



China-Britain  
Business Council  
英中贸易协会

Department for  
**Innovation, Universities & Skills**



# China Tomorrow Initiative Launch Event

*Wednesday, 25<sup>th</sup> March 2009*

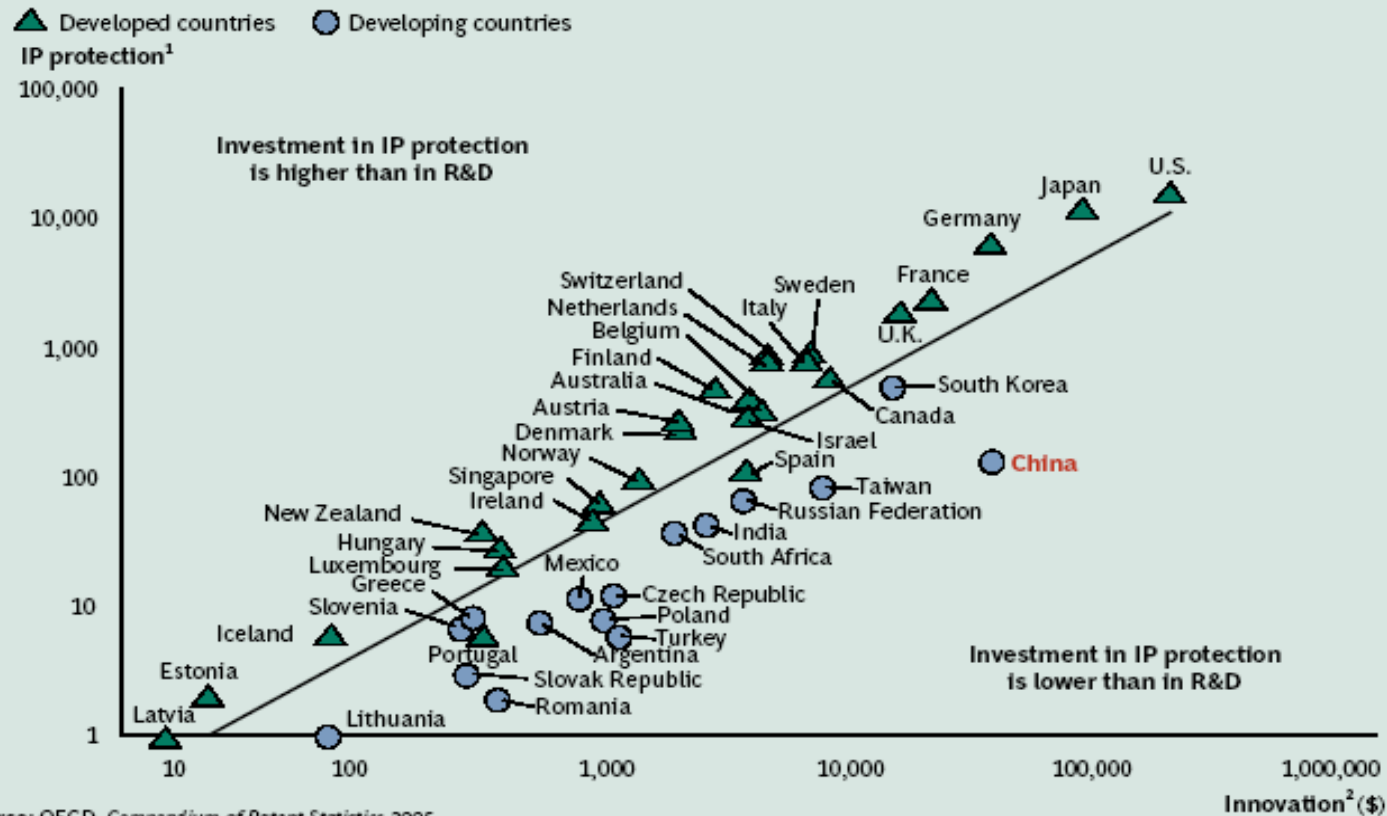
*One Great George Street, Westminster*

# Effective technology transfer and IPR protection

Victoria Wang



### Exhibit 4: China Has Boosted Investments in R&D, but IP Protection Has Not Kept Pace



Source: OECD, *Compendium of Patent Statistics 2005*.

