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INTELLECTUAL PROPERTY RIGHTS IN CHINA

Gordon Gao
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with advice from Dr. Zhipei Jiang,
Formerly Chief Justice of IPR Tribunal
Supreme People's Court of PRC

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Mr. Gao specializes in litigating patents, trade secrets, and anti-monopoly cases concerning abuse of intellectual property. Before joining Fangda, Mr. Gao worked with major international law firms for over 10 years. For the past 6 years or so Mr. Gao advised NEC in the world famous corporate identity theft cases involving more than 50 Chinese, Taiwanese, Hong Kong and Japanese companies as defendants. Mr. Gao advised many large technology companies in their strategic patent and trade secrets litigations before the Chinese court. Since the enactment of the Anti-Monopoly Law, he advised clients on three antimonopoly cases involving patents and trade secrets. He also has advised clients on more than 10 cases on appeal to the PRC Supreme Court on trade secret and patent infringement issues. Chambers Global-the World's Leading Lawyers for Business ranked Mr. Gao as Tier 1 Patent Litigation lawyer and Tier 1 Intellectual Property lawyer for 2007, 2008, 2009 and 2010.

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Commented as "A trustworthy lawyer and always active and quick" by *Managing IP*, Mr. Zhang has more than 15 years of experience of advising many of the leading multinational companies and Chinese high-tech companies on China-related IP matters. Mr. Zhang focuses his practice on IP related counseling, litigation and transactional work and anti-monopoly litigation. He tried many patent, trademark, copyright, trade secret and unfair competition cases at Chinese courts in the major cities of China, such as Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing and Suzhou. He also conducted dozens of successful appeals to the Supreme People's Court, Beijing High People's Court, Shanghai High People's Court and Guangdong High People's Court. In 2006, the Supreme People's Court selected Louis Vuitton vs. Carrefour, Mr. Zhang's 2005 case, as a Top 10 IP Case in that year.

Mr. Zhang was the editor-in-chief of Fudan Law Review when he was studying law at Shanghai Fudan University Law School. He wrote several articles for *Asia Law, China Law & Practice* and *China Intellectual Property* on cross border technologies transfer, IP protection and anti-monopoly issues.

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Mr. Fang Qi is a consultant with the Fangda Partners' Beijing Office. Mr. Qi is a native of Shenyang, China and has spent over a decade living in New York City before moving back to Beijing in 2009. His primary practice areas include intellectual property-related transactional and litigation work, general litigation and anti-monopoly litigation.

Mr. Qi has extensive experience working with pharmaceutical, biotechnical, electronics, and information technology companies. Mr. Qi's work at Fangda Partners focuses on assisting the clients in managing their intellectual property portfolios, navigating regulatory compliance requirements, protecting against unfair competition practices, and defending claims of intellectual property infringement. Mr. Qi has represented a broad range of clients such as ALCOA, Alibaba, Bayer AG, Deere & Company, Flexsys, Lenovo, Qualcomm and Power Integrations.

Prior to his career in law, Mr. Qi studied the light control mechanisms involved in plant seedling development at the City University of New York. His work contributed to the understanding of the light perception in higher plants.

Mr. Qi graduated from Columbia Law School in 2007, where he was a Harlan Fiske Stone Scholar and article editor of the Columbia Science and Technology Law Review. Prior to joining Fangda Partners, he worked at an international law firm in New York.

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Editorial Advisory Board

Preface

As a young French man, Bernard Boursicot was an employee working at the French Embassy in Beijing. One day he was introduced to a Chinese opera singer, Shi Peipu, with whom he quickly developed a romantic relationship. In 1964, they got married and then Boursicot was transferred to the French Embassy in Ulan Bator. Shi continued to live in Beijing. One day, Shi told Boursicot that Shi was about to have a baby. Later, Shi brought Boursicot a young boy, Shi Dudu, whom Shi claimed to be their baby son born in Beijing.

In 1983, 20 years after the couple met each other, Boursicot sponsored Shi to immigrate to France with Dudu. The couple was soon arrested by the French police for spying for the Chinese government. According to the police, Boursicot passed hundreds of French documents to the Chinese government while working in Beijing and Ulan Bator. Boursicot claimed that he was forced into spying for the Chinese. A Chinese agent threatened that if he refused, the agent would ruin his relationship with Shi.

What is surprising is that Shi was found to be a man upon arrest. One would wonder how possibly Boursicot had not discovered his beloved wife for almost 20 years, was in fact a man. According to a journal kept by Boursicot, he had sex with other women before getting to know Shi. Boursicot was hugely embarrassed by the fact. He explained that when he and Shi had sex, they did it rather quickly and always in darkness. He thought a Chinese woman is shy and does not want to be seen naked.

