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HITTING THE MARK

Are your enforcement strategies working?

THE ENFORCEMENT ISSUE

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Graduating from China's IP Classroom

Take the lessons learned on IP in China and use them around the world.

By Alan Adcock and Rebecca Ordish

FACT – China is a challenging market for intellectual property management.

RESULT – IP strategies for dealing with China are often stronger and more considered than in many countries.

OPPORTUNITY – Rather than struggling to fit a global IP strategy into China, companies with the strongest IP management regimes take what they have learned in China and use it elsewhere.

The early 1990s marked an interesting period in China's modern development and while unrecognised by most, lessons learned from that time till now are proving to be useful knowledge which governments and companies are adapting for purposes in other jurisdictions, particularly in the rest of Asia. In terms of legislation promulgation and business development, the steepest point in this China learning curve centered on intellectual property (IP) in terms of (i) how it is registered, (ii) how it is protected and (iii) how it is commercialised.

In the mid 1980s when China began its WTO accession preparations and negotiations, China's IP laws were barely in order.

IP budgets are often the first to be cut, but IP protection and exploitation, particularly in developing countries, costs money and companies need to be prepared for this.

During the 15 years of negotiations, however, China had put in place patent (1984, 1992 and 2000), trademark (1982, 1993 and 2001) and copyright (1991, 1993 and 2001) legislation all nearly compliant with international standards in order to satisfy China's obligations to join the WTO and the TRIPs Agreement, which it did in December 2001. During these 15 years of WTO entry negotiations, the rate of foreign investment in China increased at a staggering rate, much to the envious disappointment of other Asian economies which found it difficult to compete with the world's largest market. While these nations studied China's success and began to develop similar strategies to attract foreign investment and technology, foreign governments and companies began to take their China IP lessons and apply same or similar strategies in the rest of Asia to lay the groundwork for better IP regimes in which their interests were better protected.

Aligning China IP management with global business strategy, especially in hard times – fitting the square peg in the round hole?

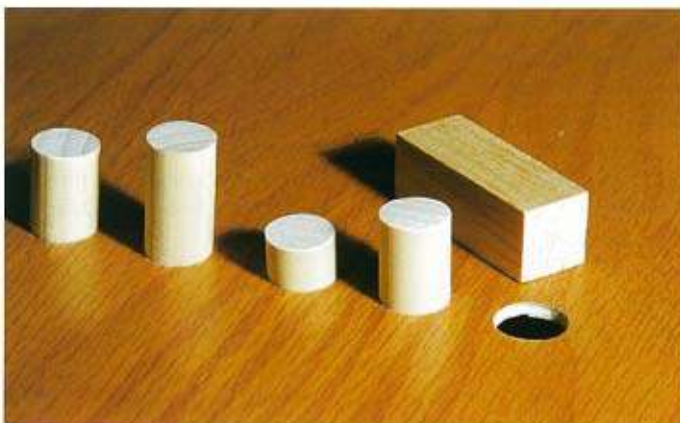
"Many multinationals in China are losing the battle to protect their IP largely because they rely too heavily on legal tactics and fail to factor IP properly into their strategic and operational decisions." "Protecting IP in China" McKinsey (2005)

This statement continues to be true and even more so in these challenging economic times. IP budgets are often the first to be cut but IP protection and exploitation, particularly in developing countries, costs money and companies need to be prepared for this. Carefully aligning IP plans with commercial business plans and operational decisions ensures that companies are getting the best value for their IP dollar.

There are a number of questions companies can consider to reach this alignment:

- **What role does China (or Asia more broadly) play in your strategic plans?**
 - ❖ Is it a manufacturing base? Or are you considering outsourcing production to China or Asia in a bid to manage supply costs?
 - ❖ Is it an R&D centre for certain products (perhaps for products aimed at the Asia market)?
 - ❖ Is it a critical market for sales for your business?

- **Where does the risk to your IP rest?**
 - ❖ Counterfeits/copycats which can result in lost sales, damage to your brand reputation, brand dilution and product liability exposure
 - ❖ Potential loss of confidential information/trade secrets
 - ❖ Supply chain risks



Some things do not fit.

