

Innovation meets infringement:

Establishing an IP protection programme in Taiwan

Christopher M Neumeyer of Shay & Partners explores the pitfalls inherent in trying to construct an effective IP protection programme in Taiwan.

In today's knowledge-based economy, it is not uncommon for a company's assets to be made up largely of registered and unregistered intellectual property. When managed well, such IP assets can generate strategic, financial and competitive advantage. When mismanaged or neglected, their potential may remain untapped or fall into the hands of employees, contractors or competitors.

When it comes to IP, Taiwan is the home to both innovation and infringement. The island hums with research, development, production and sales of computer software, hardware, pharmaceuticals, biotechnology and other products, but it struggles to shake a reputation for counterfeiting and other forms of infringement. Consequently, for companies doing business in Taiwan, it is often critical to develop and implement a sound programme for the protection of IP.

Identification of IP

The first step in developing a comprehensive IP programme is to identify and evaluate the company's existing IP. This step, known as the IP audit, is commonly associated with a public listing or corporate acquisition, but for many companies it should be a routine part of the internal auditing processes. By performing regular IP audits a

company can improve accountability of resources, reveal hidden or under-performing IP, minimise risks of losing IP protection or infringing on others, and make more informed decisions on a range of issues including product development, marketing and competitive strategies.

In Taiwan an IP audit is performed much the same as in other countries. Key personnel should be consulted from various departments, including R&D, engineering, product development, marketing, sales and legal. Documents should be reviewed, including agreements for employment, supply, marketing, licensing, distribution and non-disclosure as well as relevant legal pleadings and settlements. From the types of sources described above, the nature and scope of all IP owned or used by the company should be identified. A list should be compiled of all patents, trade marks, trade secrets, copyrighted materials and other IP along with applications, registrations, licences, assignments and actual or potential conflicts. The rights of employees and contractors to their discoveries and inventions should be reviewed. For software developers, a list should be compiled of all software developed, acquired or used by the company, along with the names of all owners and developers and a description of the development history. The above description is meant to be illustrative, not exhaustive.

Once the company's IP assets have been identified, they should be valued and classified as core, non-core or obsolete. Appropriate steps can then be taken regarding the protection and most effective use of those assets. Of course, the manner of securing protection will depend on the nature of the particular IP.

Creation of IPR

The IP laws of many countries are shaped largely by international norms. Taiwan is not a signatory to the major international IP agreements, such as the Paris, Berne, Rome or Washington Conventions, Madrid Protocol or Patent Cooperation Treaty. As a result of Taiwan's admittance to the WTO in January 2002, however, Taiwan's IP laws have been amended to bring them into substantial compliance with the WTO and other international standards. Taiwan law now provides for the creation of IPR as described briefly below.

Copyrights

Taiwan's Copyright Act protects original works of authorship such as words, music, images, movies and software from the date the work is fixed in a tangible medium. Unlike the US, where copyrights may also be registered, Taiwan has no procedure for registration of copyrights. Nonetheless, it is still recommended to include a notice such as '© Copyright 2003 John Doe' on documents, web pages or other materials on which protection is desired, to give notice that the work is protected, identify the owner, and show the year of first publication in order to counter any potential claim of innocent infringement. Depending on the nature of the work, an owner has the exclusive right to reproduce, broadcast, perform, display, lease, release, prepare derivative works or make other uses of the work.

Trade marks

To register a mark in Taiwan one must submit a power of attorney, specimens of the mark and, if relevant, priority documents issued in a country where the mark was previously registered (the Taiwan filing date may be backdated by up to six months if an application to register the same mark was filed within that time period in another WTO member country). The registration process typically takes from eight to 12 months. The term of registration is 10 years but may be extended perpetually for additional 10-year terms. There is no requirement that a mark be used in

Taiwan in order to register it, but a registered mark that has not been used in Taiwan for three years is subject to possible cancellation. There is also no requirement to register a Chinese translation of the mark, but many entities choose to register translations and/or transliterations either for marketing purposes or as a defensive strategy. Regardless of whether one will register a Chinese translation, it is advisable to register all principal and associated marks as early as possible.

Patents

The patent application must include a brief abstract, summary of prior art, drawings, description and listing of claims. The specification may be filed in any language, but a Chinese-language specification must be submitted within two months of filing (extendable up to six months). After the application is filed, it will be examined to ensure its novelty, usefulness and industrial applicability. Usually there is only one office action, which occurs within about 12 months. If the application is rejected, a re-examination petition must be submitted within 30 days; if accepted the patent will be published and a certificate issued. Taiwan previously allowed any party to challenge an application

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by filing an 'opposition action' within three months from the publication, but that procedure has been eliminated. As with trade marks, the patent application may be backdated by up to 12 months if an application for the same device was filed in another WTO member country during that time period.

