SESSION 4: THREE CONCURRENT SESSIONS

4C. IP in China

Moderator:
Probir J. Mehta
Facebook, Washington, D.C.

Speakers:
Spring Chang
Chang Tsi & Partners, Beijing
How to Deal with a Large Number of Trademark Squatters in China

He Jing
AnJie Law Firm, Beijing
Odd Changes or Real Changes Coming After the U.S.–China Disputes

James K. Stronski
Crowell & Moring LLP, New York
China’s Economic Aggression Through the Acquisition (or Theft) of Foreign IP and DOJ’s China Initiative

James Moore Bollinger
Troutman Sanders LLP, New York
ADR — The China Connection
Why International Arbitrations Are Perfectly Suited for China/Chinese Life

Panelist:
Jill (Yijun) Ge
Clifford Chance LLP, Shanghai

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MR. MEHTA: Hi, everyone. Welcome to the “IP in China” panel. I always find this to be a really interesting panel. There are a lot of issues, a lot of interesting things, a lot of diverse developments going on in China, and this could take many days and many panels to discuss. We are pleased to have a number of interesting speakers, interesting topics, and so much to talk about, so I want to make sure we can get to that right away.

I will quickly introduce the panelists, and then we will go to the presentations, and of course we very much welcome questions from the audience. He Jing, with AnJie Law Firm in Beijing, will talk about the U.S.–China WTO disputes and technology transfer issues. Spring Chang, from Tsi & Partners in Beijing, will talk about the issue of trademark squatting. Jim Stronski, from Crowell & Moring in New York, will deal mostly with the U.S.–China dispute issues on trade secret theft. Jim Bollinger, from Troutman & Sanders in New York, will talk to us about the patent enforcement issues using the U.K. arbitration forum. Finally, Jill Ge, our panelist, will be hopefully asking tough questions of our speakers.

Without further ado, let’s begin with our first panelist, He Jing.

MR. HE: Hello, everyone. Good afternoon. It’s really great to be here. I have been at the Fordham Conference quite a few times. I always have the pleasure to share with friends the latest IP developments in China.

This afternoon I want to talk about developments in the context of the U.S.–China trade dispute. The trade dispute is probably the most important thing that is going on right now between China and the United States. It has had an enormous impact on China’s IP system. Not surprisingly, many of the issues in the trade dispute are related to IP.

To just to give you one example of the impact the trade dispute has had, essentially Chinese courts have de facto suspended some of the largest, most controversial lawsuits, like Qualcomm v. Apple,¹ because the judges do not want any unintended consequences to arise as a result of the lawsuits. That is one easy example of the impact we are seeing.

I want to talk about the changes that have been happening inside the U.S.–China trade dispute. I will give a very quick rundown of what has been happening in the last year or so. There are quite a few significant changes. Some of these are related to the trade disputes and some are really not. Some are the follow-up to reforms that China has been making in the IP system.

In 2018, China established the Intellectual Property Court, a subdivision of the Supreme People’s Court in Beijing. The new court is China’s version of the Court of Appeals for the Federal Circuit. China has been experimenting with intermediate-level IP courts for the last few years. The purpose of the new court is to develop a uniform standard especially for patent, trademark, copyright, and trade secret litigation.

The second reform is really huge. On March 2, 2019 the State Council abolished several controversial provisions of the Regulations of the People’s Republic of China on the Administration of Import and Export of Technology (“TIER”) which have been at the center of problems for foreign IP owners when engaging in technology transfer to a Chinese entity. This change opens up technology imports to more free negotiation without having to consider these mandatory restrictions which previously protected the Chinese entities in such agreements. For years people have talked about forced technology transfer as one of the core issues in U.S.–China trade dispute.

Three years ago, during a negotiation between China and the United States where I represented an American company, I surprised everybody when I told my Chinese counterparts, “I promise you all these technology transfer rules will be eliminated in five years.”

Three years later it was done. I was confident because I knew that technology transfer did not work in China. The rules said things like “licensors need to indemnify the losses of licensees in China” and “the improvements made by the licensee have to unconditionally belong to the licensee,” and we know that licensing is much more complicated than that. The rules disrupted technology transactions between China and the United States as well as the international community. They didn’t really work.

Probably the only unfortunate thing is that this reform happened within the U.S.–China trade dispute. The reason I say that is because people see that as being a result of U.S. pressure, which is not a healthy reason to make legislative changes. It would have been much better if China had voluntarily done that for its own sake, for its own interests. But what is done is done. The accusations of forced technology transfer done by the Chinese government are now moot.

Third, on January 4, 2019 the National People’s Congress of China published a list of amendments to China’s Patent Law proposing, inter alia, higher damages for patent infringement, more options for rewarding inventors under an employee invention remuneration scheme, patent term extensions for design patents and pharmaceutical patents, and would allow patent linking. The change in patent term restoration arguably might have been due to pressure from the U.S. government as well, but let’s see what eventually will be put in place. Patent linkage is something we are all watching.

There are other proposed changes in the amendment. A new article under the draft provides an explicit duty of good faith for both patent applicants and patentees in enforcing their rights. The term of a design patent was proposed to be extended from ten to fifteen years. In cases of willful infringement, courts will be able to increase the award of statutory damages by up to five times the original amount. A patentee will be able to request an ISP to delete, block, or disconnect webpage links to infringing products.

Fourth, summary judgment is something really new in China. Even though on paper summary judgment has been available in China for years, no one had ever tried to get one, including my own team of lawyers. The reason is that Chinese judges are quite conservative and they asked, “Can we really do this summary judgment? We always have the full trial and then we make a judgment about both infringement and damages. Do we want to experiment?”

