

The Impact on Japanese Companies through Cross-Strait Cooperation on Intellectual Property*

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In June 2010, Taiwan and China signed the “Economic Cooperation Framework Agreement (ECFA)” and the “Cross-Strait Agreement on Intellectual Property Right Protection and Cooperation (IPR).” Since then, Taiwan and China have been promoting cooperation related to their respective IP systems and the operation thereof until now. Recently, many Japanese companies have established business partnerships with Taiwanese companies and attempted to expand their business in the Chinese market. In these circumstances, this research aims at grasping the latest status of the Cross-Strait IP cooperation and to assess its impact on Taiwanese people and companies. This research also attempts to analyze the future direction of the Cross-Strait IP cooperation. Through this research, its impact on Japanese companies is assessed and practical approaches for Japanese companies to fully utilize their IP rights in Taiwan and China are proposed.

I. Introduction

The objects of this research are as follows: to grasp the latest status of IP cooperation between Taiwan and China¹ (hereinafter called “Cross-Strait IP cooperation”), to assess its impact on Taiwanese people and companies in order to analyze the future direction of the Cross-Strait IP cooperation, and to assess its impact on Japanese companies. Also, this research proposes practical approaches for Japanese companies to fully utilize their IP rights in Taiwan and China.

The methods of this research include literature survey, questionnaires for employees of Japanese companies, interviews with Taiwanese experts, and discussion with the research supervisor.

II. The Cross-Strait cooperation on IP system

1. Overview of IP system in Taiwan

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¹ In this report, Mainland China is commonly called “China.”

The administrative agency for intellectual property in Taiwan is the “Taiwan Intellectual Property Office” (hereinafter “TIPO”). TIPO is responsible not only for industrial property protection (patents² and trademarks), but also copyright, trade secret and semiconductor circuit layout protection.

As for invention patents, design patents and trademark applications, TIPO conducts substantive examination to examine whether an application meets the requirements to be granted. As for utility models, TIPO does not conduct substantive examination.

In 2017, TIPO received 46,122 invention patent applications, 19,549 utility model applications, 8,120 design patent applications and 83,802 trademark applications³. It should be noted that the number of trademark applications is the largest and that utility models are actively utilized in Taiwan.

2. Two treaties; “ECFA” and “IPR”

On June 29, 2010, Taiwan and China signed “the Economic Cooperation Framework Agreement” (hereinafter called the “ECFA”) at the fifth Chiang-Chen meeting in Chongqing, China. The objective of the ECFA is Cross-Strait economic, trade and investment cooperation and trade liberalization between both areas. According to the Article 6, Section 1, Item (1) of the ECFA, both parties agreed to strengthen cooperation in “intellectual property rights protection and cooperation.”

On the same day, they also signed “the Agreement for Intellectual Property Right Protection and Cooperation” (hereinafter called the “IPR”). Based on the principle of equity and mutual benefit, the IPR is aimed at enhancing Cross-Strait communication and cooperation for IP protection such as patents, trademarks, copyrights and plant variety rights. Also, the IPR is aimed at settling IP-related problems and to promote Cross-Strait IP innovation, implementation, management and protection (IPR Article 1).

Until the IPR was signed, there was a risk for Taiwanese applicants of a usurped application by a third party before filing in China, because both sides did not recognize priority rights of the other.

In addition, “squatting (bad faith filing)” of well-known Taiwanese trademarks was creating a significant problem in China. Consequently, the Taiwanese government decided to sign the IPR⁴.

3. Content of IP cooperation

(1) Mutual recognition of priority right

² Patent rights includes three rights: invention patent, utility model and design patent rights.

³ TIPO Annual Report 2017 p.11-15 (2018)

⁴ TIPO website 「兩岸智慧財產權保護合作協議之相關說明」 (2010)

<https://www.tipo.gov.tw/public/Attachment/66111173876.pdf> (Last access date Dec. 25, 2018)

Based on Article 2 of the IPR, Taiwan and China agreed with mutual recognition on priority rights for patents, trademarks and plant varieties. They started to accept declarations of priority as of November 22, 2010. This enabled Taiwanese entities and residents to declare priority based on an application to Taiwan (or China) when filing an application in China (or Taiwan). The applicants can declare priority if at least one of them is Taiwanese entity or resident⁵.

