

Protecting Your Intellectual Property in China

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published on BNET.com 6/06/2008

China has been called the world headquarters for counterfeit goods, the source of everything from designer-brand knock-offs to black-market aircraft parts. For companies that outsource their manufacturing to China, intellectual property (IP) problems are not limited to brand-name rip-offs. Other forms of IP theft are subtle but no less damaging — like the illegal inclusion of proprietary circuitry inside Chinese-made consumer electronics. In many cases, the IP thieves are the current or former employees of Chinese firms that once worked with the original IP owners.

So how can you guard your firm's assets? Here are seven ways to protect intellectual property from reappearing inside a Chinese competitor's product:

1. File patent and copyright documentation in the United States.

U.S. patent and copyright laws are among the most stringent in the world. Filing in the United States allows you sue a Chinese company in U.S. courts, providing that company has offices or a subsidiary in the United States. "Almost all Chinese firms want to sell their products in the United States, so when they see a U.S. filing, they're less likely to steal your IP, lest it cause a problem for their future growth plans," says Amy Xu, a Shanghai-educated attorney at the IP-focused law firm Dorsey & Whitney LLP.

2. File a patent in China.

Enforcement of patent law is weaker in China than it is in the United States. Still, a patent in China provides an official record that your IP exists and creates a useful document if you wind up litigating in a Chinese court, according to Xu. "Some people think that there are no protections in China," she says, "but there are laws, and they have sometimes been used effectively to stop infringement."

3. Sign contracts that protect your IP.

Manufacturing contracts should define the scope of your IP as well as the financial penalties for the Chinese firm if that property is stolen. Tip: Have the Chinese version of the contract vetted by a U.S.

lawyer fluent in Chinese; you don't want your rights to be lost in translation, says Tobey Marzouk, partner at Marzouk & Parry, a Washington, D.C., law firm that specializes in software litigation.

4. Keep control over key IP elements.

Segment your product so that at least one element — one that's crucial to its usefulness, of course — is not manufactured in China. Have that element shipped to China for final assembly, or do the final assembly after the parts made in China have been transferred to the country where they're to be distributed, suggests Patrick Powers, former vice president of China operations for the U.S.-China Business Council, an industry trade group. "That way, an IP thief can't steal the entire product," he says.

5. Incorporate a mandatory service element.

If your product is only usable if it's accompanied by consulting services, product support, and ongoing maintenance, the IP inside the product becomes inherently less attractive for resale and thus less likely to be stolen, according to Ben Goodger, global head of IP commercialization at Rouse & Co. International, an IP consultancy headquartered in London.

6. Build connections with the local and regional government.

In China, local governments are mandated to enforce copyright violations. If you build a strong relationship with local government officials, they're more likely to try to enforce your rights. "Some additional gratuities may be required in order to grease the wheels of commerce," says Usha Haley, professor of International Business at the University of New Haven in Connecticut.

7. Develop a relationship with a Chinese legal firm.

You want to be ready from the start to bring either a civil lawsuit or criminal lawsuit under Chinese law. The threat of a suit can be a deterrent to IP theft, provided it's clear that your firm is serious about pursuing the matter. "Having legal representation in China sends a signal that you're not afraid to pursue all avenues to keep your IP safe," Xu says.