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China's Global Business Perspectives and Intellectual Property

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Introduction by Professor Xuan-Thao Nguyen, SMU Dedman School of Law:

PROFESSOR NGUYEN: I am delighted to introduce the moderator for the panel today, Wei Wei Jeang. Ms. Jeang is a partner at Andrews Kurth LLP and an alumnus of SMU Dedman School of Law. She is one of the experts in intellectual-property (IP) law. Without further ado, Ms. Jeang, please take over.

MS. JEANG: All of the previous speakers have talked about the international-property law framework in China, and we thought it would be great if we could have a multinational corporation's insight into how it conducts business and operates in China within this legal framework. We are so fortunate to have three distinguished speakers today who will be able to talk about this issue from three different perspectives. The first perspective is that of the prosecution side, which Dr. Wang will discuss. Then we will have Mr. Fraccaroli speak about the licensing side. Finally, Ms. Chen will talk about the enforcement side.

I will start with an introduction of Dr. Wang. Henry Wang is a patent-program manager at Renesas Mobile Europe—a multinational wireless-chip maker—and he has the responsibility of managing multinational patent portfolios. Prior to joining Renesas, Dr. Wang managed patent programs for over six years at Nokia and Tekelec. Dr. Wang also practices as a patent agent at the law firms of Conley Rose and Munck Carter. Prior to his patent legal career, Dr. Wang worked extensively as an engineer and project manager at a number of different companies, including IBM, Nortel, Samsung, Santera, and Tekelec. Dr. Wang has a Ph.D. in computer science from Texas A&M and a master's degree in computer science from the University of Massachusetts at Amherst. He is also the author of two networking-technology books, both published by McGraw-Hill. In his spare time, Dr. Wang lectures at the University of Texas at Dallas on network management, and he is a frequent speaker on academic and professional topics. Let's welcome Dr. Wang.

DR. WANG: Ms. Jeang, thank you for the kind introduction and thank you to the organizers of this wonderful symposium for giving me the opportunity to share some of my thoughts on how to build a patent portfolio in China from a multinational corporation's perspective, especially from a multinational *technology* corporation's perspective. Before I get into procurement strategies, I would like to briefly touch on why multinational technology corporations need a patent-procurement strategy in China. Before you can actually build a patent portfolio, you have to develop the technology

and acquire the innovation needed to secure a patent. The focus will then be on patent-procurement strategies and how to build a patent portfolio in China. Finally, I will end with a couple of observations about the Chinese patent system.

Based on the information we have already heard in this symposium, I think it has been made abundantly clear by now why multinational corporations need a patent-procurement strategy in China, so I am not going to repeat anything that has already been said in other presentations. I want to emphasize that a lot of multinational corporations acquire and file a large number of patents in China.[1] In order for these multinational corporations who have a large presence in China to maintain status quo, they must have a patent portfolio in China. For example, Apple was granted 40 Chinese patents in September 2011.[2]

Another fact that needs emphasis is that China has a new patent-law amendment that went into effect about a year ago and brought some major changes to Chinese patent laws.[3] One of the requirements under this new law is that any invention that was substantially made in China has to be filed first in China in order to retain the Chinese patent rights to that invention.[4] This new amendment will spur a lot of multinational corporations to file for a lot of patents in China. I will now briefly touch on, from the multinational corporation's perspective, how you go about obtaining innovation and developing new technology.

The traditional way to go about this, especially for foreign corporations, has been to establish a research and development (R&D) center in your home country, such as in the U.S., Japan, or some European country, and then file the patent in China. Gradually, however, two trends have emerged that suggest corporations are going a different route. The first has been to establish an R&D center in China. You can see evidence of this by looking at the over 1,200 R&D centers that have been established in China, including centers established by over 400 of the Fortune 500 companies.[5] Previously, maybe

1. China has become the second largest patent application filing country behind U.S. in 2011 by all indications and moving toward a more innovation-based economy. Additionally, IP litigation is on the rise in China, including litigation involving multinational corporations.

2. Twinnie Siu, *Apple granted 40 patents in China*, REUTERS (Sep. 21, 2011, 8:41 AM), http://www.reuters.com/article/2011/09/21/us-apple-china-idUSTRE78K2A020110921.

3. Patent Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Dec. 27, 2008), *available at* http://english.sipo.gov.cn/laws/lawsregulations/201101/t20110119_566244.html.

4. *Id.*

5. Jianmin Jin, *Foreign Companies Accelerating R&D Activity in China*, FUJITSU RES. INST. (May 13, 2010), http://jp.fujitsu.com/group/fri/en/column/message/2010/2010-05-13.html.

five or ten years ago, large numbers of these R&D centers were mostly focused on the localization of the product in Chinese markets. Over the last few years, however, the focus has switched to actually engaging in and conducting core research in China, which is targeted toward worldwide markets.

The second emerging trend is that for the last two years there has been an increase in collaborative projects between multinational corporations and research institutes in China. More and more companies are collaborating with Chinese institutes, tapping into relatively inexpensive scientific and technical manpower, to develop their innovation and technology. Right now, there are a number of research institutes in China that are almost like guns-for-hire for research purposes. In order to establish an R&D center in China you need to make a commitment, you need to establish R&D, and you need to hire people. One of the reasons that this trend has been coming on so strongly in the last few years is that it offers economic flexibility and is research just for the sake of research. Also, both parties become more sophisticated in setting up the IP-rights share agreement, and in return the licensing agreement has also become more sophisticated. So as far as I can tell, more multinational corporations are going this route.