Trade secrets

Pursuant to Taiwan's Trade Secrets Act, information may receive trade secret protection if it (a) relates to a method, technique, process, formula, programme, design or other matter, (b) is not known to persons generally (c) has actual or potential value due to its secretive nature and (d) reasonable measures have been taken to maintain its secrecy. If an employee develops the information within the scope of employment the information belongs to the employer;

otherwise it belongs to the employee. If it is developed by an independent contractor or is jointly developed by two or more parties, ownership depends on the terms of the contract. When information is protected as a trade secret, it is unlawful for others to use or disclose it or acquire it by improper means.

Advantages of protecting information as a trade secret include the absence of registration costs, immediate effect and unlimited duration of protection, so long as security measures remain in place. Disadvantages include that others may lawfully use and patent the information if discovered independently (including through reverse engineering if incorporated in a product), and the fact that trade secrets are generally more difficult to enforce than patents. Trade secrets are favored for protection when the information is not patentable, is difficult to maintain in secret, is not valuable enough to patent, relates more to a process than a product or is the subject of a pending patent application.

IC layout design

Taiwan's Integrated Circuit Layout Protection Act grants to registrants the exclusive right to reproduce, import or distribute for profit any ICs containing a protected layout. To qualify for registration, the design must result from the registrant's efforts and at the time of registration cannot be known to those in the industry. An employer has the right to register any layout that is created by an employee within the scope of employment, unless specified otherwise by contract. Any foreign owner who wishes to register for protection must be from a country that is party to a treaty or agreement that provides for reciprocal protection of IC layouts with Taiwan citizens, or other similar requirements. No application for registration may be filed more than two years after the date the layout is first embodied in an IC and put to commercial use.

Internet domain names

Taiwan registered companies may register Taiwan country-code top-level domain names (ending in .tw) at the website of the Taiwan Network Information Center (see www.twNIC.net). Foreign companies are required to register through a Taiwan attorney or law firm. Disputes concerning such names are resolved by TWNIC using a dispute resolution policy based on ICANN's Uniform Dispute Resolution Policy. Under the TWNIC policy, a complainant is entitled to the transfer of a domain name if (1) the name is identical or confusingly similar to the complainant's trademark, service mark, personal or business name or other designation; (2) the registrant has no rights or legitimate interest in the domain name; and (3) the name was registered or used in bad faith.

Doing business

After a company performs an audit, and acts to solidify its IP protection either through registration or otherwise, the next step is ensuring that IP will not be lost during the ordinary course of business. In addition to utilising sound contracts for licensing and manufacturing, precautions should be taken regarding the hiring and letting go of employees and others who may have access to confidential information and seek to disclose or use it for competitive purposes, and with those who may develop valuable IP on the job, which they later claim as their personal property.

Initial interview

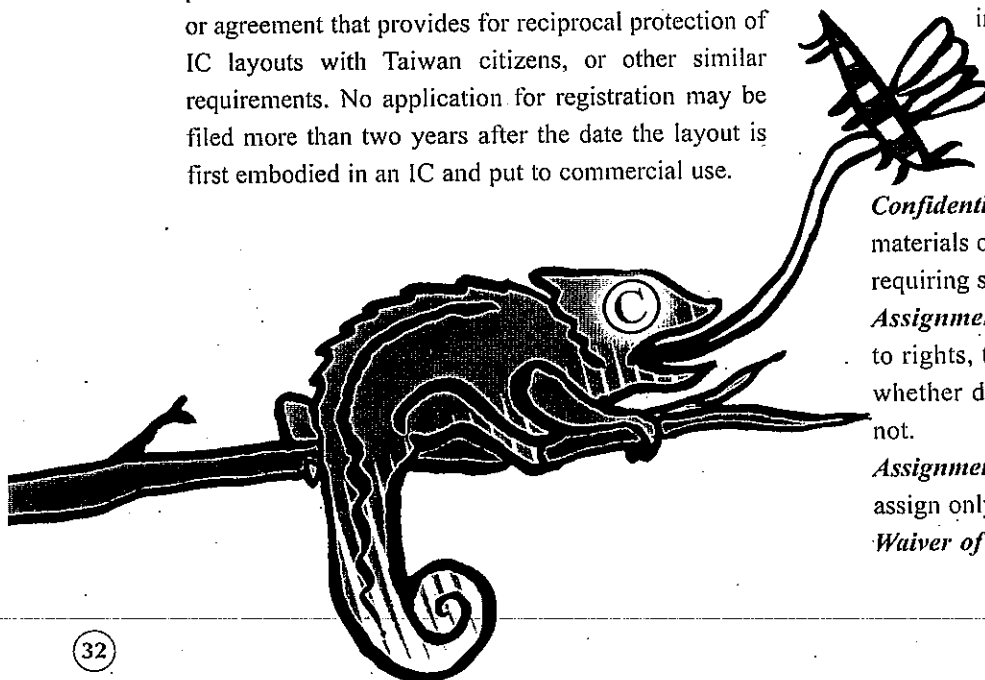
Each employee, consultant or contractor should receive an initial interview during which the new hire is informed of the types of company information that are deemed confidential and is asked to sign an agreement, which contains the following types of provisions:

Confidentiality/non-disclosure – Companies that source materials or components from others should also consider requiring signed NDA agreements from vendors.

Assignment of rights in inventions – This should refer to rights, title or interest in all inventions regardless of whether developed within the scope of employment or not.

Assignment of copyrights – As noted above, one may assign only economic rights and not moral rights.

Waiver of moral rights in copyrights – Generally, moral



rights may be waived only after they have come into existence. Nonetheless, due to judicial uncertainty, one should include a waiver of moral rights with respect to works that might be created by the employee or contractor in future.

Restrictions on use of information

Duty to return documents – See Exit Interview section below.

Non-Competition – Taiwan's Council of Labor Affairs passed guidelines permitting such clauses to be enforced only with regard to employees working in R&D or with access to corporate secrets. The guidelines also require any non-competition clause to specify reasonable restrictions on type of business, geographic location and duration (generally less than two years), and they state that such provisions will be deemed void in the event that the employee is wrongfully terminated. Accordingly, such clauses should be drafted with restraint.

Exit interview

Upon the conclusion of employment, an exit interview should be conducted at which time the employee is asked to return all company materials and documents and sign an agreement containing the following types of provisions:

Return materials – The document should state that all originals and copies of company materials and documents have been returned.

Nothing distributed – No originals or copies of any company materials or documents were distributed to any party except within the scope of employment.

Confidentiality – Employee agrees to maintain in strictest confidence all trade secrets and other proprietary or confidential information gained during the employment and not to use or share with others any such secrets or information.

Non-competition – See Initial Interview section above.

Trade secrets

Because trade secrets are entitled to legal protection only so long as adequate security measures are maintained, a company should ensure that adequate security precautions are in place for sensitive information that may not be protected by registration. Physical security measures include installing fences or other barriers to prevent unauthorised entry onto the premises or access to sensitive areas; employing guards to record the identity of persons accessing certain areas or materials in logs; and access to files,

copiers and sensitive materials should be restricted or supervised.

Strategic security measures should also be implemented such as labeling confidential information and maintaining it in locked, secure files and locations; using electronic copier keys to identify users; requiring that materials be signed out before use; requiring passwords and installing hidden serial numbers on computer software or hardware; requiring documentation of R&D development; and escorting any visitors on the company premises.

Licensing

Employees should be instructed to never distribute copyrighted works, especially source code, without having a proper licensing agreement in place. Such advice may seem obvious, but for sales reps eager to close deals, clear and repeated warnings may be necessary. When licensing technology, the licensor should usually employ the standard provisions for protection of IP: copying, modifica-

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tion, disassembly or reverse engineering of the licensed technology, in whole or in part, are prohibited; no title to the IPR is transferred and all title remains with the licensor; the licence relates only to certain types of uses; the licensee shall not sell, manufacture or distribute the licensed materials except as provided in the agreement; the licensee may not take any action which might lead another party to believe the IP is owned by the licensee.

Manufacturing

In Taiwan, it is not uncommon for a disreputable manufacturer to produce excess, unaccounted for optical disks and other products after hours. To avoid entering into rela-

tionships with such companies, some IP owners choose to hire an investigator beforehand to investigate the manufacturer and its principals for any prior records of infringement. In addition, in order for a manufacturer to protect its own IP assets, the manufacturer should require its employees to sign an agreement promising to maintain the confidentiality of proprietary information, not to wrongfully use or disclose such information, not to compete with the employer, and authorising injunctive relief in the event of a breach.