<sup>1</sup>IP protection, measured on a logarithmic scale, is based on the average number of triadic patents granted from 1996 to 2002 to residents in each country.

<sup>2</sup>Innovation, measured on a logarithmic scale, is based on the average domestic corporate investment in R&D from 1995 to 2001, denominated in 2000 U.S. dollars.

Source: *Beyond the Great Wall*, BCG



# Patent filing

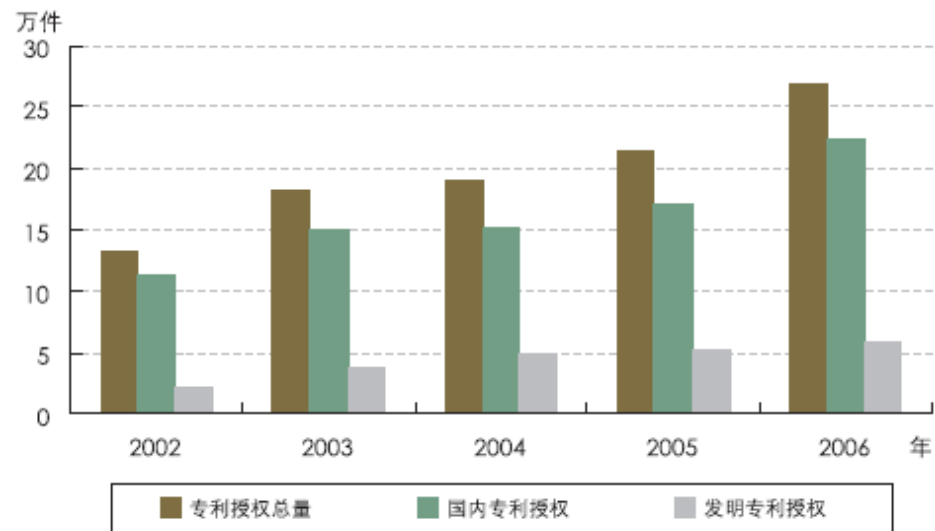


图 1-6 中国专利授权量增长情况 (2002—2006 年)

Source : 2006 CHINA SCIENCE AND TECHNOLOGY DEVELOPMENT REPORT , Ministry of Technology and Science, 2006