Finally, in March 2019, last month, some courageous judges at the Shanghai Intellectual Property Court rendered a so-called “partial” or interlocutory judgment in a patent infringement lawsuit filed by the French automotive parts manufacturer Valeo against three Chinese defendants and left the damage decision to be decided in the next round.

Another development, which is interesting and very controversial, is grants of preliminary injunctions. A preliminary injunction was granted against Micron in Micron v. Qualcomm. In Apple v. Qualcomm, Qualcomm was able to get a preliminary injunction against Apple in a hotly fought patent litigation; however, that preliminary injunction was not really enforced.

This is what has happened inside the context of the trade disputes.

What just happened? When I say “just” happened, I mean within the past month, actually within the last week. Two things happened this week, on April 20th.

First, a Trademark Law amendment for the first time implemented intent to use. An application filed without an intention to use can now be invalidated. This is the same

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3 Internet Service Provider.
as in the S.S. system. We were very surprised when we read it. It happened very quickly, within a few days. Nobody thought that would happen so quickly. Again, this is definitely a consequence of the trade negotiations.

Also on April 20th, trade secret protection was enacted. China previously had trade secret protection under its Unfair Competition Law. We have been talking about the reforms for years. All of a sudden, the legislature changed the law. The definition of trade secret was expanded and the burden of proof was improved. All of this is beneficial to the protection of trade secrets. Again, this happened in a few days, and no doubt happened really because of the trade dispute. I told Probir, “Lighthizer did a better job than you.”

Third, earlier in April the Chinese Patent Office released draft amendments of the Patent Examination Guidelines. One of the big changes gives a priority examination for products that are in the public interest or other national interests. Arguably, pharmaceutical companies may benefit from this change. There are also a few other changes that give more flexibility to patent prosecution; for example, there is now a much better way to do interviews with examiners. There are several good changes.

Fourth, on March 13th, the Beijing Chaoyang District Court in China found Jiangling liable for unfair competition under the Anti-Unfair Competition Law in connection with the sale and manufacturing of the Landwind X7. The Court found that certain design features of the Landwind vehicle are “essentially identical” to Jaguar’s distinctive design features for the Evoque. Jaguar has been battling Chinese automaker Jiangling throughout the world over Jaguar’s assertions that Jiangling’s Landwind X7 vehicle copies distinctive design features of Jaguar’s Range Rover Evoque. The two sports utility vehicles have a similar shape, roof and windows tapering from front to back, and near-identical tail lights and character lines on the side paneling.

For years Chinese automakers have been accused of using blatant or slavish copies in automobiles, which was quite outrageous, and foreign companies had a very hard time winning cases under a trade dress claim. Jaguar, a U.K. company, won in this case based on a trade dress claim.

What are the measures of real change?

I have been watching Chinese IP policy for the last twenty years, watching IP policy advocacy work in China, in addition to doing a lot of litigations and trying to enforce judgments in China. There are many measures of real change, but this list shows some of the possible changes:

• Patent linkage/regulatory data protection is something that could be real. China’s top policymakers announced that two years ago. Whether they are real or not, we will have to watch and see.

• A new police team is going to be critical for anti-counterfeiting and trade secret enforcement. China does not have an FBI-type police. Whether China can do that effectively we are going watch and see.

• Amicus briefs are coming.

• Accepting the copyrightability of live sports broadcasts is also something that we are going to watch closely. It will be a big difference.


• Benchmarking on USMCA (United States-Mexico-Canada Agreement) IP provisions.
• IP litigation with real and bigger stakes.
• FRAND\(^6\) rate-setting in Chinese courts.
• More and better legislative changes? (Copyright Law Amendment).

Thank you.

MR. MEHTA: Thanks very much.

We have a little time for discussion and then I will throw it open after all the panelists have spoken for audience questions.

Suffice it to say I think there have been a lot of changes. The picture you paint is of a lot of progress being made simply in the last year or two. The initial question I have is, how much do you ascribe this to the United States pushing these things versus the interests of local Chinese companies in having these types of reforms? Do you think there was already a tipping point for local companies that were interested in these types of progressive IP developments, or were they more a result of external pressure? I am interested in the political economy dynamics.

MR. HE: The Trademark Law Amendment abolishing the technology transfer rules, the bad-faith trademark applications, and the trade secrets agenda was definitely the direct result of the trade negotiations. They were pushed very hard by the U.S. government. I think that’s why we saw those three changes. The creation of the Chinese IP Court and, I think actually surprisingly, the patent linkage was out of self-interest. That is very encouraging.

But, unfortunately, with regard to the changes that are intertwined with the U.S.–China trade dispute, I am concerned that, even if the amendments are passed — e.g., the chances that patent linkage is going to pass are quite good — if they are perceived as resulting from U.S. government pressure, implementation might become a big issue.

MR. MEHTA: Great.

Do any other panelists have any initial questions or comments?

MR. STRONSKI: I have a question on what you think is happening now with the new IP Court that has been created. Has that issued significant opinions that are changing the patent law?

MR. HE: They are planning to do so. The Chief Judge declared that this court is going to make lots of landmark decisions. That’s his stated intention. They recently issued their first precedential decision on the availability of summary judgment. So they are starting to make that happen.

MR. MEHTA: Other questions from the panel?