• **What IP does your company have and what is necessary to send to Asia to deliver your business plan?**

- ❖ Does technology need to be transferred?
- ❖ Is it use of the brand names and trademarks?
- ❖ Are there important trade secrets which can be kept out of Asia?

In difficult economic times, it is natural to question the value of IP spend, particularly as it appears at the moment that the officials in much of Asia are less willing to enforce IP if it risks putting local companies out of business.

Once you have the answers to these questions, a clear strategy can be developed which answers the question, "What does success look like?" – ie how can we ensure that we are protecting the IP which is at the core of our business priorities to enable us to deliver our business objectives.

It sounds simple and obvious, but many companies fail to make the connection. The legal department may be beavering away protecting IP in isolation from the commercial priorities of the business. The above questions will help, for example, to determine whether you need to file complete trademark protection or simply for the key marks to prevent manufacturing without authorisation. They will also help to determine whether stronger supply chain management or keeping certain information out of Asia is sufficient in a market to protect your IP rather than spending money on registrations which are not required.

With a closely aligned IP management plan, you can then identify the resources required to deliver it which will not only be budget, but also the team, partners and the evidence required to support your strategy.

In difficult economic times, it is natural to question the value of IP spend, particularly as it appears at the moment that the officials in much of Asia are less willing to enforce IP if it risks putting local companies out of business. However, keep in mind that the infringers are often factories which no longer have sufficient orders to keep them afloat leading them to look for alternative sources of income – commonly counterfeiting. They will take advantage of the fact that companies are scaling back their enforcement programs due to lack of budget and the fact that the enforcement agencies are less active to fill their capacity with counterfeit production. Now is an even more critical time to focus your IP resources and actively enforce your rights especially if you are looking to drive more value from your supply chain by outsourcing production to cheaper labor countries. It's an opportunity to share learnings across markets and really develop a strategic approach – there is nothing like a budget squeeze to drive focused, well planned strategies!

No need to reinvent the wheel – sharing your IP management/strategy ideas across markets in order to (i) streamline and (ii) save costs

The continued globalisation of the world's economy has meant that not only are countries able to trade more freely between

themselves, but also the conduct of that trade is more predictable and open. IP rights are territorial by nature, which means they exist primarily when registered or used in individual countries. Registration budgets are not unlimited, and many IP rights owners may not be able to protect their property by registering it or enforcing it in all places. Commercialisation decisions are often delayed pending registration in infringement trouble areas.

Where to register is usually determined by four key considerations: (i) where the rights owner lives, (ii) where manufacturing takes place, (iii) where the important markets are located and (iv) where infringement is expected to take place. With the exception of (i), these days most of Asia falls within the IP rights owner's territorial wish list and with the growing number of foreign companies establishing their own branch businesses in Asia, the owner's location (or that of a subsidiary company) is catapulting Asia to the top of most business strategies.

IP strategies will never be truly "globalised" because of differences in the laws of individual countries (differences even exist for examples in the laws of EU member states). However, a global coordinated strategy is achievable and extremely important in order to ensure consistency (e.g. for selection of the "global brand", for arguments put forward in litigations around the world, for policies regarding parallel imports, and to make IP portfolios more attractive to potential licensors or buyers or lenders). Since China was for many, the first step in globalising their IP assets,

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good knowledge (of what worked and what failed) should not be thought of as relevant only to China, but certainly for the rest of Asia and probably Africa, the Middle East and South America as well. Here's why:

Locking in the registered protection strategically – why it's easier to do it now than try to get them back later

While registration of IP rights does require the help of local lawyers or agents in individual countries, it is likely that if problems arise in the registry of one country, the same or similar problem may arise in the registry of another. If your China agent has been able to successfully overcome objections when registering your patent or trademark in China, you should consider whether that advice and may be helpful in overcoming similar objections, say, in Thailand or the Philippines. A trademark opposition counter statement you have prepared for purposes in Beijing will probably be the same counterstatement you need in Bangkok or Manila. The evidence will surely be the same (fame, use, advertising and marketing spend figures, etc), just supplemented with local sales and promotions in each market. Strategic advice on what type of trademark to register in China, for example a trademark covering your packaging, a colour mark or a 3D trademark in order to better protect against infringement which is not identical and therefore more difficult to enforce on should probably be the

same strategy you adopt in other Asian countries until enforcement standards rise and police, Customs, other administrative agencies or the courts become more robust in their positions against infringers.