Investigations and enforcement

Regular searches should be performed for infringing trade marks, service marks, company names, logos and domain names as well as patent and trade mark applications and registrations. Private investigation agencies provide such services in Taiwan, conducting both field investigations and searches of public documents. If an informant or investigator contacts a company's attorney to report suspected infringement, the attorney should obtain all relevant information before contacting the client to discuss how to proceed. Often the investigator will be instructed to gather further evidence, perhaps visiting the premises posing as a purchaser, obtaining samples of counterfeits or learning about the distribution network for such products.

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Initiating IP raids

If preliminary evidence is sufficient to support a criminal action, counsel will need to obtain a signed affidavit from the informant or investigator and file it with the police, prosecutor or Investigation Bureau of the Ministry of Justice, along with other documents requesting a search warrant. Taiwan's search warrant requirements are burdensome: a separate power of attorney and complaint must be submitted for each raid, with each document signed by the company's CEO. But such restrictions are not absolute. Sometimes a company will provide its Taiwan

counsel with several signed, notarised, undated POAs and complaints to be used for unknown future incidents of infringement. Or, because local companies use a name chop rather than a signature, a foreign company may provide its counsel with a company chop, along with a signed board resolution adopting use of the chop. Under pressure from foreigners, the Judicial Yuan and Ministry of Justice have instructed judges and prosecutors to relax the above requirements, but one cannot be certain how any particular judge will rule so it is prudent to ensure that proper authority is clearly established.

After a warrant is obtained, counsel should work closely with the investigator and authorities, often accompanying them on the raid to ensure that responsible persons are arrested, relevant laws are observed and evidence that is seized will be admissible in court. If the raid will be conducted on a registered company, the names of all owners of record should be obtained in advance. Although IP raids usually take place in the daytime, most pirate production of optical disks and other products is suspected to occur at night. Therefore, often the authorities should be urged to conduct the raid at night. In addition, it may be desirable to conduct multiple raids on related targets simultaneously. During the raid, in addition to seizing counterfeit goods, authorities should be requested to seize equipment or supplies used in the manufacture of the goods, as such seizures are authorized by law but often overlooked by the authorities.

Court proceedings

Once a raid has been completed, the prosecutor will conduct a hearing to determine whether to press charges. If the prosecutor decides not to indict, the complainant may file an appeal; otherwise, an action will be initiated in District Court. Both sides may present evidence and the process can take from a few months to a year or more. The prosecutor will rarely attend all of the hearings, so it is crucial that the complainant's attorney attend in order to educate the judge concerning the facts (and sometimes law) and help move the case along. Depending on the case, counsel may be allowed to present testimony, graphics and/or video presentations. Often it will take about two years from the date that a case is filed until a judgment is rendered. Any appeal from a judgment will be heard by the High Court de novo and an appeal from there will be heard by the Supreme Court on legal issues only.

Conclusion

A comprehensive IP protection programme will often begin with an audit to determine the scope and nature of all IP owned by the company, assess the value of such assets and evaluate whether they are adequately protected. Applications are then filed to register unprotected patents, trade marks, domain names and IC layout designs, while security measures are put into effect for trade secrets and other sensitive information. Contracts and business procedures are reviewed to ensure that IP is protected on a day-to-day basis and a system is established to routinely inspect for and prosecute potential infringers.

In addition, some companies find education can be effective for protecting their IP. A company may launch a general publicity campaign, educating the public by radio, newspaper or other media about the nature of IP, the definition and penalties for infringement. Or the campaign may involve warnings targeted more specifically by direct mail to industry groups or other entities. After obtaining a verdict for IP infringement, the company may publish the Judgment, or portions of it, in local newspapers for deterrent effect, or issue press releases following successful raids and prosecutions.

Finally, some companies choose to offer rewards for any tips leading to the successful prosecution of IP infringers. While such rewards may already be available through industry groups such as the MPA (Music Publishers Association), IFPI (International Federation of the Phonographic Industry) and BSA (Business Software

Alliance), some companies find it worthwhile to offer their own reward programmes. In Taiwan, such a programme should include a Chinese-language website where informants can lodge complaints and the company should work closely with informants to ensure their full cooperation in the instant case and possibly in the future. To receive an award, the informant should be required to sign an affidavit that may be used in court, and rewards can be increased for those who agree to testify in court. The programme may be set up so that rewards are paid from the proceeds of any settlement paid by the infringer. And even if a company decides not to launch such a programme, it may be worthwhile to pay for advertisements educating the public about industry-group reward programmes such as those mentioned above.

While each of the tactics described in this article is important, a complete IP protection programme should incorporate all of them: identification and evaluation, registration, security measures, investigation, prosecution, education and a possible reward programme for informants. Once those measures have been put into place, the company can consider the next step, maximising the return on its IP assets through effective licensing, assignments or other strategies. ■

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