The last fact that I want to mention is that some corporations just go to China and acquire the technology and buy the Chinese patents outright from Chinese firms or from the China Technology Exchange, the Chinese open market. The China Technology Exchange is similar to Ocean Tomo and what is happening in the U.S. right now in that it offers monetization opportunities for U.S. and European patent owners. Last year was the first auction of patents in this exchange, and the second was held just last month, September 2011. At these two auctions, mostly Chinese patents were offered for sale. Gradually, though, I think the U.S. and European patent owners will also have an opportunity to market their patents as well at these auctions.

Once you get the innovation and the technology, you then have to think about how to file a patent in China. There are many aspects to this process, and I just want to touch on a few that we deal with on a day-to-day basis. The first step in the process is that you need to determine your filing strategy. You will either want to file a Patent Cooperation Treaty (PCT) filing as a first filing in China, a direct China national filing as "first to filing," or choose to go some other route. Next, you will have to decide whether to just file a regular patent application—such as an invention application—or if you also want to file a utility-model application. I will talk about some of the considerations from our perspective, such as how you can you get your application in quickly to speed up the procurement process and whether, once you file, you can cost-effectively get a patent in China.

In terms of procurement, first you want to determine a filing strategy. This will depend on where the invention is made and what your market goal is. At the end of the day, your patent strategy has to serve your ultimate business goal. There are three common ways that you can go about getting a patent in China, and the method you choose will depend on your business goals and your specific situation. The first way you can choose is to file a

China PCT patent—which is governed by the "first-to-file" rule—with the local State Intellectual Property Office (SIPO) as the receiving office. This strategy is more suitable for multinational corporations that have a large, global presence and want to file in many different countries, but the invention was made and the technology was developed in China. If you choose to take this strategy, you should file a PCT and then wait about 30 months to look at and gauge the market. From that point on, you may want to enter different national phases, but you will still have to enter China's national phase. Again, that strategy is suitable for a corporation that has a large R&D center and large, global patent portfolios—and it is the required route for those corporations that want to retain their Chinese patent rights. That strategy is also flexible for building a global patent portfolio.

The second strategy is filing directly in China as first-to-file. This strategy is more suitable for those corporations that have a very large R&D center and intellectual-property-rights (IPR) staff in China. An advantage of this route is that there is a relatively low cost, in that it is similar to goods that are made in China. At the time of filing, the corporation may only have a few foreign filings and a few targeted foreign countries, such as the U.S., Japan, or some European counties. This route is generally taken when the inventions and the application are made and filed locally in China. Using this method, you file in China, in Chinese, and then you can hire a local firm to translate the application into English in order to file in some other foreign country. Some large corporations are going this route, and some other corporations—such as Samsung—are doing it at on even larger scale by filing first in Korean, translating them into English, and then filing in the U.S. This is a low-cost solution for invention applications made and filed locally.

The last common route is the Chinese national phase, where a corporation files a PCT application in a foreign country when the invention was made outside of China. For those corporations, their main goal is to protect their market share in China because they do not have large R&D operations in China. Consequently, they file in a foreign country first, and then they file a Chinese national-phase application. These are three common routes that are used to obtain a Chinese patent.

The use of a utility-model application has become a familiar topic in terms of procurement strategies. Some corporations will file invention and utility-model applications for the same invention. The utility-model patent is granted in about six months—which is relatively quick—and it is very cheap to file, with a filing fee that is typically about $100 in China.[6] If and when the invention patent is granted, the corporation can then abandon the utility-model patent. About 30 to 40 countries worldwide recognize at least one form of a utility-model patent. But major countries, such as the U.S. and many European countries, do not recognize a utility patent, so that is a consideration with this strategy. Only about 0.6% or 0.7% of Chinese utility-

6. Liu, Shen & Associates, *Schedule of Fees for Chinese Patents*, LIU-SHEN.COM, http://www.liu-shen.com/docs/SFBEN.pdf (last visited Nov. 13, 2011).

model applications are filed by multinational corporations.[7] About five months ago, the United States Patent Trade Office (USPTO) organized a roundtable to discuss this, because they are fully and legally enforceable. However, multinational corporations do not have to file. For example, IBM refused to file because there was uncertainty about the enforceability.

Another consideration is how to obtain a patent quickly. You need to establish a long-term relationship with local firms. In order to help them obtain patents quickly, many firms have a formal examiner from SIPO who knows the ropes and is familiar with the procedures. In addition, SIPO is establishing a patent program with the USPTO called the Patent Prosecution Highway, which essentially is a faster track.[8] The USPTO has released statements indicating that overall the program results in a speedier grant and saves on costs.[9] There are two methods of filing in this program: you can file a PCT and then use the fast track, or you can file in another country and then file in the fast track in China. Again, the program is still at a very early stage of development. China will begin this program with the U.S. at the end of this year or the beginning of next year.[10] China also will begin a pre-pilot program with Japan.[11]

Once you decide to file, the next concern is how to file cost effectively. SIPO has six or seven local branch offices. Currently, there is a large drive to increase the number of patent applications. All the local branch offices offer different incentives. If you have R&D in China, you can visit these offices. For example, the Shanghai branch has offered to waive the filing and office fees. In conclusion, consider where you will file, what route you will take based on your business strategy, if you want to file using the utility-model patent application, how to get your patent quickly, and how to get it cost effectively.