MS. GE: I don’t know if now is the best time to be an IP lawyer in China, but it must be the most interesting time, given the flurry of new measures, new rules, and new amendments we have seen in the past four or five months, starting last December. It is challenging to keep up to date on all the developments.

In terms of the question to what extent this is linked to the trade war, I think it might be helpful to look at the changes. He Jing mentioned the change in the Technology Import and Export Regulation\(^7\) in which the provisions that were included in the Trump Administration’s Section 301 Report were revoked.

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\(^6\) Fair, Reasonable and Non-Discriminatory.

In addition to that, China also passed the landmark Foreign Investment Law. Article 22 of the law says that “No administrative agency in China shall force technology transfer.” This headlined forced transfer of technology issue had been going on for close to a year, and there is now a law in China ensuring the principle of no forced technology transfer.

As a practitioner, I think in China oftentimes the devil is in the details. After this flurry of new rules and new amendments, what will happen next and in practice is still unclear, and we’ll have to wait to see. Hopefully, positive things will happen.

QUESTION [Clarissa Allen, Global Affairs Canada]: Thanks for your presentation. You had on your last slide “Benchmarking on USMCA IP provisions.” Could you speak more about what you mean by that, if there are any provisions in particular?

MR. HE: I was referring more to regulatory data protection (RDP) in China. In the recent draft RDP rules, the maximum time they give to the RDP is twelve years. If I remember correctly, in USMCA the RDP is for ten years. If China can really match that and eventually that becomes a law, that will actually be even better than the USMCA standard.

MR. MEHTA: We are out of time. We can come back to that very interesting thread during the discussion. Matching the Chinese system and these improvements to the USMCA standards, as well as other regional trade agreement standards, would be something certainly I would be interested in hearing more about from the panel.

We will now move on to Spring Chang’s presentation.

MS. CHANG: I’m Spring Chang from Chang Tsi & Partners, a Beijing law firm. My topic is how to deal with the large numbers of trademark squatters in China. I will introduce three topics: squats’ trademarks; IPR owners’ strategy; and how to enforce your rights if copycats actually use your mark.

China is a huge market. China has a huge population. It has a very large amount of consuming ability, but it is also very famous for its copycats.

Squats’ trademarks: We do have in China ADIDAS; we have LETO, we have KFC; even FACEBOOK when combined with Peking Opera.

This is just one piece of the entire counterfeit issue. It is not that interesting. It could be interesting for us, but it would not be interesting for the true trademark owners that are really concerned about dilution and market share. In China average people don’t speak English, and sometimes that really can create a confusing situation. When your mark is misused, and even successfully applied in some relevant class, you really have a big concern in China especially when we have some clients who when they want to enter the China market see a similar mark like this. So you need a very strong strategy to protect IP rights.

Strategy of IPR Protection in China: If your trademark is pirated in China, what is your responding strategy? Basically, there is a four-part strategy:

(1) Know the differences between the Chinese and U.S. trademark laws, even the laws of other countries.

• China has very special, very unique examination criteria. China has a subclass practice, so you cannot claim class hiding for protection.

• The Chinese-version mark is very, very important. For example, in China we would not say “Apple cellphone,” we would say “ping guó.” That’s our language. So when you say, “I just have an English mark and I want to launch it everywhere in the world,” in China you have to seriously consider the Chinese version of your official trademark. We

Contracts Registration (Decree No. 17, 2001 of the Ministry of Foreign Trade and Economic Cooperation) (China).
have sometimes experienced that a company that wants to enter China will launch the Chinese-version and the English-version trademarks together.

- China has a file-first versus a use-first system. I do know some big companies when they are filing globally file the same version, same specification of goods, not only in the United States but also in other countries like China. But in China, because there is a very special practice, you really need to consider that the Chinese version has all the Chinese and local subclasses covered and all the corresponding uses. So it’s actually, at least I think according to our experience, a totally different final strategy when you are considering China.

Also, the cost for filing copycat trademarks is very low. An individual copycat can file a bundle of trademarks for about $100 and then can consider how to sell them to you for a good price. So that’s a very different world.

(2) You should know the examination criteria of the Chinese Trademark Office. In Hong Kong or in Taiwan, the application examiners usually check online to see whether some other party owns a similar mark, and they can easily do this. Examiners may ask, “Why are you filing this application because it seems to me this belongs to some other party?”

But in China the examiners just make some kind of a clearance search to see whether there is a mark similar to yours. If not, they will allow the application to go through. This means even if you as the owner of SKECHERS don’t file an application but someone else files, the examiners will not search online to check whether you are the true owner or not; they will simply give the registration to the copycat. That is a very different examination criterion because the examiner will say, “If you’re saying you are the true right owner, you can file an opposition to recover your right at a later stage.”

(3) Audit-Filing to support for defensive purpose and filing for future use. We do know lots of companies, especially U.S. companies, that own Chinese registrations from ten years ago. At that time maybe we didn’t have subclasses. The Chinese version was not that important. It was not a prosperous market. When you use the mark for ten years and then you want to enter the China market, it’s very, very important to audit your existing rights in terms of the Chinese version, in terms of subclass. So audit work is always very, very important.

(4) Non-use Cancellation, Opposition & Invalidation. How can you recover your trademark and win back the copycat trademark? There are different procedures based on bad faith, based on prior right like a prior right such as copyright, and based on well-known status. As long as you can establish that, for example, the copy of your logo for which you have a copyright in China was done in bad faith, if during the investigation you produce some evidence, and as long as you can establish that your trademark is well-known, you can win the trademark back. It is not a very difficult procedure.