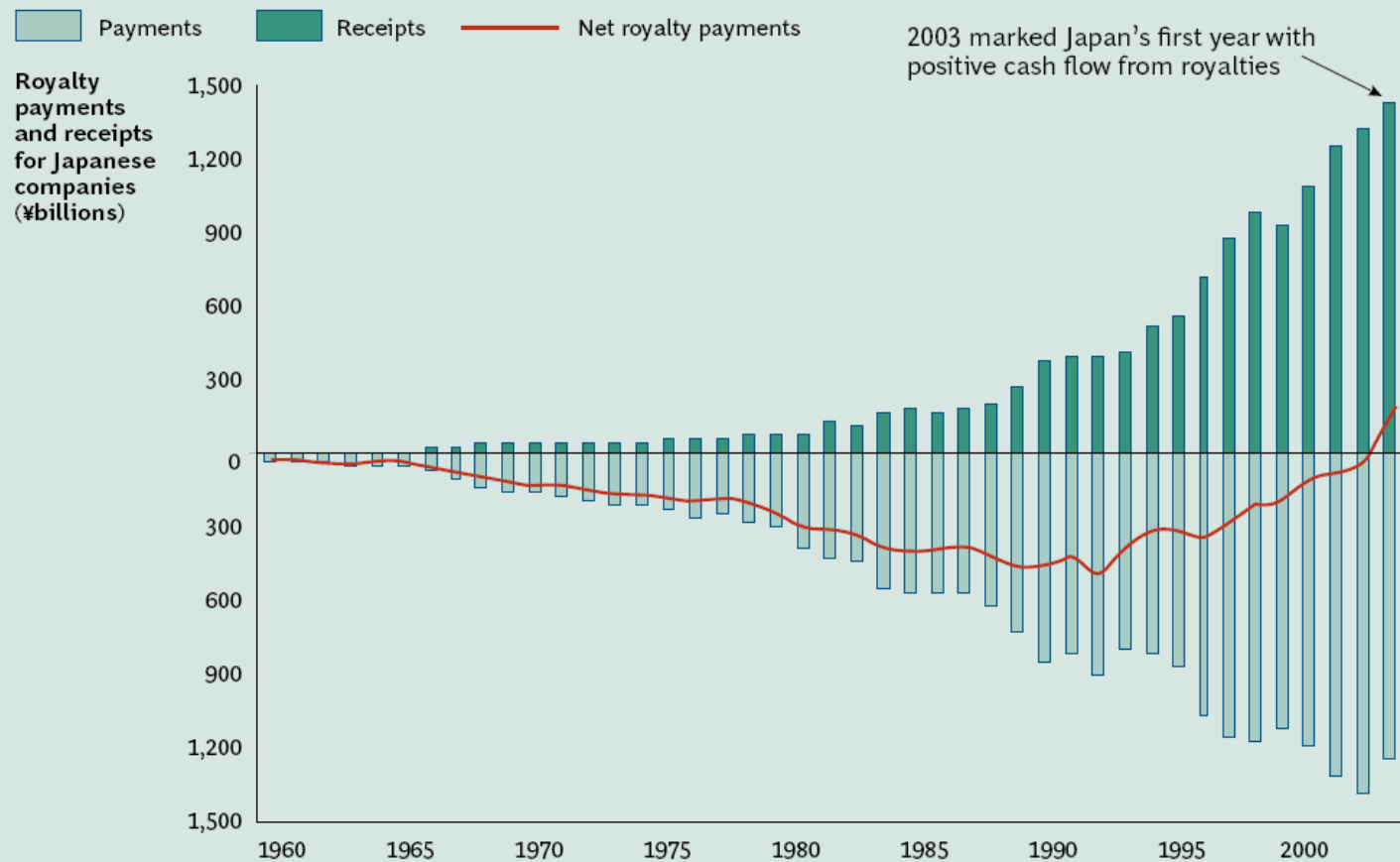
# WIPO – top 10 PCT filing

|     |   |       |
|-----|---|-------|
| 1.  | Huawei Technologies Co., Ltd (CN)         | 1,737 |
| 2.  | Panasonic Corporation (JP)                | 1,729 |
| 3.  | Koninklijke Philips Electronics N.V. (NL) | 1,551 |
| 4.  | Toyota Jidosha Kabushiki Kaisha (JP)      | 1,364 |
| 5.  | Robert Bosch GmbH (DE)                    | 1,273 |
| 6.  | Siemens Aktiengesellschaft (DE)           | 1,089 |
| 7.  | Nokia Corporation (FI)                    | 1,005 |
| 8.  | LG Electronics Inc. (KR)                  | 992   |
| 9.  | Telefonaktiebolaget LM Ericsson (SE)      | 984   |
| 10. | Fujitsu Limited (JP)                      | 983   |