Last, I will end with a couple of observations. One, this is a two-way street of increased patent filing. It is not just an increase of application filing by multinational corporations in China. Many Chinese companies and mul-

7. *Applications for Three Kinds of Patents Received from Home and Abroad*, SIPO.GOV.CN, http://english.sipo.gov.cn/statistics/gnwsznb/2010/201101/t20110125_570592.html (last visited Nov. 13, 2011).

8. Press Release, United States Patent and Trademark Office, USPTO and SIPO Sign Memorandum of Understanding on Bilateral Cooperation (May 21, 2010), *available at* http://www.uspto.gov/news/pr/2010/10_19.jsp.

9. Press Release, United States Patent and Trademark Office, USPTO and SIPO Herald a Milestone in Bilateral Cooperation (Nov. 8, 2011), *available at* http://www.uspto.gov/news/pr/2011/11-63.jsp.

10. Press Release, *supra* note 8.

11. Press Release, State Intellectual Property Office of the P.R.C., SIPO and JPO to Commence a Pre-Pilot of Patent Prosecution Highway between Both Offices (May 5, 2011), *available at* http://english.sipo.gov.cn/news/official/201105/t20110511_603901.html.

tinational corporations based in China are filing outside of China. Thus, parity will be achieved. Additionally, the transparency and efficiency of the Chinese patent system is improving. From a multinational-corporation perspective, we need to have a global outlook. The Chinese patent portfolio is only part of the global portfolio. Thank you.

MS. JEANG: Thank you so much, Dr. Wang. Our next distinguished speaker is Federico Fraccaroli. Mr. Fraccaroli is a director at Nokia, which is a multinational communications company based in Finland. Nokia is engaged in the manufacturing of mobile devices and converging Internet-communication industries. This telecom giant has over 132,000 employees in 120 countries. It had over 42 billion Euros in global annual revenue last year. Mr. Fraccaroli is an IP lawyer holding degrees in economics, physics, and naval sciences. He also has an L.L.M. from SMU with a concentration in Internet law. He is experienced in various aspects of litigation, licensing, and prosecution. He is currently the legal counsel serving the needs for all of the Nokia research laboratories located in growing economies—including China and India. From 2006 to 2009, Mr. Fraccaroli was in charge of managing the Nokia wireless-technology patent portfolio, which is comprised of about 5,000 patent families. Before joining Nokia, he worked for British Telecom in London and as a naval commander in Italy, where he specialized in telecommunications. He is also named as an inventor in eight U.S. patents.

MR. FRACCOROLI: Thank you for the kind introduction. First, I would like to give a disclaimer that this is my personal view of the practices in China. In my opinion, to understand how to conduct licenses, it is exceptionally important to understand the national policy. IP is an essential topic in achieving the move from "made in China" to "engineered in China." I am very familiar with standardization–especially the standardization of telecommunications. China has developed its own standards; they have developed Time Division Synchronous Code Division Multiple Access, and now they have Time Division Long Term Evolution, which is the next generation of telecommunication standards. These standards are largely modeled after U.S. and European standards.

I am sharing with you the perspective of working for a multinational company that is involved with Chinese licensing. From this viewpoint, it is a very intricate set of laws written in a language that is difficult to translate. In addition, there is no stare decisis. Judges and officials are given a lot of freedom of choice and discretion in applying the law. Sometimes governmental agencies have jurisdiction over the same matter and may not coordinate well with each other. To appreciate this, it is useful to understand the wisdom of legal scholars who say, "China is ruled by people, not laws." Consensus seems to be the main guidance in interpreting Chinese law.

When you move to China, it is incredibly important to immediately find a competent lawyer and get multiple opinions. Likewise, it is imperative to establish a network of trusted people. The word *Guanxi* describes the basic dynamics in this network of influence, which is central to the ideals of Chinese society. Further, the opinion of governmental officials is very important.

In addition, it is important to build a network of peer companies and other multinationals through which you can exchange ideas and opinions on certain legal matters.

As I mentioned, there is no stare decisis. Consequently, lower courts sometimes do not precisely follow the rulings of higher courts. Occasionally, international agreements are downplayed. Higher courts, we have noticed, are more IP oriented. And as stated before, since IP law was only established 30 years ago, they do not have the experience that the U.S. has. It seems that the Chinese government is trying to protect small Chinese companies from non-Chinese multinationals, who have a huge advantage when it comes to IP portfolios. Many laws have been enacted supporting improvement patents by Chinese companies. Contract law governs IP ownership, but IP law seems to take precedence over contract law.

The governing principle is freedom of contract, but the default rules are favorable to the party undertaking the work. This is because very often the case is that big multinationals come into China and contract work with small Chinese companies. So while the multinationals provide the IP and the capital, the Chinese companies work on developing the technology. Very often, these Chinese companies may come up with improvements on the IP and the technology that has been licensed.

