

# *Establishing an IP Protection Program in Taiwan*

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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 program for the protection of IP.

## **I. Identification of IP**

The first step in developing a comprehensive IP program 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, minimize 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, trademarks, trade secrets, copyrighted materials and other IP along with applications, registrations, licenses, 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.

## **II. Creation of IPR**

The IP laws of many countries are shaped largely by international norms. Due to its uncertain sovereign status, 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.

In Taiwan, copyrights include economic rights, which protect the owner against lost revenue, and moral rights, which protect the integrity of the work and reputation of the author. Economic rights may be licensed or otherwise transferred; moral rights may be waived but may not be transferred. Economic rights are protected for the life of the author plus 50 years; moral rights are protected indefinitely. In June 2003, the Copyright Act was amended and the exclusive right to make temporary reproductions of a work was added, so that even downloading of data on a computer may constitute infringement regardless of whether the data is saved to a disk or hard drive. However, violations of economic rights may be permitted under

Taiwan's "fair use" exception, which is almost identical to that of the US (fair use depends on the purpose and nature of the exploitation, nature of the work, amount of work exploited and effect of the exploitation on the work's value and market). Violations of moral rights may not qualify as fair use.

### ***Trademarks***

Unlike the US, Taiwan has no common-law system of trademark protection and one must register a mark in order to gain the exclusive right to use the mark in connection with sales of goods. Taiwan essentially employs the same classifications of goods stated in the Nice Agreement although Taiwan is not a signatory to the agreement. In addition to trademarks, Taiwan law allows for registration of service marks, certificate marks (used to certify characteristics of goods or services) and collective marks (used to identify a business or social organization). Although trade dress is currently ineligible for protection in Taiwan, such protection should be available by the end of 2003 pursuant to recent amendments to the Trademark Law.

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 8 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 3 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***

Three types of patents are granted in Taiwan: invention patents, utility model patents and design patents. As in the US, a patent will only be granted to something that is new, useful and non-obvious. Novelty means the device does not utilize conventional technology or prior art and is not "known by the public," unless it is known due to a public disclosure that was made without the applicant's consent. Useful means it is "industrially applicable." Non-obvious means it would not be obvious to a person of ordinary skill in the relevant art. In Taiwan the owner of a patent has the exclusive right to manufacture, sell or license a device for 20 years in the case of inventions or 12 years for utility models and designs.

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 by filing an "opposition action" within three months from the publication, but that procedure has been eliminated. As with trademarks, 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, program, 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](http://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.

## **III. 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 utilizing 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 at Section II, 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 2 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 unauthorized 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 signing 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, modification, 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 license 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 relationships 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 authorizing injunctive relief in the event of a breach.

## **IV. Investigations and Enforcement**

Regular searches should be performed for infringing trademarks, service marks, company names, logos and domain names as well as patent and trademark 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.

In Taiwan, an IP owner that possesses credible evidence of counterfeiting will ordinarily file a criminal complaint possibly followed by a civil action. For a number of reasons, one rarely files a civil action alone. First, the criminal action usually begins with a raid of the suspected infringer's premises, during which evidence may be seized, infringers arrested and a prosecution commenced; second, many of the civil discovery procedures that are available in other countries are lacking under Taiwan's legal system, but evidence obtained in a criminal action may generally be used in the civil action;

and third, the criminal action often provides leverage that facilitates a settlement of the civil action (Taiwan's judges tend to impose reduced criminal penalties in the event that a corresponding civil action is settled).

If evidence gathered by the IP owner appears to be insufficient to support a criminal action, the owner's counsel will often send a Cease and Desist letter to the suspected infringer, stating the facts, demanding that the infringer immediately cease its infringing conduct, undertake not to infringe in the future and/or pay compensation. Warning letters can also be distributed as general notices or published as press releases to indefinite targets. One should be careful about sending such letters to any downstream manufacturers or importers of direct competitors, however, as that could be deemed a violation of the Fair Trade Law. In the event that a company has contractual relations with the suspected infringer, it may be appropriate for the letter to include a request to inspect the plant or other facility.

### ***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, notarized, 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.

### ***Penalties and Remedies***

Taiwan's penalties for IP infringement are often criticized as inadequate. For example, the June 2003 amendments to the Copyright Act were criticized, because they created a separate, not-for-profit category of infringement, under which lesser

punishment is authorized, and they removed floors that had existed on jail sentences. As amended, unlawfully reproducing a work with "intent to profit" is punishable by no more than 5 years in prison and a fine of between NT\$200,000 and \$2 million (US\$5,900 to \$59,000).<sup>1</sup> Unlawfully reproducing a work "without intent to profit," where there are fewer than 5 copies or the market value of the infringing goods is less than NT\$30,000 (US\$900) is punishable by no more than 3 years in prison and/or a fine of up to NT\$750,000 (US\$22,000).

The size of any fine imposed under the Copyright Act depends on the financial condition of the offender and the value of benefits derived from the infringement. In the event that such benefits exceed the upper cap allowable for a fine, the cap may be lifted. The greatest penalties are reserved for "vocational infringers." Infringing as a vocation is punishable by between one year and seven years in prison, and if such infringing involves pirating of optical disks a fine may be levied in an amount between NT\$800,000 and \$8 million (US\$24,000 to \$240,000). In addition to fines and imprisonment, Taiwan law also allows for the seizure of counterfeit products and the equipment used to manufacture them. In some cases an IP owner may be allowed to seize other assets, such as bank accounts or real property, so in cases such as that it is obviously advisable to conduct an asset search regarding the infringer. Depending on the case, it may even be possible to confiscate the infringer's assets through provisional seizure, after depositing a bond with the court.

Under the Trademark Law, a party who (a) uses a mark that is identical to a registered mark on goods or services of the same class, or (b) uses the same or a confusingly similar mark on similar goods or services that is likely to result in consumer confusion may be punished by imprisonment of not more than 3 years and a fine of not more than NT\$200,000 (US\$5,900). Knowingly selling, displaying for sale, importing or exporting any such goods may result in imprisonment of not more than 1 year and a fine of not more than NT\$50,000 (US\$1,500). The offending goods may be confiscated regardless of whom they belong to.

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<sup>1</sup> All US dollar figures cited herein are rough approximations based on the currency exchange rate as of October 27, 2003.

Unlike the above laws, Taiwan's Patent Law contains no penal provisions. Previously, the Patent Law authorized criminal actions against suspected infringers, government raids, criminal fines and prison sentences, but those provisions were eliminated when the Patent Law was amended in early 2003. Consequently, actions for patent infringement in Taiwan must now be brought as civil actions, limited by Taiwan's minimal discovery process and other limitations. As a result, owners of patents that have been infringed may want to consider whether their Copyrights were also infringed – through the unlawful reproduction of schematics, promotional literature, driver software, or other copyright protected matter – in order to justify a possible criminal action under the Copyright Act.

## **V. Conclusion**

A comprehensive IP protection program 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, trademarks, 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 programs. In Taiwan, such a program 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 program 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 program, it may be worthwhile to pay for advertisements educating the public about industry-group reward programs such as those mentioned above.

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

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