According to our experience, the chances of success for invalidation have been increasing for the past three to five years. I would say five years ago it was only around 10 percent; but now, according to official data, the average success rate is around 30 percent for oppositions and 40 percent for invalidation. It is still pretty high if you have very good evidence.

In this connection a footnote is that evidence of use in the United States doesn’t work. You have to provide evidence of use in mainland China, or at least in Hong Kong.

Rubbermaid is a very vivid practical case example. Rubbermaid registered its trademark in Class 21 for some containers for washing and household purposes, toilet utensils, and things like that. The mark they filed years ago just covered products in subclasses 2102 and 2111 in Class 21. Also, at a very similar time, the examiner approved a registration filed by a Chinese individual also in Class 21 for combs, brush goods, scrubbing
Many companies have registered the Chinese version of their trademarks, including Mead Johnson, Acuvue, Eclairs, and Motilium. Some they registered from the very beginning. Some we actually handled for them by buying the trademark back through negotiations, through invalidation. It requires less effort to get the trademark back if it was owned from the very beginning. We would say it is better to consider your Chinese version from the very beginning, even though it is easy to overlook, and you will have a solution to recover that. It could be very costly for you to only think of registering the Chinese version of your mark at a later stage.

This is another case example of why the copyright protection is very important. We can see for Skechers and for the Coach design that even if you have a prior copyright, you can still stop others from registering the trademark in a relevant class, like Class 28 for roller skates or Class 24 for bed sheets. That is the rare case where if some copycat has registered your trademark in some relevant class or some remote class, as long as you have registered your Chinese copyright, you can recover that trademark very quickly.

A well-known mark enjoys cross-class protection in China and a well-known mark is recognized on a case-by-case basis. There are four ways to have a trademark recognized as well-known. You can establish well-known status through opposition, invalidation, enforcement action, or even through litigation.

In terms of enforcement, there are three very straightforward strategies you can use, depending on the nature of the target, whether they’re big or small. The work steps for lawyers in China: find the right case and accumulate evidence. On the right side you can see there are many well-known trademarks established in China through opposition or litigation cases, but that’s the rarer case.

MR. MEHTA: Great. I know the full presentation will be posted on the Fordham IP Institute’s website.

I really enjoyed your presentation and all the representative marks that you showed. I found the Facebook one very interesting. It was unnecessarily glum and dour. I would have expected the bad-faith trademark to be an emoji or something happier or a cat picture or something to that effect.

I have one question to kick off the discussion. He Jing spoke about the new amendment to the Trademark Law changing from first-to-file to first-to-use, which you briefly touched on. Are you familiar with that, and what are your thoughts about how that is going to play out in the coming weeks and months?

MS. CHANG: This is also in the background of the trade war. There is severe punishment for bad-faith applications. The local agencies have responsibilities to track the bad faith of the applicant when they file an application on behalf of a local company. We think this is a fairer way to give the right owners a very easy way to clear trademarks. We think it’s a good direction.

MR. MEHTA: Great, thanks.

Any other questions from our panelists on what I think has been a very important topic for a lot of U.S. businesses for a long time?

MS. GE: I have a question. Why do we have so many bad-faith registrations in China? Is it because of government subsidy for filing trademarks?

MS. CHANG: Because the cost is very low. There is no limit to the end date to file application. The cost for filing an application is very low, $100–200. If you lose, you lose; if you win the registration, you just wait to sell it back to the owner. China is a huge market...
and there are lots of gaps. You can never sue a squatter for filing another’s trademark in bad faith. You can clear the mark through legal procedure, but there is no monetary compensation; the copycat will pay zero money.

MS. GE: Can we penalize these bad trademark agencies, file suit against them? Is that possible now?

MS. CHANG: We have new guidelines for trademark agencies. If you know that the trademark is not being filed for the purpose of use, you cannot file on their behalf. This is a very new regulation that came out a couple of days ago.

But it is very difficult unless you have instructions from the client that they want to file several hundred. If they want to file only one, you are really not in the position to obtain evidence of use. It could be tricky. We will just wait to see how that is enforced.

MR. STRONSKI: I have a related question about a situation that I’ve had to deal with very recently. I represent a client in the financial area. There’s a watch company that has registered my client’s mark in China not only for watches but for all kinds of things unrelated to watches. It is a famous mark for watches. If they were registered in any sub-class related, for example, to insurance or anything financial related, they could block us, even though they are not using it. My sense is that is not an uncommon problem in China, that there are people who file in subclasses that far exceed what they actually use the mark for but, because they haven’t had to prove use, they are able to block others from entering those markets. That is my perception. I don’t know if it’s true, but if it is true, what do we do about it?

MS. CHANG: Actually it’s a very common practice. I saw even in the 1990s lots of Japanese companies file their key trademark logos, both the Chinese version and the English version, in all forty-five classes to give them blocking power. We call this a defensive trademark. It is filed for many different classes where they have no intent to use the mark.

It is still very popular right now in China because people are tired of filing so many oppositions and they really want to fill all the gaps. I think that is something you should consider if you have enough budget. This is one choice. Even now it works because when you file full class application you significantly reduce your opposition cost, so on balance you save a lot of money.

Second, you need to build a monitoring system so that you can watch who files applications in your relevant class and you can file opposition or invalidation. There is the scenario where you obtain a prior copyright, you investigate and find bad faith, and then you build a case and win opposition/invalidation. That depends on the situation. Where you don’t have so many copycats, you file several oppositions every year. That works.