Contract law varies; rules and regulations that apply are slightly dissimilar, and contract law is divided into four basic categories: technology service, transfer, consultancy, and development—both commissioned and joint. To understand where certain rules and regulations apply, it is necessary to understand which of these four categories the technology and contract fall into. It is very important to understand that we cannot "contract out" of certain provisions that are key to the development of technology in China. Because of that constraint, the licensing rights to make, own, or use improvements are largely prohibited under Chinese laws and regulations absent reasonable consideration given in return.

One opinion that is well known is a Supreme People's Court interpretation in the application of law in hearing technology contract disputes.[12] This interpretation makes it an illegal optimization of the technology and an impediment to the technology's improvement to limit further improvement of the technological achievement, to limit usage of improved technology, or to impose unfair terms or conditions for cross-licensing improvements of the

12. *Zuigao Renmin Fayuan Guanyu Shenli Jishu Hetong Jiufen Anjian Shiyong Falv Ruogan Wenti de Jieshi*
(最高人民法院关于审理技术合同纠纷案件适用法律若干问题的解释) [Interpretation of the Supreme People's Court Concerning Some Issues on the Application of Law for the Trial of Cases on Disputes regarding Technology Contracts], Interpretation 20 of 2004 adopted at the 1335th Meeting of the Judicial Committee of the SPC on November 30, 2004, *available at* http://www.wipo.int/wipolex/en/text.jsp?file_id=199781.

technology.[13] Other regulations to consider are the provisions of technology import and export. The improved technology, by default, shall belong to the party who makes said improvement.[14] Also, many unfair-competition laws have been enacted, which prohibit timing agreements that force the purchase of additional goods and attach unfair terms and conditions to the contract.[15]

"Grant-back" provisions are common in the U.S. "Grant back" means that if I license you a technology, whatever improvements you make on that technology revert to me, the owner of the technology.[16] These grant-back provisions are largely banned in China.[17] So as an alternative to grant-back provisions, you should always state good intent and that you have reasonably compensated the party who has undertaken the work. Or, instead of licensing the technology, you can use trade-secret licensing so that improvements may be seen as a breach of confidential duty. It is very important to understand that certain provisions invalidate the contract. Even if you create a severance provision, if you put a clause in the contract that is an obstacle to the right of the licensee to challenge the validity of the patent, the entire contract will be null and void.[18]

I am expressing certain concerns from a multinational's point of view. I have heard the speeches of the other distinguished guests during today's symposium, and for a multinational corporation that has invested—as in the case of my company—tens of billions of Euros in research and development, it is a matter of return on investment. On our side, we are concerned that certain provisions that have been recently enacted may impede the recuperation of this investment. For example, Article 17 of the recently enacted anti-monopoly laws states that dominant undertakings shall not abuse their dominant position by refusing to trade with another party without legitimate rea-

13. *Id.*

14. *Id.*

15. *Id.*; Anti-monopoly Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 3, 2007, effective Aug. 1, 2008), CHINA.ORG.CN, http://www.china.org.cn/government/laws/2009-02/10/content_17254169.htm (last visited Nov. 13, 2011).

16. Amanda P. Reeves, *Balancing Incentives for Innovation and Competition: An Overview of Antitrust Issues That Arise in Conjunction with Intellectual Property Licensing*, 1065 PRAC. L. INST. 733, *755 (2011).

17. *See* Paul Jones, *Licensing in China: The New Anti-Monopoly Law, the Abuse of IP Rights and Trade Tensions*, 43 LES NOUVELLES 106, at *112–13 (2008).

18. *Zuigao Renmin Fayuan Guanyu Shenli Jishu Hetong Jiufen Anjian Shiyong Falv Ruogan Wenti de Jieshi*
(最高人民法院关于审理技术合同纠纷案件适用法律若干问题的解释) [Interpretation of the Supreme People's Court Concerning Some Issues on the Application of Law for the Trial of Cases on Disputes regarding Technology Contracts], Interpretation 20 of 2004 adopted at the 1335th Meeting of the Judicial Committee of the SPC on November 30, 2004, *available at* http://www.wipo.int/wipolex/en/text.jsp?file_id=199781.

sons.[19] In many cases, these laws put a lot of pressure on the licensor and raise questions. What does it mean? Is the denial to trade a refusal to license? Is it mandatory to license the patents?

I always want to mention litigation in a discussion of the licensing. In my opinion, the license is always tied to the credible enforcement of your patents. One issue that I believe is not being fully emphasized is that there is no discovery in China, as in many other countries.[20] This is especially worrisome for high-tech companies. We are required to get evidence that links directly to information obtained from an infringer—from the website or otherwise—and this direct evidence all comes from reverse engineering. But not every device or every technology can be reverse engineered. It is very costly, and sometimes it is even impossible when we speak about software. It is my experience that there is a lot of unofficial information available in China on the Internet, even confidential documents. And you find a lot of material on the Internet because of the city of Shenzhen's business-model codes for openness, which make it easy to find evidence, but the difficulty is tying the evidence to the infringer.

