PRC COPYRIGHT ISSUES AND PROTECTION OF YOUR COMPANY'S INTELLECTUAL PROPERTY RIGHTS

It's likely that your employees will create work containing "intellectual property (IP) rights".

This isn't just if they're developing inventions in a research and development department. Staff could also be creating potentially valuable intellectual property if, for example, they're compiling databases, writing marketing material or producing training brochures.

However, the general legal principle is that intellectual property rights created by employees generally belong to the employer.

Showing that a member of staff has an employment contract is usually enough to prove you own all intellectual property rights. But it's a good idea to state the position explicitly in separate clauses of employees' contracts or to have the employee sign a separate "Confidentiality and Non-Competition Agreement.

This operates to prevent any confusion arising as to ownership of a company's work product - perhaps in respect of work created outside office hours or as a by-product of specified work created during office hours.

Intellectual property (IP) can be anything from a particular manufacturing process to plans for a product launch, a chemical formula or a list of the countries in which your patents are registered. It may help to think of it as intangible proprietary information. The formal definition, according to the World Intellectual Property Organization is creations of the mind - inventions, literary and artistic works, symbols, names, images, and designs used in commerce. IP includes but is not limited to proprietary formulas and ideas, inventions (products and processes), industrial designs, and geographic indications of source, as well as literary and artistic works such as novels, films, music, architectural designs and web pages.

For many companies, such as those in the pharmaceutical business, IP is much more valuable than any physical asset. Authoritative sources report that each year, intellectual property theft costs U.S. companies about $300 billion.

The four legally defined categories of intellectual property are:

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1. **Patents.** When you register your invention with the government-a process that can take more than a year-you gain the legal right to exclude anyone else from manufacturing or marketing it. Patents cover tangible things. They can also be registered in foreign countries, to help keep international competitors from finding out what your company is doing. Once you hold a patent, others can apply to license your product. Patents last for 20 years.

2. **Trademarks.** A trademark is a name, phrase, sound or symbol used in association with services or products. It often connects a brand with a level of quality on which companies build a reputation. Trademark protection lasts for 10 years after registration and, like patents, can be renewed. But trademarks don't have to be registered. If a company creates a symbol or name it wishes to use exclusively, it can simply attach the TM symbol. This effectively marks the territory and gives the company room to prosecute if other companies attempt to use the same symbol for their own purposes.

3. **Copyrights.** Copyright laws protect written or artistic expressions fixed in a tangible medium - novels, poems, songs or movies. A copyright protects the expression of an idea, but not the idea itself. The owner of a copyrighted work has the right to reproduce it, to make derivative works from it (such as a movie based on a book), or to sell, perform or display the work to the public. You don't need to register your material to hold a copyright, but registration is a prerequisite if you decide to sue for copyright infringement. A copyright lasts for the life of the author plus another 50 years.

4. **Trade secrets.** A formula, pattern, device or compilation of data that grants the user an advantage over competitors is a trade secret. To protect the secret, a business must prove that it adds value to the company - that it is, in fact, a secret - and that appropriate measures have been taken within the company to safeguard the secret, such as restricting knowledge to a select handful of executives.

It is therefore imperative that companies in those industries in which new technologies are being developed ensure that their employees execute an agreement which expressly assigns all proprietary rights in newly created IP from the employee to the employer and this should be done in the form of a an “Invention, copyright and trade secret assignment agreement”.

The PRC Copyright Law 2001 recognises the legal rights of an author of works which are defined as written works, oral works, music, drama, photographic, cinematographic, engineering designs, computer software, maps, sketches and other graphic and model works.

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Article 16 of the PRC Copyright Law provides that even where such “works” are created by the author in the fulfilment of tasks assigned to him by a legal entity or other organisation (for which read as employer) he or she shall still enjoy the copyright, provide that the legal entity shall have a prior right to exploit the work within the scope of its professional activities.

The ramification of this law is that the employer must ensure that there has been a pre –existing agreement by the employee (as potential author of works) that the copyright and intellectual property of any such works are in fact assigned to the employer. This is because the PRC Copyright Law provides under Article 16 (2) allow for legal recognition that the employer will retain the copyright in work product produced by the employee as author of the work, provided that the law or an express contract recognises its copyright ownership in the work.

Copyright is an area in which employee’s rights of ownership and employer’s rights of ownership are often blurred and it is therefore essential that proper agreements are prepared which allow for either assignment of these rights from the employee to the employer or which contractually show that copyright is retained by the employer for work product created in the course of employment.

So what safeguards should be implemented by the employer when dealing with this and similar issues and how to reinforce to the employee the fact that the employer takes seriously its protection of its corporate IP?

Below is a checklist of steps to be taken with employees:

1. Require your employees and consultants to execute an invention, copyright and trade secret assignment agreement.

2. Constantly advise your employees and consultants that the information they acquire or create is confidential and proprietary and is to be treated as such.

3. Require that all of your employees execute an agreement preventing them from "raiding" your employees or competing unfairly after leaving your employ.

4. Take steps to ensure that a new employee does not use his or her prior employer's trade secrets while in your employment.

5. Conduct termination interviews with departing employees concerning inventions and trade secrets.

A properly drafted Confidentiality and Non Competition Agreement should contain a proper definition of the employer’s business scope and the type of technology it seeks to protect.

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The confidential information of the company needs to be carefully defined and should include all types of business media and work product, such as computer disc, CD-ROM, software, documents, and databases. There should be express warranties and representations to be provided by the employee to confirm he or she understands that all the confidential information remains the property of the company and it will not be removed from the company's premises. Also contractual undertakings to ensure that potential mis-use of confidential information by other employees is promptly reported to superiors and contractual obligations to return all company work records and materials on termination of employment.

"The Regulations of the Shanghai Municipal Labour and Social Security Bureau"

In respect of contractual restraints on former employees not to engage in employment competitive with that of their former employer, The Regulations of the Shanghai Municipal Labour and Social Security Bureau expressly provide that for the Confidentiality and Non-Competition Agreements to be enforceable as against the former employee, compensation must be paid to the former employee equal to 3 months salary for each year post-employment, in which the former employee does not engage in work competitive to that of his former employer. The maximum non-competition period in Shanghai is 3 years, post employment.

Due to the recent amendments to the Shanghai Labour Laws and Regulations it is probably a good idea to prioritise a review of existing labour contracts and non-competition and confidentiality agreements to ensure that these are in compliance with the new laws and regulations and where necessary have a legal advisor provide input as to amendments to ensure proper protection for the employer.

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