MR. MEHTA: I know there’s a question from the audience. Although we are out of time, I’ll exercise my moderator’s privilege because I know you have been patiently waiting.

QUESTION [Christian Liedtke, acuminis LLP, Costa Mesa]: Jill actually teed up the question that I wanted to ask all of the Chinese participants on the panel. The legislative change we’ve heard about so far is very much inward-facing in that it changes Chinese IP laws. One of the concerns that the U.S. side has, including U.S. brand owners, is that there is a stark influx of trademark applications in the United States coming from Chinese filers, and that is at least partially attributed to government subsidies from the various provinces. I’m curious; are these subsidies still continuing? Is there any trend that they will be stopped? What’s the status on those?

MR. MEHTA: Perhaps we can have a quick response and then we can deal with the rest of this very important topic later during discussion.
MR. HE: I think the Chinese government is now stopping that. The patent subsidies are really stopping. There is a very heavy penalty now available. For trademarks, I’m not aware of local governments that are doing that, although Shenzhen is doing that because they have a lot of money. We’ll watch and see whether they will stop that anytime soon.

MR. MEHTA: Great. We can touch back on this issue during our discussion time. To keep things moving, we will now move on to Jim Stronski, who will be talking about trade secret theft and other related matters.

MR. STRONSKI: Thank you for staying. My topic is related to the current Chinese–U.S. dispute. I’m focused on trade secrets, and there are some very interesting related activities that have happened in the last year or so. I want to focus on two policies of the Chinese government that are well known.

Made in China 2025 is on its face a legitimate industrial policy and an important one for China to modernize manufacturing such that computers, jet engines, airplanes, things of high value, dynamic random-access memory (DRAM) chips, are made in China, manufactured in China and not necessarily imported from South Korea, Japan, Europe, and the United States.

The way that’s done is there are subsidies that are focused on foreign investment that is buying companies that have IP. In 2016 $45 billion was spent by U.S. companies alone, mobilizing all of the State-backed and State-owned enterprises to focus on this; as well as the forced transfer agreements that we talked about earlier.

The other interesting program is called the Thousand Talents Program. It was instituted in 2008, again for quite an apparently legitimate reason: to encourage people of Chinese heritage or Chinese citizens who are studying abroad who have skills, who are successful, who are entrepreneurs, who are scientists in businesses, who are PhDs at universities, to come back: “Come home. We’ll pay you” — sometimes large amounts of money — “to set up businesses here.” The U.S. government, in an unclassified intelligence assessment, characterizes this as a goal “to facilitate the legal and illicit transfer of U.S. technology, IP, and know-how.”

This program is the focus of recent U.S. government and DOJ activity. The June 2018 Report of the White House Office of Trade and Manufacturing Policy, entitled “How China’s Economic Aggression Threatens Technologies and Intellectual Property of the United States and the World” said: “The ‘Thousand Talents Plan’ … targets scholars who are leaders in their respective fields with top-level research capabilities, and who may hold intellectual property rights … desired by China. These recruits may receive lucrative and prestigious positions at premier Chinese research institutes, labs or universities.”

The Report says that the policy since 2009 has been, based on Chinese government data, reasonably successful: 44,000 highly skilled Chinese personnel have returned; more than 300 entrepreneurial parks have been established for students returned from overseas; and more than 24,500 enterprises have been set up in these parks by over 67,000 overseas returnees, according to China Daily. So this program seems to have been successful from the Chinese perspective.

From the U.S. government perspective, though — the Obama Administration was involved in this also — last November the Department of Justice declared a “China Initiative,” to focus resources on the investigation and prosecution of trade secret theft by

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8 Department of Justice.
Chinese entities. Inspired perhaps by The Who, the then (no longer) Attorney General Jeff Sessions said, “We’re not going to take it anymore.”

Christopher Wray, the then (and now) FBI Director, said, “No country presents a broader, more severe threat to our ideas, our innovation, and our economic security than China. The Chinese government is determined to acquire American technology, and they’re willing to use a variety of means to do that — from foreign investments, corporate acquisitions, and cyber intrusions, to obtaining the services of current or former company employees to get inside information.” I’m going to talk about a couple of recent cases where you see both of those fact scenarios.

The tools the government has are many, but the most important ones are the Economic Espionage Act (EEA), which has two sections: Section 1831: “trade secret theft is one to benefit a foreign government or its instrumentality,” and Section 1832: Trade secret theft for economic advantage, whether or not to benefit foreign government, or its instrumentality, or agent where that need not be proven.”

There are significant penalties under the EEA:

- Imprisonment and fines.
- Significantly, there is a restitution; if there’s money that’s obtained, you can get a judgment in restitution.
- Criminal forfeiture of what was used in the theft as well as what was taken.

This again is prosecuted by the FBI.

There has been a significant increase in focus on this going way back. In the period 2009-2013 the number of investigations increased by 60 percent. More than half of the prosecutions since 2013 have been China-focused and China-linked. Again, the focus on Chinese bad acts, from the perspective of the U.S. government, is even greater now since this China Initiative.

There are a bunch of interesting cases which I want to touch on briefly. The United States v. Zheng/Zhang case was decided by the Northern District of New York. Zheng is a U.S. citizen, an MIT-trained engineer, working at GE on steam turbines. He and his nephew in China created two companies and transferred a lot of technology from GE to the Chinese companies.

The indictment identifies Made in China 2025 as something that incentivized this activity and said that the Chinese Five-Year Plan also was focused specifically on the development of aviation and gas turbine projects. According to the indictment, you can tell they obtained at least a RMB 50 million grant from the provincial government to set up these companies to manufacture jet engines and turbines. It was part-subsidy and part-loan.