MS. JEANG: Thank you, Mr. Fraccaroli. Our last speaker is Sheana Chen. Ms. Chen is a senior counsel at Texas Instruments Incorporated (TI), and we are so fortunate to have her here with us today. As you know, TI is one of the world's leading semiconductor companies with approximately 26,700 employees, and with sales, manufacturing, and design operations in more than thirty countries. Ms. Chen herself supports various business operations and business units within TI that include, at various times, worldwide sales and marketing and distribution, business-to-business operations, digital signal processing systems, corporate communications, and the medical business unit. She has extensive experience in supporting TI's activity in the Asia-Pacific Region, especially in China, Taiwan, and Korea. She is currently the legal team leader for the digital-signal processing organization, and she is an active member of the TI privacy data-protection team and antitrust-compliance team.

Prior to joining TI, Ms. Chen was an associate partner at the Taipei office of Baker McKenzie where she advised a wide range of multinational companies in different industries on mergers and acquisitions deals, technology licensing, and general corporate and commercial matters. She received her L.B. in honors from the University of Manchester and an L.L.M. in international commercial law from the University of London. She is qualified both as a barrister and solicitor of England and Wales, and she is also li-

19. Anti-monopoly Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 3, 2007, effective Aug. 1, 2008), CHINA.ORG.CN, http://www.china.org.cn/government/laws/2009-02/10/content_17254169.htm (last visited Nov. 13, 2011).

20. Alok Aggarwal & George Sawyer, *Patenting Landscape in China: History, Growth and Utility Model*, 1022 PRAC. L. INST. 149, 169 (2010).

censed in New York. We are fortunate to have Ms. Chen here today. Please welcome her.

MS. CHEN: Before I get into the details, I want to give you an outline of the topics I will cover. I will focus primarily on the operational aspects of IP activities and the legal issues that we encounter when doing business in China. Lastly, I will conclude by sharing some of my experience with counterfeiting activities in China.

The number of patent filings in China is increasing. For example, if you have either an iPod or an iPhone, you are actually indirectly contributing to both the economic growth of China and the increasing number of patent filings in China. I want to give you an overview of where China stands in the context of Asian patent filings. As compared with patent-filing trends in Taiwan, Korea, and Japan, China is showing a rapid increase over the years.[21] As of last year, there were an estimated 1.2 million patent filings in China,[22] and, according to SIPO, their goal is to increase patent filings to be approximately 2 million per year by 2015.[23] As you can see, that is another reason why we should care about the increased amount of IP activities as well as patent activities in China.

As a high-tech company, we at TI did a study of the engineering community in China, which helped us to devise our business models and also helped us with our recruitment of engineering talents in China. It also showed us the type of operational challenges that we may encounter when doing business in China. There are a lot of young, talented engineers coming up in China. On average, they spend about three years in a company—they see a company as a springboard to move on to a bigger company with higher pay. And that presents other operational issues, not only from a talent-retention side, but also in terms of how they protect a company's confidential information and trade secrets.

As we are talking about IP challenges, I want us tc think in broader terms beyond just patents, and to consider other IP rights. Another aspect of these activities is that China is all about speed. In order to compete effectively on the global stage, they must come up with products quickly. However, this need to rush to the marketplace can present operational challenges. On occasion, they will piggyback on someone else's inventions or patents.

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21. *See generally* Evolution of Filing Figures (2000-2010), EUROPEAN PATENT OFFICE, http://documents.epo.org/projects/babylon/eponet.nsf/0/2AFC429F6C9F92F6C12574D5003DCB6C/$File/evolution_of_filing_figures_%282000-2010%29_en.gif (last visited Nov. 13, 2011).

22. Request for Comments on Intellectual Property Enforcement in China, 76 Fed. R. Serv. 200 (Oct. 27, 2011), *available at* http://www.federalregister.gov/articles/2011/10/17/2011-26757/request-for-comments-on-intellectual-property-enforcement-in-china.

23. Steve Lohr, *When Innovation, Too, Is Made in China*, N.Y. TIMES, Jan. 2, 2011 at BU3, *available at* http://www.nytimes.com/2011/01/02/business/02unboxed.html.

Unfortunately, this is a business reality in China, and U.S. companies need to be aware of it.

With that in mind, I would like to discuss six general IP challenges U.S. companies face when doing business in China: political and economic considerations, legal framework issues, IP enforcement, cultural awareness of IP protection, state-owned enterprises, and patent quality. Many of today's speakers have touched upon almost every aspect of these challenges and have spent a significant amount of time sharing with you the importance of the political and economic considerations driving China's policies on IP rights, so I will not dwell on them here.

The challenges U.S. companies face when dealing with Chinese courts are numerous, but those challenges are not actually with the court system itself; China's emerging legal framework is quickly becoming well established and stable. Rather, the issues lie with the interpretation and nuances related to the specific laws and regulations concerning IP rights. In order to effectively confront these interpretive nuances, U.S. companies will need to build up a certain level of expertise. Also, another issue that U.S. companies encounter in China is the lack of access and visibility into Chinese cases. As Mr. Cohen pointed out earlier, the enforcement of IP rights is of paramount importance to U.S. companies.

The current cultural divide between China and the U.S. concerning appreciation and awareness of IP-rights protection presents a significant challenge for U.S. companies. This challenge is compounded by the sheer volume of Chinese engineers. Based on statistics that I saw recently, the number of engineering students graduating from Chinese universities is almost twice that of those graduating in the U.S.[24] That is a very large population of engineering students coming out of China every year. Many of them come not only from China's coastal region, but also from the inner provinces. This diversity adds yet another dimension to the cultural-awareness issues surrounding IP.