Even in darkness, I wondered if Boursicot noticed any difference between Shi's body and that of his previous sexual partners. I thought the answer is a definite yes. I further wondered had Boursicot married a French man, would he make the same mistake? I thought the answer is a definite no.

On the assumption that Boursicot noticed the anatomical differences, then how could he be convinced that Shi was a woman? Perhaps a psychologist may tell us when we are put in a new and strange environment, we tend to seek a new set of rules to help us to make basic decisions. An explorer into a primitive tribe may wonder whether to craw or to walk on two legs, as walking on two legs might be regarded as an offense to the local chieftain punishable by execution. If one believes the old rules are destined to fail, then he should seek some new rules as using the new rule offers some chance of survival.

In my professional career, I noted that foreigners tend to have the same kind of worry when dealing with the Chinese law, just as the explorer meeting the chieftain or Boursicot romancing a Chinese woman. He might think the old rules are not applicable in China and need to be thrown away. He was in need of a new set of rules, new coordinates, and new courses. In IPR protection, some common results of such psychological reaction are as follows:

1. They accuse the Chinese government to has done too little to protect intellectual property. Some foreigners think the Chinese government is responsible to protect copyright, patents, trademarks and trade secrets. They constantly ask their government to put pressure on the Chinese government to do more. Back in their home country, however, protection of patents, trademarks, and trade secrets is almost exclusively a private legal matter, while protection of copyright is very often a private matter.
2. They argue it is unfair to invest money to protect IPR in China, because protecting IPR is the job of the Chinese government. Therefore they tend to think spending US$300,000 on a patent infringement case too expensive even though back in their home country they routinely spend 20 times more on a similar case. While counterfeit DVD of American movies are found on street corners of every Chinese city, the industry group that holds the copyright invests only a few million dollars a year to clean up the market, the money is spent mostly on lobbying the government and almost never on taking actions.
3. They argue the Chinese courts and legal theories are beyond understanding, while in fact, the Chinese rules are mostly copied from the other countries.
4. They argue the Chinese courts favor local litigants against the foreign litigants, while data show in Beijing and Shanghai foreigners have a two to one chance of winning a patent infringement case against local litigants.

With their often fragmented understand of the Chinese system, foreign companies feel the need to find advisors. Instead of consulting Chinese lawyers who are supposedly knowledgeable about the legal system, they often consult foreign firms for China litigation matters. While foreign firms may have a longer history than Chinese firms, they do not often have more experience with respect to Chinese legal system. If the foreign firm is hired to provide global litigation coordination, then they would be helpful. However, if they are used to form strategies and tactics in a Chinese court, then I am not certain how effective they could be.

Some foreign companies would consult a China expert, those foreigners who studied the Chinese culture, for advice. However, the best way to understand a culture is to be in it, rather than to study it from a distance. You may learn more about a country by

staying there for one day than you can by reading a thousand books. In one case, a well-known American professor of China Studies advised the client not to do certain things as doing so is offensive under the Chinese culture. The professor argues to deal with a Chinese company one must make an effort to "save face." In my opinion, although "saving face" is important in a social context, we should ignore saving face when designing a strategy to sue.

Some foreign companies often hire Chinese look-alikes as advisors, such as overseas Chinese, Hong Kong, Taiwan, Singapore, or Malaysian Chinese people. In my view, the knowledge of China does not come from one's ancestry. No matter whether you are yellow, white or black, if you lived in China long enough, then you tend to understand China. If you only have a Chinese look but did not actually live in China, you tend not to have a complete understanding of China. When it comes to law, Taiwan and Hong Kong are both different from China and from each other.

Another French story might interest those in the IPR protection business. I will use Fco as the name of the French company; and Cco as the name of the Chinese company. Fco is a large and old French company with significant investments in China. Its Chinese competitor, Cco, is a relatively new and smaller company. Over the years Fco have sued Cco for infringing its IP and won most of the time.

Fco invented a certain product and obtained a patent on it. It then made and sold it for a number of years in China. Later Cco invented the same product, and file a utility model patent in China using drawing which in the relevant part is exactly the same as that of Fco. Cco's patent claims a feature that was clearly shown on the Fco patent drawings, but Fco patent has no claim related to the feature. Fco explained that the feature was such a minor feature it did not seem worthy patenting.

Cco then sued Fco for patent infringement in China pleading for damages of RMB330 million, the highest pleading ever for a patent infringement case in China.