In their communications, Zheng, the one in the United States, told his nephew that he had heard that you could get RMB 5 million to set up a business with U.S. information data; and his nephew said, “Actually for turbines it’s 6 million.”

They met with the Chinese provincial government and made representations that they had met with experts in China and that, based on that technology exchange, “We gave more clarity on China’s current state of technical capabilities in terms of building jet engines and remained confident in our [i.e. GE’s] world-leading know-how.”

This is one interesting case from last week. U.S. v. Xiaorong You aka Shannon You and Liu Xiangchen is a case decided in

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February 2019 by the Eastern District of Tennessee involving Ms. You, an engineer who had access to technology being developed by seven different companies because she was a contract manufacturer at one place as well as working at another since 1992 in BPA and BPA-free coating technologies. She has a Ph.D. in Polymer Science and Engineering from Lehigh University. She allegedly conspired with Liu Xiangchen who worked for a Chinese company that was interested in developing BPA-free coating technologies for food and beverage containers. It includes claims under § 1832.

The indictment identifies The Thousand Talents program, designed to “induce individuals with advanced technical education, training and experience residing in Western countries to return or move to China and use their expertise to promote China’s economic and technological development.” It also identifies a similar Shandong Province-sponsored program entitled “Yishi-Yiyi.”

The conspiracy was for them to transfer these trade secrets to Chinese Company 1 in exchange for the company supporting their applications to these two programs to get the grants from the national government and the provincial government. Then they were going to transfer the trade secrets to a second company, and the second company was going to enter into an agreement with an Italian company that was manufacturing first-generation BPA-free coatings. Once they had some credibility in the marketplace that they could succeed with this joint venture, they were going to come out with a second-generation product based on the U.S. trade secrets.

U.S. v. Huawei Device Co., Ltd., and Huawei Device USA, Inc. is an interesting case. The January 16, 2019 indictment13 out of the Western District of Washington involved various Huawei engineers who were allegedly stealing T-Mobile trade secrets on hardware and software of a robot named “Tappy” that was used to evaluate the reliability of cell phones before being sold by T-Mobile. They asked T-Mobile for technical specifications, but T-Mobile said “No, because you’ll sell these phones to our competitors.” Huawei then sent its engineers in, who purportedly were going to use the robot to test their own phones, but they took pictures and measurements and stole the robot’s arm; they did a lot of things they shouldn’t have done. It includes claims under § 1832. Then, when they were caught, Huawei lied about it and created a false report saying that they had investigated it and it was two employees acting on their own, when in fact they were being instructed by the engineers in China.

There are some other recent cases in the materials that are interesting, too. In addition to these cases, this was an issue in the Obama Administration, which prosecuted as well.

To conclude, my question is: Are these legitimate industrial policies; are they policies designed to obtain foreign IP by fair or unfair means; or are they both?

MR. MEHTA: Thanks, Jim. I think these materials again will also be uploaded to the conference website for those of you who are interested in further information.

One question to kick off the discussion. Jim, there’s obviously a number of cases at the criminal prosecution level. Apart from the things that the U.S. government is doing in its Section 301 investigation, are you aware of any other systemic initiatives? I think your presentation suggests this is somewhat of a pattern. Is there anything else that you think the government should do that it is not already doing?

MR. STRONSKI: I think the Obama Administration — you might know this better than me — came to some agreement with China to reduce the amount of hacking, and I think that actually did reduce a little bit the amount of hacking.

One of my cases I didn’t have time to discuss involved ten provincial intelligence officers being prosecuted — obviously in absentia — for hacking into the computer systems of thirteen aviation companies in the United States, France, and the United Kingdom. That is being prosecuted now.

So I think the culture has to change. I don’t know if an agreement is going to solve the problem. It is a big problem.

In addition, there is a civil provision. You can bring a civil lawsuit for trade secret misappropriation. Until recently a lot of the criminal cases began that way before the plaintiffs got the government involved.

MR. BOLLINGER: Jim, you paint a very dire picture. I have seen surveys about theft of trade secrets in China and in other countries. The surveys and the analysis that I’ve seen over the last five to ten years show that Chinese companies are becoming better and more effective at protecting trade secrets. Is that something that is consistent with what you have seen?

MR. STRONSKI: I think you’re talking about two different things. One is, can you protect trade secrets in China?

MR. BOLLINGER: Right.

MR. STRONSKI: The other is whether there is an effort to modernize and upgrade the kind of manufacturing that is done in China. Either intentionally or unintentionally — maybe it’s not the government’s intention to do this — the government’s policies are incentivizing trade secret theft. The government has the goods on these people in terms of the communications and everything that took place, it would appear, and so these things are happening and they seem to be incentivized by these policies.

At the same time, it appears that the Chinese ability to protect trade secrets and IP in China has improved and is continuing to improve. So this seems to be a problem that is difficult to solve but should be part of the discussions — and I’m sure is part of the discussions — going on now between the countries.

MR. MEHTA: Other comments from the panel?

MR. HE: I just want to add a comment. When I listen to all this, it’s obvious it doesn’t make the Chinese look good.

MR. STRONSKI: That wasn’t my intent.

MR. HE: Let me say a few words about the Chinese way of looking at the trade secret problem and the American way of looking at the trade secret problem. Many people in China think that the U.S. view about the Chinese government systematically incentivizing trade secret theft is definitely untrue. The Chinese perception about the American reaction is that lots of Americans really have this kind of view out of fear or thinking, China grew way too quickly. This was unfair. There may be something definitely wrong with it.