The implications of doing business with Chinese state-owned enterprises also present significant challenges for U.S. companies. Many times, in an attempt to leverage their domestic partner's network, foreign companies will establish joint ventures. If all goes well, no issues arise. But what happens if the joint venture falls apart? Imagine a situation where you have a joint-venture company comprised of a U.S. partner and a Chinese state-owned enterprise. If the joint venture fails, you must dissolve the company and divide the assets. The joint venture's IP will be among those assets, some of which will be considered state-owned. What do you do with those? Because they are considered state-owned, these assets will need to go through a more complicated procedure before they can be divided, and this will present

24. Geoff Colvin, *Desperately Seeking Math and Science Majors*, CNNMONEY (July 29, 2010, 10:42 AM), http://money.cnn.com/2010/07/29/news/international/china_engineering_grads.fortune/index.htm.

a major challenge. Therefore, U.S. companies need to be aware of the rules regarding the disposition of state-owned assets.

Today, we have spent a great deal of time discussing the quality of patents. The keynote speaker mentioned that a good patent is a patent that gets enforced; I would like to add to that. A good patent is a patent that not only gets enforced, but also gives you the results you want. Many times U.S. companies may think they have patent protection in China, but upon carefully studying the claims, they discover the scope of that protection is less than optimal. This is especially true for patents that get challenged in court. Because many U.S. companies rely heavily on their outside counsel for patent prosecution, it is important that they spend a significant amount of time monitoring the quality of the translation to ensure that what gets filed gives them the proper coverage. Thus, obtaining outside counsel that will effectively represent your interest in China is vitally important.

In addition to the general IP challenges U.S. companies face in China, I would also like to discuss some specific challenges we have encountered while doing business there. As I stressed earlier, look beyond patents when discussing IP, and focus instead on the big picture. There are other aspects of IP protection that need to be considered. Trade-secret misappropriation is one such example. In the Chinese high-tech industry, there are many talented engineers who go from company to company, and we need to make sure they are trained and aware of the importance of protecting the company's confidential information and trade secrets. In addition to breaches of confidentiality agreements, multinational companies also encounter breaches of license agreements. Cross-licensing activity and cross-border transfer technology between companies is common in China, so companies need to be aware of issues that may arise in this area. Export control is another area of law that U.S. companies need to be aware of, especially where it concerns IP. In the U.S., many export control laws exist to help track the flow of goods.[25] Many of these goods will eventually find their way into China, so these particular laws will be of great importance to multinational companies doing business there.

Because of cultural differences between China and the U.S., the importance of maintaining proper cross-cultural business relationships cannot be stressed enough. In China, we recognize that connections matter. There is a Chinese saying which roughly translates to, "If you have connections or relationships, it does not matter. But if you do *not* have connections or relationships, then it matters." The idea of relationships and connections is such an important aspect of Chinese society that you need to keep it at the forefront of your mind when doing business there.

Now let's talk about money. After all, it is one of the driving motivations behind most companies. However, the drive for success and revenue can often undermine a company's integrity if less-than-scrupulous business

25. David S. Bloch & James G. McEwan, *Regulatory and Government Issues in IP Licensing*, 1065 PRAC. L. INST. 917, 932-34 (2011).

models are employed. Counterfeiting is a major issue confronting companies doing business in China, and it can often serve as an impediment to true competition. Along those lines, I would like to introduce the Chinese word *Shanzai*, which refers to imitation or pirated goods, particularly electronics. This concept has also been referred to as "mountain stronghold." The practice is firmly entrenched in Chinese business culture and is one of the major operational challenges we face when doing business there. This leads to the main part of my presentation today—the challenge of counterfeiting.

Counterfeits encompass many different types of products that affect almost every aspect of our lives, ranging from big items like cars to small items like personal-care products. Based on a recent statistical estimate, there are approximately $250 billion worth of counterfeit products in the global marketplace today.[26] These counterfeit items present major challenges for multinational companies operating in China. Therefore, I would like to share with you some tips for combating counterfeit products. One tip, as I mentioned earlier, is cultivating strong business relationships. U.S. companies need to take advantage of the relationships fostered with their business partners, so make sure you network with people in your industry. This will help to establish a force that can be used to combat counterfeiting issues.

Likewise, reach out to law-enforcement agencies, especially Chinese customs officials. We have had very good experiences in dealing with customs authorities in China, and it has proven to be a very effective and cost-efficient method for dealing with the problem. They provide great help to multinational companies, especially U.S. companies. However, customs officials will need your help if they are to assist you effectively. You must give them enough information so they will be familiar with your products. Only then will they know what they must be on the lookout for. Additionally, establishing good internal protocols for responding to customs officials' inquiries is essential. Customs has the right to withhold goods for a relatively short period of time, usually around three weeks, so you need to be able to react very quickly. Therefore, establishing both internal and external chains of communication is vital.