Source: WIPO 2008



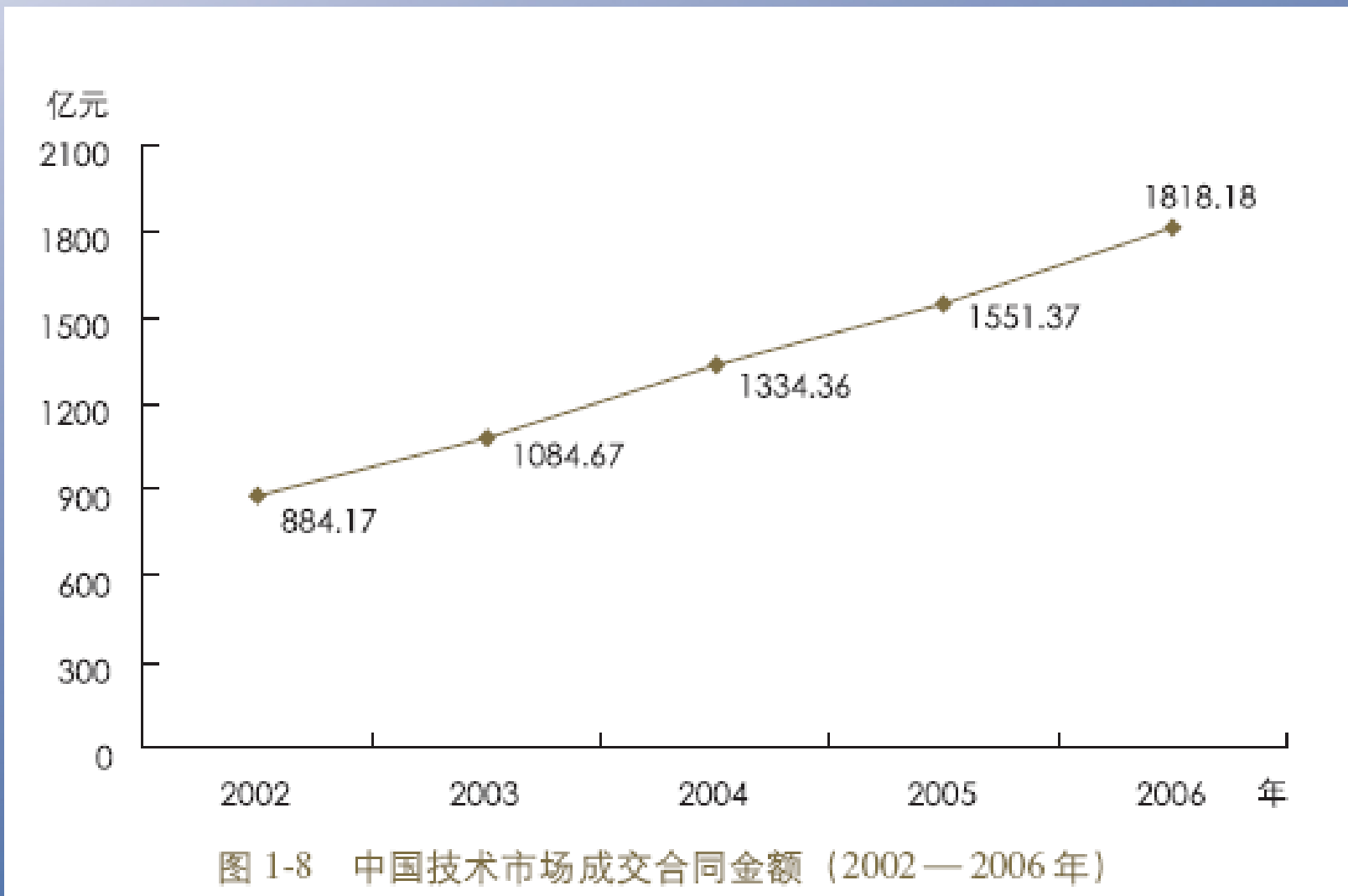
## Exhibit 10: Japanese Companies Have Made the Leap from Paying High Royalty Fees to Collecting Them



Sources: Bank of Japan; BCG analysis.

Source: *Beyond the Great Wall*, BCG





Source : 2006 CHINA SCIENCE AND TECHNOLOGY DEVELOPMENT REPORT , Ministry of Technology and Science, 2006