But the Chinese view is that of course there are some individuals, some businesses, or even maybe some local government leaders, who did something crazy, but there is really no systematic effort at the government level to say, “Hey, we want to send a thousand students or scholars to the United States to steal trade secrets.” That would be plainly stupid.

MR. MEHTA: Thank you very much.

Now our final presentation, Jim Bollinger.

MR. BOLLINGER: Thank you. My name is Jim Bollinger. I’m going to be talking about alternative dispute resolution involving agreements and relationships between Chinese and U.S. companies.

Several years ago, I represented a Chinese telecom company in a case involving Microsoft in the Southern District of New York. What shocked me at the beginning of the
case is that their attitude — they didn’t actually explicitly say this — was they just didn’t trust that they would get a fair shake here in New York. They ended up doing quite well and were happy with the outcome of the case. However, I was surprised at that attitude, although maybe I shouldn’t have been.

In any event, I am going to talk about the pharma area. There are a number of different types of arrangements between Chinese and U.S. companies — joint development programs, contract manufacturing, and license agreements on technology and technology transfer. The U.S. companies fear that they are giving up technology and they want to be able to protect it and incentivize their counterparts in China to respect their trade secrets. We see that there is some concern about that moving forward.

If there is a dispute, how does it get resolved? There are a number of options. The first thing you can do is you can go to the Southern District of New York, bring an action, and get a judgment against a Chinese company. However, the way current Chinese law looks at that judgment makes it very, very difficult to try to collect a monetary award for a violation. Therefore, this is really not considered a practical way of proceeding for most U.S. companies engaging in these agreements.

You could litigate in China. As we’ve heard, the Chinese judicial system is going through dramatic changes. It is a civil law system. They do have very good facilities and judges. I think this is becoming a more attractive option going forward if there is a dispute that results in a monetary award that either the U.S. company or the Chinese company is looking to collect. Of course, a Chinese court award could be enforced in China, as you might imagine.

Another choice is you could do arbitration in China, and there is a very good facility for doing that. There are issues associated with that with which U.S. companies might not be comfortable. It is very tightly controlled and not much different than a civil proceeding in the court systems in China, and in fact closely parallels court proceedings, but you do get to collect your award if you’re successful at the end of the day.

You could choose alternative dispute resolution in China. One of the things that’s nice about arbitration in China is you could get interim relief if there is need for that. There are other facilities there.

Again, there is recognition in China of the ability to collect an ADR14 award, like in any civil action, because at the end of the day there is the inherent belief that in any dispute you want to find a neutral ground to resolve it.

In my experience — and my experience in particular has been in UK-based arbitration as a vehicle to resolve disputes between U.S. and Chinese companies, and certainly more broadly perhaps Western and Asian companies, that have come to an impasse otherwise — the benefit of using ADR is that both parties will consider it relatively neutral and objective. They know the rules going in. There are facilities that have been in place for a very long time.

The one that I have experience with, the London Court of International Arbitration, has been around for over a century, and has a lot of the cross-border confidence that is necessary for parties to engage and feel comfortable that they are going to get a fair shake at the end of the day.

Arbitration has been criticized because of the expense associated with it. I’m not familiar specifically with any comparative analysis of costs. Quite frankly, the London Court of Arbitration is very assertive that they are the least expensive of all the various forums that you can go to. They promote it in their own material. Our experience has been relatively consistent with these types of results, so I think it does provide a low-cost reso-

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14 Alternative Dispute Resolution.
olution and an effective tool for resolving disputes between two companies, one in China and one in the United States.

Of course, the nice thing about it, as opposed to a judgment from a U.S. court, is that the Chinese are a signatory to the arbitration agreements that allow for collection and enforcement. Obviously, every country reserves rights to examine and challenge awards notwithstanding such agreements, but they are limited, and in fact the low refusal rate is low. In 2013–2015 only 0.14 percent of awards were actually refused enforcement.

It’s always good if you’re interested in pursuing arbitration to make sure your agreements are in place that allow for effective resolution of a dispute if it ends up going into arbitration. I have highlighted some of the high-level things that need to be considered in terms of choice of law and subject matter for the arbitration. These are conventional terms that are fairly universal, but they should be made sure to be part of any sort of U.S. and Chinese agreement.

That’s it. If anybody has any questions, I’d be glad to try to help.

MS. CHANG: It really depends on the subject matter of the litigation. If it involves serious trademark or patent infringement, if you’re litigating directly in China you can conclude the litigation in six months if there is no appeal. If there is an appeal, it’s three more months. Infringement can be stopped very quickly. But if you choose to pursue arbitration, it could be very time-consuming and it is costly.

MR. BOLLINGER: I agree with that. In fact, I should have said at the beginning I am really talking about an agreement like a joint development agreement.

If you are involved in a patent litigation, I think China now offers some very good avenues for quick recovery and enforcement of your patent rights in China.

MS. CHANG: And for trademark as well.

MR. BOLLINGER: Yes, trademark and patents.

QUESTION [Patricia Martone, Law Office of Patricia Martone]: My question is about where you would choose to conduct the arbitration. I’m surprised that Chinese companies wouldn’t prefer Hong Kong or Singapore to London as a place for arbitration. Can you comment on that?

MR. BOLLINGER: The agreements usually dictate the location. If you have an agreement and you insist on London, I think Chinese companies are less unhappy with that as opposed to perhaps New York. But you’re right; I think obviously Hong Kong would be more comfortable time-wise.