Fco decided to set up command for the case in its French headquarters. Decisions are made in France with advice from its UK counsel. Its local staff in China had no decision power on the case. More than a handful firms, both Chinese and foreign, were involved. On informal basis Fco also consulted other firms. The firm arguing the case before the court was a relatively small Beijing firm.

The strategy and arguments are mostly formulated by the UK firm, which also coaches the Beijing firm on how to deliver the arguments. The Beijing firm's work was relatively limited to

filing to and receiving document from the court and delivering the arguments. The Fco's rationale is that the combination of firms will enable Fco to cherry pick the strength of each of the firms. The rich experience of the English firm will be drawn upon, and the Chinese law license of the Beijing firm will be fully utilized when arguing the case.

In contrast, Cco hired only one Chinese firm. The firm is of medium size and is local to the venue. They know the court procedure rather well. The lawyers were shrewd and articulate. During trial it became rather apparent that they had worked hard and understood the issues rather thoroughly. They presented their arguments cleverly. In contrast the Beijing firm's presentations were much more mechanical.

Fco lost entirely during first instance. The court awarded Cco damages in the amount of RMB330 million, the same as pleaded and the largest amount ever awarded by a Chinese court. On appeal, before the oral hearing, Fco decided to settle the case with Cco by paying more than RMB150 million as damages and withdrawing other lawsuits against Cco worldwide.

We will not go into further details of the case as we are not interested in a full analysis of who is right and who is wrong. However, I wonder had Fco been sued in Germany, Russia, Japan, or anywhere else, would Fco still have the same strategy of have its UK counsel to formulate the strategy and arguments and ask the less experienced local counsel to deliver them?

I think the answer is likely no. Just because the lawsuit was in China, and Fco worried that Chinese legal system was different, Fco had decided to take this approach. Furthermore, Fco perhaps also was scared of Chinese lawyer's experience level. So combining a very experienced UK firm and a Chinese firm would be a logical approach.

Several aspects of the case make a Chinese patent attorney wonder. Firstly, how much experience does the UK firm have in Chinese litigation? If the firm argued Hadley v. Baxendale in the 1800's, we may agree it is an experienced firm. However, a foreign firm is not allowed to argue before the Chinese court under the Chinese law. Up to date, only a small number of foreign litigators working in China have ever been allowed to enter the Chinese courtroom as observers and none have ever argued. So logically the UK firm had zero experience in China and therefore could offer no help to supplement the lack of experience of the Chinese firm.

Secondly, is the Chinese firm experienced? Again, if Fco worried about the experience level of the Chinese lawyers, then logically it should look for the most experience Chinese lawyer. In the usual combination strategy, the foreign firm often recom-

mends a local firm not based on the experience level. The logic is the rich experience of the foreign firm compensates the lack of experience of the Chinese firm. In this case, although Fco does have some large local firms on its panel, the firm arguing the case was not a "go to" firm for patent litigation.

Third, in the above arrangement, who is in control? We need to figure out whether arguing a case is more like flying a plane or navigating a ship. When flying a plane, the captain, who makes the crucial decisions, must sit in the cockpit and put his hands on the throttle and yoke. When navigating a ship, the caption similarly makes the crucial decisions. However, he sips coffee and once in a while gives command to be executed by others. To me arguing a case resembles flying a plane much more than navigating a ship. In this case, the captain is the UK firm. However, the yoke is in the hands of the Beijing firm. It is not a surprise if the arguments are a little mechanical and rusty.

Fourth, we may wonder why Fco would settle the case so quickly. The case was heard by an intermediate court local to the plaintiff with no jurisdiction to decide a case of RMB330 million. The procedural flaw was rather apparent. On substantive issues, Fco has evidence that the feature patented by Cco was invented by Fco and was disclosed in Fco's patent. So Fco had considerable chances of winning on appeal at the high court level. Let's assume the chances of winning on appeal is 50%, then considering the withdrawal of other cases against Cco, and the market invasion as a result of settlement, settling for a cash payment of RMB 150 million for a judgment of RMB 330 million might not be a good deal.

Fifth, the settlement was viewed as too quickly done. As the enforcement procedures are rather complicated in China, many defendants may negotiate and settle a judgment at the enforcement stage and still get a discount of more than 50%. If Fco has taken this approach, then there is no need for Fco to withdraw other lawsuits worldwide and would have prevented Cco from invading the market. Furthermore, according to Fco, its total assets in China is only about RMB 80 million, half of the agreed payment of RMB150 million. The law does not allow enforcement against Fco's parent company's assets. So even if Fco waited and did nothing, it would have lost less than the agreed payment, and Fco may continue to prosecute other lawsuits against Cco to protect its market share worldwide.