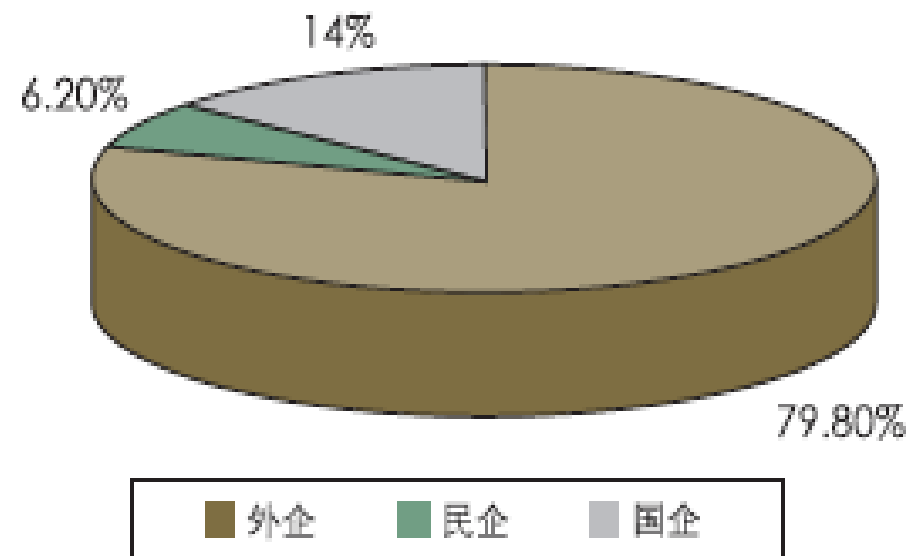


图 1-10 2006 年高技术产品进口的主体结构

Source : 2006 CHINA SCIENCE AND TECHNOLOGY DEVELOPMENT REPORT ,  
Ministry of Technology and Science, 2006

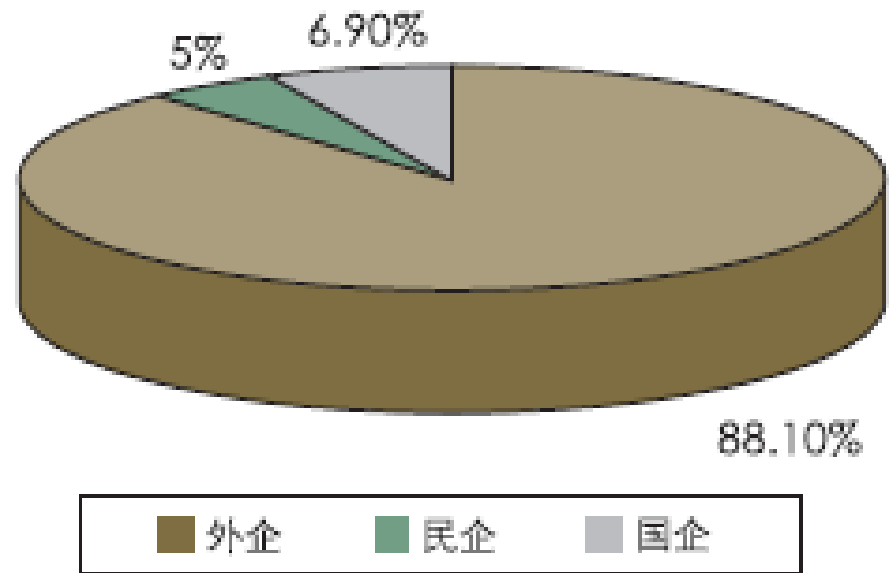


图 1-11 2006 年高技术产品出口的主体结构

Source : 2006 CHINA SCIENCE AND TECHNOLOGY DEVELOPMENT REPORT ,  
Ministry of Technology and Science, 2006