Therefore, it could be possible for a Japanese company to utilize the Cross-Strait priority right in such cases where (a) they jointly file an application with a Taiwanese entity, (b) the applicant is a Taiwanese subsidiary of a Japanese company, or (c) the applicant is a joint venture (i.e., Taiwanese entity) of a Taiwanese company and a Japanese company.

(2) Establishment of “Corporative Mechanism”⁶

Based on IPR Article 7, Taiwan and China agreed to establish the “Cooperative Mechanism,” where both administrative bodies can directly communicate with each other to settle IP related problems. Under current operation, when a Taiwanese applicant or IP right holder is faced with a problem in the process of a procedure for obtaining/protecting IP in a Chinese administrative agency, he/she can file an application for the “Cooperative Mechanism” to ask for TIPO’s support. The details are to be mentioned later.

(3) Other Activities

IP cooperation activities based on the IPR also include the following points: copyright certification of published audio/visual works owned by Taiwanese right holders in China is conducted by Taiwanese agencies; opening-up of Chinese patent agent qualification to Taiwanese applicants; holding an annual Cross-strait IP forum; expansion of protection for plant variety rights; and communication activities between both administrative bodies.

III. Cooperative Mechanism

1. Overview of system

⁵ Japan-Taiwan exchange association “The status and utilization of Cross-Strait Cooperation in the IP field” p.225-226 (2016)
Saint Island Intellectual Property Group “The impact of ECFA on the Taiwanese IP system” (2013)
<https://www.globalipdb.inpit.go.jp/trend/3230/> (Last access date Dec. 25, 2018)

⁶ The original text is “協處機制”.

(1) Applicant qualifications

According to TIPO's "Trademark Cooperative Mechanism Guideline,"⁷ only Taiwanese entities, Taiwanese residents and Taiwanese-capital enterprises in China can file an application for the "Cooperative Mechanism" to TIPO.

(2) Requirements for application

(i) Trademark

According to the said guideline, the requirements for application in trademark-related cases are as follows: (a) the applicants took appropriate administrative measures to obtain/enforce trademark rights under Chinese regulations, (b) he/she has been treated unreasonably, unfairly or illegally, and (c) the case is still pending at the Chinese administrative body.

This would include an appeal procedure against a decision of rejection, an opposition procedure, a trial procedure for invalidation, and an administrative procedure for trademark infringement.

(ii) Copyright

According to TIPO's "The overview of Copyright Cooperative Mechanism,"⁸ the requirements for application in copyright-related cases are as follows:

(a) a copyright owned by Taiwanese entities or residents is infringed in China, (b) he/she took appropriate administrative measures under Chinese regulations for enforcement, and (c) he/she has been treated unreasonably, unfairly or illegally.

(iii) Patent (invention patent, utility model and design patent)

According to TIPO, there are no official guidelines for the Cooperative Mechanism on patent cases. However, considering the purpose of IPR Article 7, it is conceivable that an application can be made when there has been an unreasonable, unfair or illegal treatment in the process of obtaining/enforcing a patent right by administrative bodies in China, the same as in trademark cases.

⁷ TIPO website 「兩岸商標協處作業處理程序」
<https://www.tipo.gov.tw/ct.asp?xItem=544575&ctNode=6789&mp=1> (Last access date Dec 25,2018)

⁸ TIPO website 「兩岸著作權協處制度」
<https://www.tipo.gov.tw/ct.asp?xItem=490714&ctNode=6789&mp=1> (Last access date Dec 25,2018)

(3) Application Process⁹

After an application is filed, TIPO will examine the case in detail and determine whether there is a need to “report” to the administrative body in China to request cooperation. In most cases, this determination will be made within one day and they will “report” to China on the next day of the filing date.

If there is no need to “report” to China, TIPO will give the applicant some legal advice on how to cope with the problem. In such case, even if the applicant is not satisfied with TIPO’s determination, he/she may not file an objection against it.¹⁰

These documents and materials for each case are not open to public.