Similarly for patents, Freedom to Operate, Validity and Infringement Assessment templates prepared for China may prove more user friendly for patent counsel in the rest of Asia since generally Asian markets may be less crowded in terms of competing products and Asian patent examiners generally tend to take a much more conservative approach to the claims they actually allow to proceed. With a smaller market and fewer more succinct claims to consider, Chinese templates will be more adaptable than one coming from other jurisdictions.

Cost savings here too are achievable when you instruct Asian counsel to draft patent claims. European, Japanese, Korean and North American applicants will find professional fees substantially lower in Asian firms, which are increasingly staffed with interna-

Ask your marketing team if an infringement concerns them before taking action – you will find that in some cases something you feel passionately about doesn't concern them from a business perspective!

tional multilingual patent attorneys. Even in non-PCT jurisdictions like Thailand, patent drafting and prosecution is being carried out for foreign applicants for PCT filing purpose (although note that Thailand's expected PCT accession should be on track by the end of 2009).

Enforcement strategies – don't take your eye off the ball, infringers will smell your budget issues

Like registration, IP enforcement strategy costs have to be carefully budgeted for effectiveness in terms of enforcement and deterrence as well as for cost effectiveness. In today's Asia, there is no real need to re-invent the IP enforcement wheel. If your combination strategy of specific target selection, investigation and then assessment as to the type of relief route you wish to take (if any) has worked in China, then why not try that same strategy in Indonesia? China's superior manufacturing capabilities and sheer number of factories and ports (as compared to the rest of Asia) means that many infringed goods (both finished and component goods such as API for generic pharmaceutical processing, electrical components, high grade industrial chemicals, etc.) find their way into Asian markets or into Asian ports on their way to further markets. There is a wealth of intelligence and information available in China to assist IP owners in their fight against counterfeits in the rest of the world. You simply need to make sure that information is quickly and effectively disseminated to rights owners and/or their enforcement teams. Upcoming July 1, 2009, PRC Implementing Regulations for Customs Protection of IP Rights provides a perfect opportunity to use information gained in exchange for settling China customs cases to be shared with your teams in the rest of Asia (and the world). Globalisation and the relaxation of distribution channel controls as required by the WTO have encouraged the free flow of infringing goods and China continues to stand at the crossroads directing this unfortunate and unintentioned traffic.

Another area to look at when assessing suitability of advice used in China are those business and product education materi-

als for use with other Asian government, enforcement, registry and judicial officers for lobbying and training. Such trainings are easily localised for purposes throughout Asia and the world.

Commercialisation strategies – take your standard contracts, beef them up for China, then use them regionally

A contract involving your valuable IP assets prepared for a China project is going to be readily adaptable for other jurisdictions. Basic terms of what is allowed, what is not allowed, expectations of satisfactory performance and penalties for breach are not necessarily jurisdictionally specific. The pharmaceutical industry has adopted this approach for years, especially in regards to clinical trial and product distribution agreements.

The same due diligence conducted on a potential Chinese partner, licensee, franchisee or acquisition target should likewise be carried out on others in Asia. From your China experience, you will be able to anticipate due diligence and other problems elsewhere. For IP intensive deals, the lessons already learned are even more easily adaptable outside China as most Asian courts assume that parties enter into agreements freely and, therefore, the judiciary is less likely to look outside the written and agreed terms when asked to adjudicate disputes. If you have provided for unannounced inspections, royalty audits, local advertising spend requirements, injunctive relief availability regardless of arbitration as the agreed dispute resolution process, restrictions against applying for same or similar trademarks, assignments of improvements on your patents or at least royalty free exclusive grant back licenses of such improvements in your China agreements, these too should be considered for the rest of your Asian projects.

Getting stakeholder buy-in – who is your "IP team"?