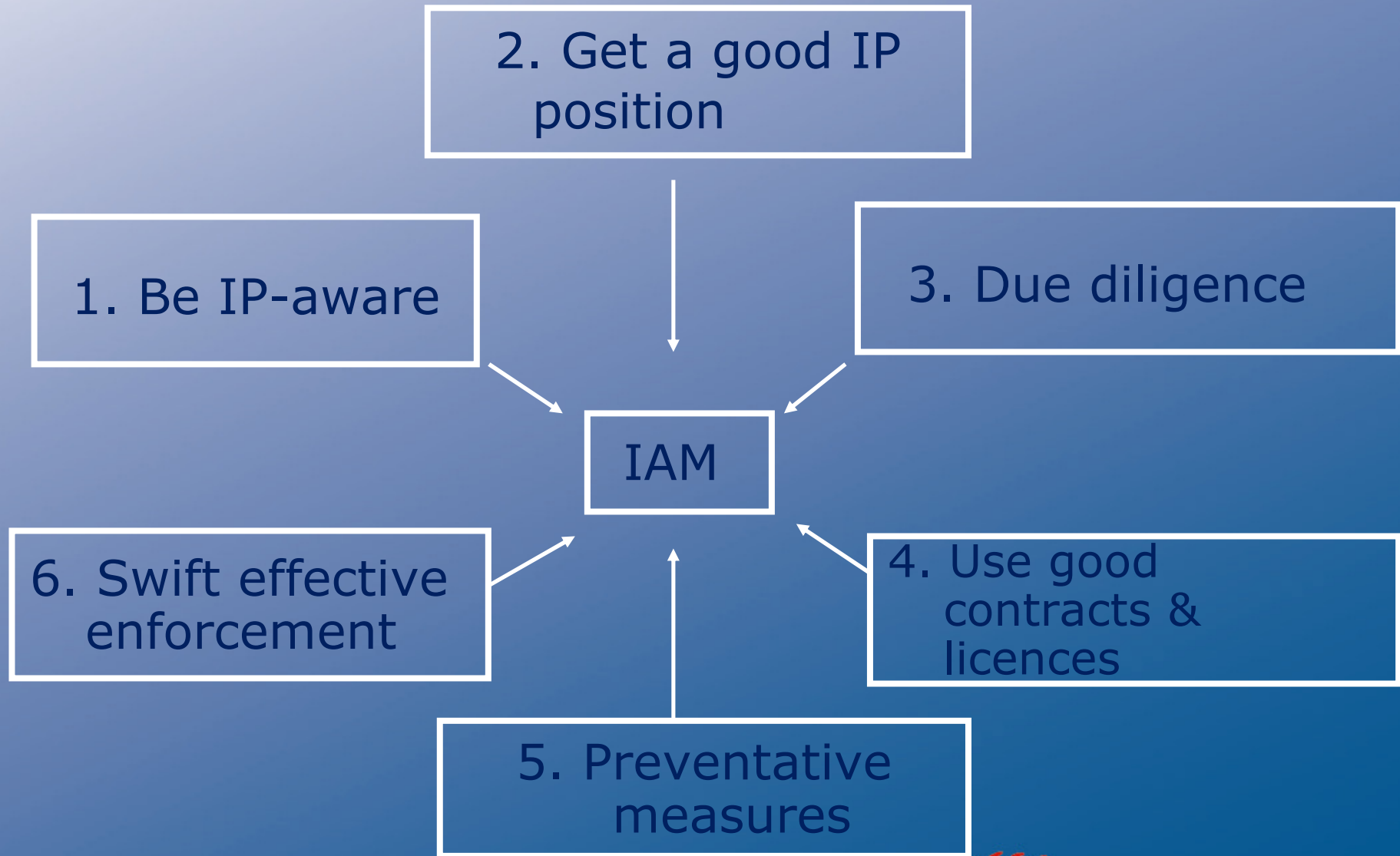
# Various business models in tech transfer

- Traditional ways
- Gold mining
- Enabling china
  - Cutting edge tech transfer
  - R&D collaboration for business
  - Finance acquisition



# A strategy for managing your IP in China...





# 1. Be IP-aware

- How seriously does your business take its IP?
- Does it live in the R&D department, the legal department - or the Boardroom?
- Systems to capture innovation? prevent leakage?
- HR and IP
- Time for an IP audit?



## 2. get a good IP position

- Patent
  - Absolute novelty
  - File first abroad allowed
  - No need for designated IP agencies
  - Compulsory license
  - Utility model and invention patent ---choose one
  - ...

## 2. Get a good IP position

- Trade secrets/know how
  - Very commonly, **most valuable asset that companies have**
  - Be especially careful to protect
  - Spell out in writing what is confidential
  - Back up with common sense
  - Practical steps to underpin legal steps
  - Control access



## 2. Get a good IP position

- Trade marks
  - Major complement to patents/designs
  - Potentially lasts for ever
  - More than just words...
  - 3 D trade marks now allowed in many countries, including China
  - Don't forget your name in Chinese!



VIAGRA 万艾可

VS.