2. Practice at TIPO

According to TIPO’s statistical data, in the period from 2010 to November 2018, the total number of “Cooperative Mechanism” applications filed either to TIPO or Chinese administrative bodies is 825. More than 90% of these cases were trademark cases filed by Taiwanese applicants¹¹.

The reasons for such a large bias seem to be as follows: since trademark cases do not include technical issues, it could be relatively easy for both administrative bodies to settle these cases by discussion; as Taiwanese brands became well-known in China, they tended to be favorable targets for “Trademark squatting.”

The number of applications reached its peak in 2013, when 245 applications were filed. But in the last few years, the number of applications has been relatively small, about 50 applications per year.

There are several successful cases of the “Cooperative Mechanism.” For example, in cases where well-known Taiwanese trademarks were registered by trademark squatters in China, they succeeded in rescinding the squatted registration through the “Cooperative Mechanism.”¹²

Other than trademark cases, the “Cooperative Mechanism” is also utilized to settle patent cases where a patent examination procedure had been unreasonably delayed¹³.

However, there are some points to note when applying for this mechanism. First, the target of the “Cooperative Mechanism” is limited to trademarks, patents and copyrights. Other IP-related problems such as trade secrets or unfair competition are outside the scope of the mechanism.

Second, since this mechanism is aimed at settling problems related to administrative procedures,

⁹ This description is based on an interview with TIPO’s department in charge.

¹⁰ TIPO website 「兩岸著作權協處制度」明

<https://www.tipo.gov.tw/ct.asp?xItem=490714&ctNode=6789&mp=1> (Last access date Dec 25,2018)

¹¹ TIPO website “The statistical data for the Cooperative Mechanism”

<https://www.tipo.gov.tw/lp.asp?ctNode=7811&CtUnit=3852&BaseDSD=7&mp=1> (Last access date Dec. 31, 2018)

¹² TIPO website 「執行成效（執行狀況）」

<https://www.tipo.gov.tw/ct.asp?xItem=641185&CtNode=7809&mp=1> (Last access date Dec. 31, 2018)

¹³ This description is based on an interview with TIPO’s department in charge.

applications regarding judicial procedure are not accepted.

In addition to the above, it should be noted that TIPO's "report" to China is just an opinion and not legally binding.

3. Possibility of utilization by Japanese companies¹⁴

If a Japanese company shares IP rights with a Taiwanese company in China, or a Japanese company and a Taiwanese company jointly file an application in China, it could be possible for such Japanese companies to utilize the "Cooperative Mechanism" by asking their partner (i.e., the Taiwanese company) to be the applicant of filing.

As well, if the applicant or IP right holder is (a) a Taiwanese subsidiary of a Japanese company, (b) a joint venture (i.e., Taiwanese entity) of a Japanese company and a Taiwanese company, or (c) a Taiwanese company which has a partnership with a Japanese company, it could be possible for such Japanese company to utilize the "Cooperative Mechanism" by asking their partner (i.e., the Taiwanese company) to be the applicant of filing.

IV. Impact on Taiwanese IP system and future direction

TIPO states that the ECFA and IPR brought the following advantages to Taiwanese companies:¹⁵

(i) The mutual recognition of priority rights between Taiwan and China made it possible for Taiwanese companies to take more flexible IP strategy.

(ii) As copyright certification to sell audio/visual products in China is conducted by Taiwanese agencies, it became much easier for Taiwanese companies to sell copyright products in China.

(iii) The "Cooperative Mechanism" is marking a new milestone in IPR protection and exchange between Taiwan and China.

Furthermore, to sum up the opinions of Taiwanese experts I interviewed, the Cross-Strait IP cooperation activities have enhanced the Taiwanese IP system, and given Taiwanese companies strong incentive to obtain/enforce IP rights in China.¹⁶

However, in last few years, Cross-Strait IP cooperation seems to have settled down and no great progress in cooperation and harmonization activities has been observed.

Consequently, it is conceivable that the IP systems of Taiwan and China will maintain the status quo in the near future. But it is expected that they will keep communication and will influence each other.

