC: no ad hoc arbitration under PRC law

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