Doing business outside the United States? Protect your intellectual property

By Ann M. Gynn

A U.S. company outsources its fashion accessories production to a manufacturer in China. The products are imported and sold in the United States.

After several years of production in China and importation to the United States, the company decides to expand its market and sell goods in the production country.

Prior to selling in China, the U.S. company prudently initiates trademark registration in China only to learn the trademark already has been registered … by its Chinese manufacturer.

Steven P. Shurtz, managing partner of the Utah office of Brinks Hofer Gilson & Lione, tells the true story to illustrate what he says most U.S. companies doing business outside the United States do not fully appreciate—an understanding that the world views intellectual property rights differently from the United States.

“For example, in the United States, an inventor may publicly disclose and start to market his invention, and has one year to file a patent application after the date of first public disclosure or offer for sale,” Shurtz explains.

“However, in almost every other country, the patent application has to be filed before the invention is ‘made available to the public,’ anywhere in the world.”

Jim Chester, an intellectual property attorney at Cowles & Thompson, agrees. He routinely represents clients before the U.S. Patent and Trademark Office, U.S. International Trade Administration and many other agencies.

“U.S. companies must realize that for the most part, a U.S. patent, trademark or copyright registration means nothing outside of the United States,” he says.

As Chester explains, most international property treaties are not concerned with multinational intellectual property rights.

“Instead, they are focused on providing access to local registration processes for foreigners and in reaching agreement on the types of intellectual property to protect,” he says, noting that the Berne Convention’s protection of copyrights as one of the biggest exceptions to this.

U.S. companies should realize that most jurisdictions outside the United States award intellectual property registrations to the first party to file in their country (first-to-file jurisdictions). “This is significantly different than U.S. law, which gives priority to the first party to use a trademark or create an invention,” Chester says.

So how can businesses protect their intellectual property internationally? Direct and indirect options exist, Chester says.

The direct approach involves obtaining protection through contracts and related agreements with specific individual parties.

The indirect approach involves taking advantage of the registration and other statutory protections afforded by the laws in the countries where the company does business.

“Ideally, companies will utilize both direct and indirect means to protect their intellectual property,” Chester says.

‘Just paper’

William Gamble, an attorney and author of Freedom: America’s Competitive Advantage in the Global Market, says the problem with intellectual property, with the exception of trade secrets, is that intellectual property is simply a piece of paper protected by law.

“In China,” he says, “they steal intellectual property associated with everything from batteries to bubble wrap.

“The reason is simple—fake stuff makes up 8 percent of the gross domestic product of China. With that amount of money at stake, there is no way the government is going to change or enforce the law.”

Take India as a contrast. India thrives on its IT and pharmaceutical industries, so the country has something to lose if a company’s intellectual property goes unprotected. Thus, there is political structure to change or enforce the law, Gamble says.

The key is for U.S. companies to create unique strategies based on their product, the jurisdiction, the technology, the economics and the business model, he says.

“I am a lawyer. I practice law in countries that don’t have any. In my business, you have to have more than one arrow in your quiver. Think different,” Gamble says.

Trust and treaties

Sasha Frid, attorney with Miller Barondess in Los Angeles, has the unique perspective of working for the Motion Picture Association of America as well as with small businesses and Fortune 500 companies on copyright violations and intellectual property infringement.

With the significant cost savings offered by some countries and the growing global market, isolating production and sales in the United States, which better protects intellectual property issues, really isn’t an option.

Frid offers these two overarching tips on doing business outside the United States and working to protect the company’s intellectual property as best as possible:

• Know with whom you are dealing. Don’t necessarily go for the cheapest, but go for the company you can trust. Pick reputable, well-known companies (they have more to lose if your intellectual property is stolen). Talk to their current clients. Determine their security to ensure employees do not walk off with your templates.

• Review international treaties with a particular country and use them to your own benefit. Global policymakers, such as the World Trade Organization and the countries that have signed on to it, also can be helpful guides.