¹⁴ This is the author's opinion based on an interview with TIPO's department in charge.

¹⁵ This description is based on an interview with TIPO's department in charge.

¹⁶ This is the author's opinion based on several interviews with Taiwanese experts.

Through these exchanges, their IP harmonization and cooperation could move forward.

V. IP strategy of Japanese companies in Taiwan and China

1. What do Japanese companies need?

According to the results of a questionnaire survey of 23 employees of Japanese companies with business bases in Taiwan and China, Japanese companies tend to be more concerned about IP activities in China than in Taiwan. Also, for Japanese companies, the counterfeit problem is the main concern in Taiwan, whereas in China they have wide-ranging concerns, from “usurped applications” (squatting) “to judicial procedure.”

As mentioned earlier, it is expected that the current systems of Taiwan and China will remain unchanged in the near future. It is advisable for Japanese companies to pay attention to the trend of cross-strait cooperation and to take a suitable IP strategy for each of Taiwan and China.

2. IP related activities of Japanese companies in Taiwan

Today, business partnerships between Japanese companies and Taiwanese companies are very active. In such business alliances, how to handle IP rights is an important issue. For example, it is necessary to carefully consider who should be the applicant. In addition, Japanese companies should be sensitive about leakage of confidential information.

Interviews with experts revealed the following points: most Taiwanese branches of Japanese companies are so small that it is not easy for them to handle IP problems in the Taiwanese market; and the communication between the Taiwanese branches and Chinese branches is not so active.

The Taiwanese IP system is different from the Japanese system in the following points: there is no regulation for indirect infringement in the Taiwanese Patent Act; and parallel import of trademark/patent goods is legally admitted. For these reasons, it would be difficult in Taiwan for Japanese companies to prevent selling of expendable supplies or parallel importing by third parties.¹⁷

With regard to patent infringement cases, there is no criminal punishment for patent infringement in Taiwan. Also, since many patent infringement cases are related to semiconductors and communication technologies, it is difficult to obtain evidence of infringement.¹⁸

For copyright and trademark infringement, it would be advisable to take criminal action in parallel with civil action. Recently, there have been many infringing cases using the internet. If a computer

¹⁷ This remark is based on several interviews with Taiwanese IP experts.

¹⁸ This remark is based on several interviews with Taiwanese IP experts.

server is installed in China, it is necessary to take legal measures also in China as well as in Taiwan.¹⁹

VI. Conclusions

1. Impact of Cross-Strait IP cooperation on Japan

The author believes that the Cross-Strait IP cooperation has brought the following benefits to Japanese companies: (a) as a result of the "Cooperative Mechanism," bad-faith trademark applications have been decreasing, (b) With help of affiliated companies in Taiwan, it could be possible for Japanese companies to take advantage of Cross-Strait priority rights and the "Cooperative Mechanism," (c) TIPO and Taiwanese companies have accumulated many valuable documents and experiences regarding IP strategy in China which would also be useful for Japanese companies.

2. Suggestions for Japanese Companies

Based on this research, the author's recommendations to Japanese companies are as follows.

First, if Japanese companies desire to obtain or enforce IP rights in Taiwan and China, it is advisable to consult with legal experts offering legal services in both areas.

Second, it is desirable that three offices of the Japanese company - the headquarters office, the Taiwanese branch and the Chinese branch - cooperate to share information and know-how on IP systems and strategies in Taiwan and China.

Finally, if a Japanese company has subsidiaries in Taiwan, they should communicate with each other to prepare the utilization of the priority right and the "Cooperation Mechanism" between Taiwan and China.

3. Conclusion

Through this research, I found that many Taiwanese people are attracted to Japanese companies and Japanese products, and that Taiwanese IP practitioners are actively working on services for Japanese companies. I would expect that Taiwanese companies and Japanese companies will cooperate with each other and develop new businesses by utilizing IP rights.

Finally, I hope that this report will be useful for Japanese companies seeking to expand their business in Taiwan and China.

¹⁹ This remark is based on several interviews with Taiwanese IP experts.