So in conclusion, I would like to leave you with some thoughts on four particular challenging areas: risk assessment, IP strategy, legal protections, and networking. When assessing risk, companies need to look within their particular industries to identify the challenges that are specific to their businesses. Due diligence is required to fully understanding not only the company's trading partners, but their own employees as well. Since Dr. Wang spent a significant amount of time discussing IP strategy, I will not spend a lot of time on the issue. But as I mentioned earlier, patent filings in China are increasing dramatically. I would advise you to stay ahead of the game. Make sure you take this into consideration when developing your particular IP

26. *Magnitude of Counterfeiting and Piracy of Tangible Products: An Update*, OECD.ORG, http://www.oecd.org/dataoecd/57/27/44088872.pdf (last visited Nov. 13, 2011).

strategies. Mr. Fraccaroli alluded to legal protections earlier today when discussing licensing and contracts. With that in mind, I would like to stress the best way to legally protect yourself is to write good contracts.

Finally, networking is one of the most important aspects of successfully doing business in China. Leveraging your network connections will help you protect your IP assets. However, I must emphasize that U.S. companies should be diligent and avoid any issues related to the Foreign Corrupt Practices Act.[27] You do not want to run into these types of problems while trying to leverage your networks. Awareness of cultural differences is paramount in this area. As many of today's speakers alluded to earlier, China places a priority on establishing a harmonized society. The harmonious relationship between companies and people is important, so when resolving disputes, if at all possible, look for win-win solutions. You do not necessarily need to go to court; there are other alternatives. The role of outside counsel will be important in this area, so choose yours wisely.

China is a land flowing with milk and honey, ripe with opportunities. Hopefully, today's symposium has better prepared you to successfully leverage these opportunities when doing business there. Thank you.

MS. JEANG: If there are no questions, I would like to start. Dr. Wang, how are IP rights usually divided between a multinational company and a Chinese research institute for collaborative, joint-research projects? Are there concerns about losing IP rights?

DR. WANG: As I mentioned, right now, a lot of multinational corporations have become very sophisticated in terms of drafting licenses and drafting how IP rights are shared. One piece of advice is to think ahead. Think about how you will divide the rights, the dispute resolution, and the like. On the other hand, people on the Chinese side have also become very sophisticated. They have gone through this process many times, especially the experienced research institutes. As far as losing IP goes, it is a two-way street. It is not as if a foreign multinational corporation goes to China and gives away their intellectual property; China also develops their part of the technology and gives it to the corporation. So it is not a one-way street; there are mutual benefits for all parties involved to keep information confidential. From my personal perspective, I have not seen many disputes in that aspect.

MS. JEANG: Federico, in your view, what are some of the most common mistakes U.S. companies may make when they are getting licenses in China?

MR. FRACCAROLI: One common mistake concerns forum selection. Contracts are divided into domestic contracts and foreign contracts. With foreign contracts that usually involve a multinational corporation, you have a choice of forum selection. You may choose a known Chinese forum. The problem is that the foreign-court judgment is not going to be enforceable in

27. Foreign Corrupt Practices Act, 15 U.S.C. §§ 78dd-1–3 (2009).

China because there is lack of judicial-assistance treaties between China and most Western countries. So that is something that we have to keep in mind.

Another possible mistake could be not registering. Once the licensing contract has been signed and established, you have to register the IP-licensing and technology-transfer agreements to the import-export regulations authority. Royalties paid to foreign countries must be declared. Getting the authorization is not as easy as one would think; it might take some time. When you agree on royalties, and when there is money going from China to other countries, it has to be registered in time.

MS. JEANG: Do we have any questions from the audience?

AUDIENCE QUESTION: Concerning counterfeiting, you talked about mechanisms involving customs. When you can find a company's goods only in China, how do you use these mechanisms? How does your company handle these issues?

MS. CHEN: Hopefully my company does not have to deal with counterfeiting issues in China, but those are definitely major issues. That is why I said earlier in my presentation that you need to leverage your network, not only with the customs officials, but also with your supply-chain partners, including your distributors. For example, because of credit issues, many companies heavily use distributors. So leverage your distributors as well as companies in the same industries. If you see counterfeiting issues, they are not issues that are specific to your company. A lot of times, rather, those issues will be specific to particular industries. I recommend that you leverage your connections and friendships to attack those particular issues, not only with regard to all the different associations, but also in terms of lobbying the companies to take a more aggressive approach towards dealing with the local counterfeiters.

AUDIENCE QUESTION: With regards to investigating matters of counterfeiting, hiring Chinese law firms can be very expensive because of the amount of billable hours necessary. Do you have any effective way to treat this kind of problem?

MS. CHEN: I know that some companies, in addition to using outside law firms, actually hire their own private investigators to gather facts and evidence. From a cost perspective, it is sometimes cheaper to use private investigators to gather the evidence first, and then work together with a law firm to come up with a strategy. A lot of times, you just need to utilize the local enforcement agencies to help enforce your rights. But you need to pick your battles. From a company's perspective, you need to look at how seriously a problem is affecting your revenue and whether you want to use that as an opportunity to send a particular message to the particular market, or if you want to take another approach in terms of addressing this kind of issue.

AUDIENCE QUESTION: Do you deal with local law firms on a contingent-fee basis?