Gone are the days when IP was the sole responsibility of the legal team. Management of IP touches almost every department in companies plus many external partners and everyone has a role to play. One of the key factors which sets companies with strong IP management strategies apart is the level of senior management buy-in. If IP has a champion at a high level within the company, it becomes part of the company culture and so is much more central to the commercial agenda. One multinational company we have come across has the catch cry "Think IP"; it had stickers and pens made with this slogan which it handed out to everyone who came into contact with IP in the company. Coupled with a clever training program, this served as a strong reminder within the company of the importance of IP and led to a very well-designed and implemented IP program. It highlighted the role that everyone plays:

- **Sales** – the sales team can be your eyes and ears on the ground. They know their competitors, they know the sales channels and often they know where the counterfeits are coming from. Save money on market surveys through external providers by training your sales team in how to carefully and safely provide you with information on IP infringements.
- **Marketing** – in addition to providing evidence for registration and infringement issues, the marketing team are a rich source of information on priorities within the business. Spend time asking them to talk you through their strategic plans and then align your IP strategy accordingly. Ask them if an infringement concerns them before taking action – you will find that in some cases something you feel passionately about doesn't concern them

from a business perspective!

- **Corporate and government relations teams** – these teams are key to managing consumer perceptions of counterfeits and infringements but you can leverage their PR experience to send a positive message to consumers about the steps you are taking to protect quality in your products and also to send a strong message to infringers that your company will take action to enforce your rights. Infringers want the easiest way to make money, so if your products are considered too risky, they will move on to someone else's. In China and many other developing markets, the laws and their implementation remains a work in progress so lobbying of governments and officials is an important part of your IP strategy. Government relations teams will have the contacts and the experience to help you leverage your lobbying channels.

- **Procurement** – Supply chain management is one of the main areas where companies can make some relatively simple and cost effective changes which will help protect your IP. Stronger agreements with suppliers and active management of these relationships and the information given to partners as well as some initial due diligence when choosing suppliers will greatly minimise the risks of IP infringements coming from your supply chain. Training your procurement teams and giving them the tools through standard agreements and checklists will provide significant advantages in your IP strategy.

Externally, selecting the right partners is also a key element in protecting your IP. Conduct due diligence on suppliers and partners (such as joint venture partners) to make sure they will



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and elements and learnings are regularly incorporated into new laws in other countries. For example, China's franchising laws and regulations have been considered as widely as Australia and India and many countries, including Thailand, for example, are watching closely how China deals with the product liability laws following the milk scandal last year to learn from their experience.

Many companies make decisions about which law firm to hire solely based on a firm's fees, and that's understandable when budgets are tight. But keep in mind if the firm requires a lot of active management, they may end up costing you more in the long run in both time and money.

respect your company's IP. Having appropriate legal counsel is also important. Make sure you select a firm which shares your company's values and understands your goals – you may want a firm which simply files trademarks or patents or takes action on your instructions. Or you may desire a firm which will help you prepare a strategic, creative approach to IP enforcement to achieve certain goals. Many companies make decisions solely based on a firm's fees, and that's understandable when budgets are tight. But keep in mind if the firm requires a lot of active management, they may end up costing you more in the long run in both time and money.

Overall, taking a broad view of your "IP team," including colleagues in other markets, enables you to derive a lot of benefit and experience from your own company and to protect your IP in a cost effective and far more focused way, which in our experience will naturally result in a much more aligned IP and commercial business strategy.

Now for the PhD – the rest of Asia

As companies begin to realise the power of drawing on their China experience, governments have already done the same. Laws passed in China are closely followed by the rest of Asia,

In our experience, there is so much that China's IP classroom can teach us that can be applied across other markets. It's arguably the toughest place to learn – so the strategies, experiences, relationships and ideas you develop there can provide best practice to ensure you have strong IP management strategies elsewhere. This is particularly true as budgets are tightened – draw on internal knowledge by speaking with colleagues in other markets and broaden your view of your IP team. Link your IP plan closely with your commercial business plans to

ensure that the budget you do have is deriving the most value.



Learning shouldn't stop with school.