Lastly, had the PRC Supreme Court reviewed the case, the likelihood for Fco to win would improve even further. The Supreme Court should be eager to review because the case had created rather negative image for the Chinese legal system. International and Chinese media criticize the case and are on Fco's side. In fact, while the parties discussed settlement, the

Supreme Court was collecting comments from members of the IPR circle on a set of judicial interpretations. One clause of the interpretations was aimed at preventing similar cases from being filed in the future. The interpretations were issued shortly after the settlement agreement was reached.

In this case, we as outsiders can only imagine the kind of advice Fco had received. However, one thing is certain, that is Fco was scared when sued in China. It then deviated from its normal practice and made several strategic mistakes which lead to the total loss of the case.

What can we learn from the two French stories? A Chinese woman does not have a totally different anatomy from a French woman. Similarly a Chinese lawsuit does not require approaches drastically different from a French lawsuit. One should not throw away his basic instinct when romancing a Chinese woman or suing in a Chinese court. Do not take an advice that is against your fundamental belief and experience. With the above basic issues resolve, the following particulars would become apparent.

First, you need to invest money if you wish to protect your rights. For the movie copyright group, investing a few million dollars in China per year is definitely not enough. The availability of counterfeit copies of movie DVD on the Chinese street is not an accident. Similarly, if you need to hire your own counsel to sue for patent infringement in your home country, China is no different. Furthermore, you need good reasons to support the argument that spending US$300,000 on a patent infringement case is too expensive if you spent many times more in your home country.

Second, use experienced counsel if you think your case is important. In litigation, nothing beats knowledge and experience. Do not take the bargain price from less experienced counsel, as the fee is proportionate to the experience level. Do not choose your local counsel based on how often they agree with your foreign counsel.

Third, while a worldwide litigation coordinator is often necessary if you fight many fronts, a pure middle man is not useful. You need your captain to put his hands on the throttle and yoke. If you use middle man, he will want to be the captain but he will never be allowed to put his hands on the yoke or throttle.

Fourth, do not use China experts to advise you on the cultural issues when you are suing people. You need not save anyone's face when in litigation, be it the judges, government, or opposing party. If you have not made an effort to appear humble in a lawsuit in your home country, then in China you need not be humble either.

While a real lawsuit is far more complicated than the above rules of thumb, if you made sure you adhere to the list, you must have improved your odds of winning to a level higher than that of Fco.

(Adopted from Gordon Gao's speech "Successful Strategies for Winning Judgments and Case Study" given at the Annual Conference of the Alliance for Gray Market and Counterfeiting Abatement, March 11, 2010, Beijing)

TABLE OF ABBREVIATIONS

AMA	Anti-Monopoly Authority
AMLEA	Anti-Monopoly Law Enforcement Authority
CBRC	China Banking Regulatory Commission
CCPIT	The China Commission for the Promotion of International Trade
CEL	Cooperative Enterprise Law
CICT	Consolidated Industrial and Commercial Tax
CIETAC	China International Economic and Trade Arbitration Commission
CIRC	China Insurance Regulatory Commission
CJV	Cooperative Joint Venture
CSRC	China Securities Regulatory Commission
CT	Consumption Tax
EITL	Enterprise Income Tax Law
EIT Regs.	Enterprise Income Tax Regulations
EJV	Equity Joint Venture
ETDZ	Economic and Technological Development Zone
FICE	Foreign Invested Commercial Enterprise
FIE	Foreign Investment Enterprise
GAC	General Administration of Customs
JVL	Joint Venture Law
LTB	Local Tax Bureau
MFN	Most Favored Nation
MII	Ministry of Information and Industry
MOFCOIM	Ministry of Commerce
MOF	Ministry of Finance
Moftec	Ministry of Foreign Trade and Foreign Economic Cooperation (now the Ministry of Commerce)
NDRC	National Development and Reform Commission
NTR	Normal Trading Relationship
PRC	People's Republic of China
RMB	Renminbi (Chinese currency)
SAFE	State Administration of Foreign Exchange
SAIC	State Administration of Industry and Commerce
SARFT	State Administration of Radio, Film and Television
SAT	State Administration of Taxation
SAQSIQ	State Administration of Quality Supervision, Inspection and Quarantine
SASAC	State-owned Assets Supervision and Administration Commission

SEZ	Special Economic Zone
VAT	Value-Added Tax
WFOE	Wholly Foreign Owned Enterprise