MS. GE: We do a lot of this type of inbound/outbound licensing and technology transfer work. From what we have observed in other parts of the world, I would say that 99 percent of the time the agreement will include a dispute resolution clause based on arbitration. You will end up with arbitration in either Hong Kong or Singapore 85–85 percent of the time. What happened in the past month is that Hong Kong and China have now entered into a bilateral Memorandum of Understanding (MOU), which allows for a Hong Kong-seated arbitration to obtain interim relief in China. To some extent now Hong Kong has this unique advantage compared to other venues, and we’ll see how that will be implemented in the coming months and years.

MR. BOLLINGER: I think that’s correct.

MR. MEHTA: Any other questions?

QUESTION [Thomas Pease, Quinn Emanuel]: Are U.S. attorneys allowed to participate in Chinese arbitrations?

MS. GE: Yes.

MR. BOLLINGER: And obviously U.S. attorneys are allowed to participate in arbitrations in the United Kingdom.
I want to point out that in the case that involved a license dispute between a Chinese cellphone company and Microsoft there was no arbitration clause, and that’s why they ended up being sued in the Southern District of New York.

MR. MEHTA: We’ve got a few minutes for general discussion on all of the panel presentations.

QUESTION [Christian Liedtke, acuminis LLP, Costa Mesa]: I want to go back to Spring’s presentation and the issue of subclass claiming. You had up on the screen the Rubbermaid example. I think for once most of the lawyers in the room will be able to agree that even though the goods were in different subclasses, they were highly similar if not to say identical.

I just want to get some clarification. Would the Chinese Trademark Office really let that mark go through? Would they not check what is in other subclasses and find a likelihood of confusion, which in this case was plainly obvious?

MS. CHANG: China is number 1 in the world in terms of filing applications and we have at least 1000 examiners. We do now have straightforward examination criteria, strictly subclass by subclass.

In terms of exceptions, if somebody files several hundred trademarks, they will reject that. They will challenge your intention. Otherwise, even if you file in different subclasses, they are the same class. They are allowed to coexist. Another examiner checks the purpose of the application. Even if they think there is a possibility that a Chinese individual is applying for a squat mark, their opinion would be that at a later stage you can file opposition and you can clear that then. So there is still a remedy available afterward.

QUESTIONER [Mr. Liedtke]: Interesting. A quick follow-up: are there any trends for that policy to change?

MS. CHANG: As I said, China is number one in the world in terms of filing and there are 1000 examiners. We don’t think they have very sophisticated examination criteria based on you personally, so there are really very rigid examination criteria, which we call the classification catalog, strictly followed subclass-subclass, at least right now with respect to the situation.

QUESTIONER [Mr. Liedtke]: Thank you.

MR. MEHTA: Other questions from the audience for any of our panelists for their presentations?

[No response]

Let me go back to a question on the USMCA that I’m also very interested in. On the issue of RDP and patent linkage compared to the emerging law in China, and also taking into account some of the regional standards that are also being negotiated, how has that come about? You talked about patent linkage in the new amendment. Again, was that more domestically driven? Is that more of an idea to promote and ensure that there is innovation in China? I thought that was a very interesting development.

MR. HE: China is actually facing a very interesting dilemma. China traditionally, for political reasons, sees itself as a developing country, and there is a certain IP policy associated with that.

But I would just say that with all these new developments China realizes that it has a huge potential for doing biopharmaceutical innovations and that a very powerful IP environment including RDP will be important to have long-term benefits. Also, China has a very strong public health policy agenda to make sure that Chinese patients get the very best drugs and medicines. That’s why China has announced this very ambitious plan coming from policymakers at the highest level. That looks like it’s real.
If it was not done before, because of the U.S.–China trade dispute, if it had not become part of some weird political situation or personal situation, we would probably already have had this patent linkage and RDP in place.

We know there are some very intense discussions currently that maybe China should look at this again. We should be thinking more in the next ten to twenty years about how we should protect not only the interests of China-based biopharmaceutical companies but also more R&D being done by U.S. and European pharmaceutical companies. The need to protect Chinese innovation in Asian, South American, and African countries is going to sooner or later become clear to China’s policymakers.

To a large extent, Chinese IP policy should be more consistent, not just with respect to biopharmaceutical policy but also anti-piracy and lots of other areas, even trademark. China’s IP policy should be more consistent with the U.S. IP policy. China has a huge amount of IP these days, whether it’s content, innovation, or brands. With the right IP environment this will accelerate.

MS. GE: Just to supplement, I think patent linkage is definitely something that is driven from the inside. I think in China for the past ten or twenty years there has been no patent cliff, so after the expiration of a compound patent or after expiration of all the patents the innovators can still have premium pricing of pharmaceuticals.

What has happened is now the Chinese government really wants drug prices to drop after expiration of the compound patent. This is part of the overall drug reform that has been going on in China for two or three years. In connection with that it is important to introduce the patent linkage system. Surprisingly, this is something that was first raised by CFDA, the Chinese regulator of pharmaceuticals.

As practitioners we have been waiting to see how the drug regulatory side and the patent side can work together so that we have a workable patent linkage system, which also takes into consideration how patent litigation is conducted in China. If you have the issues with bifurcation, I think by design it would be very difficult. But still we are hopeful, given the importance the government has in these issues, that we will have the patent linkage system and Chinese patients will have more access to affordable drugs.

MR. MEHTA: We have reached happy hour. I would like you all to join me in thanking our wonderful panel.