

# **Strategies for Investing in Taiwan and China**

**Kimberley Chen Nobles  
Partner  
Crowell & Moring LLP**

- 1. Complying with U.S. Export Control Regulations**
- 2. Protecting Intellectual Property**

# Strategies for Investing in Taiwan & China

## EXPORT CONTROLS

# What Is an Export?

- **Physical transfer/movement out of the U.S.**
- **Any transfer abroad of intangibles such as technology and software**
  - *e.g.*, email; Internet downloads; faxes; telephone conversations.
- **Deemed exports**
  - Transfers of controlled technology to foreign nationals within the U.S.

## How Are Intangible Items Typically Exported By Companies?

- **E-mails or faxes to foreign parents or subs.**
- **Oral discussions on technical issues with foreign persons (even in the U.S.).**
- **Sales proposals to foreign customers.**

# What Regulations Govern the Export of Technology?

## Different regulations, different agencies . . .

- Commercial hardware, software and technology are under the Export Administration Regulations (EAR)
  - Administered by the Department of Commerce.
- Defense articles, technology and services (“specially designed for a military application”) are under the International Traffic in Arms Regulations (ITAR).
  - Administered by the Department of State.
  - Note: China is subject to a U.S. arms embargo
- A license from PTO is required before filing an application for a patent in a foreign patent office if the invention was made in the U.S. and: a) an application on the invention has been on file at the PTO less than six months; or b) no application has been filed in the U.S. 5 USC 184, 37 CFR § 5.11(a).

# Commerce Controls on Semiconductors and Related Technology

## Several different categories on the Commerce Control List:

- **3A001** – Electronic components includes higher level semiconductors
  - detailed, specific parameters define what is included here
  - controlled for reasons of *national security*, missile technology, non-proliferation, and anti-terrorism
- **3E001** – Technology for the development and production of semiconductors under 3A001
- **3A991** – Electronic devices and components not under 3A001, including lower level semiconductors controlled only for anti-terrorism reasons
- **3E991** – Technology for the development, production or use of semiconductors under 3A991

## What Are the Potential Penalties for Violations?

- **For commercial items (under the Commerce Dept. regulations)**
  - Civil penalties up to \$11,000 per violation – but one shipment can result in multiple violations.
  - Potential criminal penalties.
  - Denial of export privileges.
- **For military items (under the State Dept. regulations)**
  - Same as above, but max. penalties are \$500,000 per violation.

## Illustrative recent case (2004 only):

**Oct. 04:** California-based manufacturer of electronic timing & test equipment fined \$35,000 for violations committed by a company that it acquired involving unlicensed exports of quartz oscillators to Malaysia.

**Sept. 04:** Oregon-based manufacturer of high performance chips fined \$560,000 for exporting semiconductors and technology to China.

**June 04:** Aircraft engine manufacturer fined \$150,000 for “deemed exports” of export controlled technology to foreign nationals within the U.S. as well as exporting controlled technical data to foreign countries.

**May 04:** California-based manufacturer of electronic components fined \$275,000 and denied export privileges for 20 years for exports of video amplifiers to China. Parallel criminal conviction of company president.

**Jan. 04:** New Jersey-based semiconductor manufacturer fined \$400,000 for unlicensed exports of metal organic chemical vapor deposition (MOCVD) tools to China.

## What Can Companies Do to Avoid Trouble in This Area?

- **Evaluate company's potential for inadvertent export control violations;**
- **Understand what technologies may be subject to export controls;**
- **Review in particular transfers of technology that occur: a) before a patent application has been filed; or b) before application has been on file for 6 months;**

## What Can Companies Do (cont)?

- **Review foreign nationals' access to export controlled technology;**
- **Develop an Export Control Compliance Program;**
- **Training in export controls – both for new employees and periodically update training for all.**

# Strategies for Investing in Taiwan & China

## INTELLECTUAL PROPERTY

# Protecting Intellectual Property Rights

- **The “Good News” (August 2003)**
  - China cracked down on disc piracy, destroying 42 million music CDs, movie DVDs and software CDROMs
  - Shanghai court found in favor of US motion picture companies on claims of copyright infringement, ordered pirated discs destroyed
- **The “Bad News” (August 2003)**
  - More than 95% of optical discs in China are counterfeit
  - More than 90% of all movies, software and music products sold in China are illegal copies
  - Court awarded damages only \$30,000

# Protecting Intellectual Property Rights

- **U.S.**
  - Strong and mature system for IP protection
  - All forms of IP:
    - Patents, Copyrights, Trademarks, Trade Secrets
- **China**
  - Not the same level of formal protection as U.S.
  - Little use of administrative or judicial remedies by foreign investors
- **Taiwan**
  - Principle problem: Enforcement of laws that otherwise would be adequate

# Protecting Intellectual Property Rights

- **IPR in Taiwan & China**
  - Enormous strides in updating IP regimes
  - Enacted laws to provide transparent processes for obtaining & enforcing IPR
  
- **Risks**
  - Defensive posture
    - Cost v. Benefit analysis
  - Enforcement
  
- **Complex Issues**

# Protecting Intellectual Property Rights

- **Obtain necessary licenses**
  - Before sharing technical data
- **Retain all IP rights**
- **Understand local laws**
  - Under China's patent laws, the government may compel licensing of patent technology under certain circumstances
  - Under China's Technology Import & Export Regulations, the licensee must be permitted to "own" all improvements that it develops within the valid term of the licensing contract
    - Mitigation: participate in improvement process (thereby becoming a co-owner)
    - Contracting for a non-exclusive grant-back on improvements

# Strategies for Investing in Taiwan & China

## Playing Smart:

- **Know the “rules” before acting**
- **Plan for success as well as for disaster**
  - Establish strong anti-piracy measures
    - Contracts with partners
    - Formally protect IPR
    - Litigate when necessary
- **Invest in compliance**
  - Establish formal compliance policies
  - Train, and re-train, employees
  - Self-audit for compliance

# Strategies for Investing in Taiwan & China

THANK YOU!