MS. CHEN: Different companies have different arrangements, but fortunately we do not have to deal with issues such as getting a costly lawyer ourselves. However, there are many different types of flexible fee arrange-

ments at local law firms. A lot of times, the local law firms provide very competitive pricing in legal-fee arrangements for companies.

MS. JEANG: Dr. Wang, what are some of the considerations when you are trying to figure out a budget for patent procurement on a global basis? How do you balance China and the rest of the world in terms of filing patent applications?

DR. WANG: Again, this goes back to your business goal and what you want to protect. Some companies only want to protect their market share. Some companies want to protect both their R&D and their market share. Right now, I have seen some companies just prioritize different countries. They prioritize countries by dividing them into different tiers based on how likely litigation may occur and how important the marketing is. Then they budget their IP resources according to the tiers, deciding which countries to file in, and how much money they want to spend.

MS. JEANG: Mr. Fraccaroli, you spoke earlier about compulsory licensing in China. What is the current trend for that?

MR. FRACCAROLI: In the third revision of the patent law enacted in 2009, 11 articles were added dealing with compulsory licensing.[28] SIPO has the power to mandate compulsory licensing of a patent. It has never done that, but it has the power to do so. The conditions under which it can be done are somewhat broad. Even if there is no misuse or failure to exploit without justifiable reason, a patent for three years after the grant date or four years after the filing may have a compulsory license mandated. Also, if it is determined through judicial proceedings to be a monopoly act, licensing may also be mandated. The problem of patent stacking that we currently have is also addressed. If an invention involves an important technological advance of considerable economic significance that requires the use of an early-patent technology, then compulsory licensing may be mandated.

AUDIENCE QUESTION (Mark Cohen): I just want to add a few points to the topic of compulsory licensing and anti-monopoly-law (AML) standards. This is a very hard topic to discuss in short period of time. The AML regime is one part of several laws dealing with anti-competitive behavior, some of which are already implicated in the IP regime. Patent law in compulsory licensing is one such law. Another one is Article 329 of the Chinese Contract Law, which predates the AML by about ten years. Article 329 deals with the monopolization of technology, including the grant-back situation that Mr. Fraccaroli spoke about. Grant-back provisions are also included in the technology rules and the foreign-trade law, amongst other regulations and rules.[29]

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28. Patent Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Dec. 27, 2008), *available at* http://english.sipo.gov.cn/laws/lawsregulations/201101/t20110119_566244.html (last visited Nov. 13, 2011).

29. *See* Contract Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 15, 1999, effective Oct. 1, 1999), *available at* http://

The relationship between the non-AML IP "misuse regime" and the AML regime in China is completely unsettled. So we do not know whether a violation of Article 329 of the Contract Law gives rise to an anti-monopoly case. Hopefully this year the specific rules on IP-rights abuse in anti-monopoly cases will be determined. Similarly, there are rules and draft forms that were floated to deal with refusals to license in a standard set of contracts, which may or may not amount to an anti-monopoly violation. In fact, SIPO has rules on compulsory licensing, but they only apply to patents. We do not know about copyrights, trade secrets, or any other IP rights because the rules are very limited, and the manner in which they are coordinated is very unclear. The good news, though, is that there has been no compulsory licensing.

There has not really been any anti-monopoly case successfully brought against a foreign company until this point. We hope that some of the uncertainties in the anti-monopoly world, particularly Article 55, which deals with IP abuse or misuse, will ultimately be clarified when these rules come out of the Anti-Monopoly Commission this year.[30]

MS. CHEN: That concludes our panel. Thank you very much to the speakers.

MR. MCCOMBS: Thanks for a great panel. This is Lisa Evert, and I am David McCombs, and we will keep our concluding remarks very brief. Remember these key points: that China is the land of milk and honey, that China has a patent policy that is just for China, and that China will have the largest patent office by 2014. Also, do not forget about the concepts of preparedness, stability, and economic prosperity. We have a lot of people to thank for today's program.

MS. EVERT: To add to what Mr. McCombs has said, I hope today will be the start of the conversation that we will have for years to come. There are so many people to thank that it almost takes more time than an actual panel. It begins with all of our visitors who have come from China. They started as guests, and they are hopefully leaving as colleagues and friends and will be back again.

Secondly, we could not do this without a fantastic planning committee, and folks who have given tirelessly of their time to put together panels. We would like to thank everyone today who served as a panelist, moderator, or facilitator; they were all terrific. We would like to thank the Center for American and International Law for their great support in helping get this off of the ground. We would like to thank President Mark Marchand, and Alan Dunlop, the Associate Director of the Institute for Law and Technology.

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english.sipo.gov.cn/laws/relatedlaws/200804/t20080416_380360.html (last visited Feb. 7, 2012).

30. *See* Anti-monopoly Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 3, 2007, effective Aug. 1, 2008), CHINA.ORG.CN, http://www.china.org.cn/government/laws/2009-02/10/content_17254169.htm (last visited Nov. 13, 2011).

Finally, it has been said many times, but we could not have done this without the SMU Dedman School of Law, particularly Professor Xuan-Thao Nguyen and her fantastic students and staff. We are so excited that we started a dialogue that we think is going to continue for a long time. I also want to make sure that we have particularly recognized Mark Cohen, who has really driven the conversation today. Hopefully we will have some more answers next year. Thank you and we hope to see you again.