伟哥



B&Q

百安居



A B&Q store in Shanghai



## 2. Get a good IP position

- Copyright
  - Very long duration
  - Software covered under this heading
  - Can be registered in China – advantages [prima facie evidence of subsidence & ownership]

# 3. Due diligence

- **Identify** exact technology to be acquired
- Ownership: do they own what they **say** they own?
- Will you get to own what you think?



# 3. Due diligence

- China Technology Transfer Regulations
- 3 categories of technology:
  - free to import/export
  - import/export restricted
  - import/export prohibited
- If 'restricted' – 2 stages: need to obtain Approval of Intent; once contract signed, then need to submit copy of contract to obtain formal Permit
- If 'free' – contract must still be submitted for clearance



# 3. Due diligence

Are you 'buying' scientific/creative expertise?

- Employment law issues in PRC re patents:
  - IP belongs to employer if made by employee in execution of tasks of entity to which he belongs
  - but ALSO includes invention made **within 1 year of employee's departure** where it "relates" to employee's duties or other tasks entrusted to him by employer (unless provide otherwise)

Therefore watch out for 'claw back' by previous employer, if taking key person/team!



## 4. Use good contracts/ licences

- Remember importance of IP in making contracts with third parties
- Enforcement=trying to **cure** a problem
- Contracts=trying to **prevent** problem happening in the first place
- Contracts offer a whole PARALLEL regime of protection beside IP rights
- Deterrent value
- 'Relationship manual'

## 4. Use good contracts/ licences

Must have good agreement:

- To start on your terms, gives immediate advantage
- Clear, concise + good Chinese translation
- Do NOT take 'last one used before'!
- Must be viewed with 'IP eyes'
- Address clearly issues of IP ownership especially in R&D agreements



## 4. Use good contracts/ licences

- Improvements: best to specify in contract. Default under Chinese law: first party has no right to share improvements made by second party
- NB Implied warranties: 'transferor' required to 'guarantee' that it is lawful owner of supplied technology, and that it is 'complete, without mistakes, effective and able to accomplish the agreed goal' !!
- Spell out what is explicitly permitted under contract e.g. licence only for certain purposes; only produce quantities required
- Specify sub contracting/sub licensing without licensor's consent



## 4. Use good contracts/ licences

Staff/employee contracts:

- Again, address IP and confidentiality issues **explicitly**
- Total ban on copying/removing any materials during, and on termination of, contract
- Explicit duty of good faith not to do anything to damage interests of employer
- Restrictive covenants? Can be enforceable if 'compensation' paid



# 5. Preventative measures

- Don't leave drawings/prototypes behind, before deal is done e.g. *architect*
- Consider layout of factory, process – 'secure/restricted areas'? e.g. *swipe cards*
- Don't bring **in** key ingredients/components, or finally assemble in local country? e.g. *medical instruments co*



# 5. Preventative measures

- Copy protection/self-destruction devices
- Monitor compliance **during** contract
- Address situation **after termination**
  - Make clear licence ceases!
  - Take back/destroy everything – and certify!
  - Exit procedures for leaving staff – signed undertakings that no copies retained



## 6. Swift & effective enforcement

- Correlation between how serious business is about value of its IP, and how serious it is about enforcing its IP
- To fail to be prepared to stand up for your IP, sends message you are a walkover
- Targeted, strategic enforcement needs to be built into the budget
- 99% of disputes in China do not end up in court – mediation can lead you to a commercial deal which can benefit both sides



# 6. Swift & effective enforcement

Know your enforcement options...

- Administrative actions
- Civil action
- Criminal action
- Non-'legal' alternatives
- Mediation



## 6. Swift & effective enforcement

China = “IP free zone”?

- No longer true
- Myth that ‘you can’t take effective enforcement action in China’
- System may be young, but it is growing in sophistication - and is there to be used and developed





 **Rouse**

# Conclusions...

- IP is a major issue for you if you want to do successful technology deals in and with China
- Need to take its management seriously – ensure you have a proper IP strategy, and include provision for it in your budget
- Take the 6 steps!



# Thank you

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