Interview with Esther Lim, Managing Partner, Finnegan

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Finnegan is a leader and expert on the topic of intellectual property and it entered Asia in the late 1980s with an office in Tokyo yet China only very recently. Can you provide what the initial impetus was to enter China as well as the operations here since 2008?

As a firm, we have been interested in China for many years. Since the early 2000s, we have been regularly coming here to work with both local and multinational companies doing business in China. Over this early period, we received a really enthusiastic response for our services. We also developed stronger ties to the government and associations in China during a period of rapid market growth. Thus, the firm decided to establish a physical presence in China to better serve the market. The decision to open an office was made several years ago but the regulatory approval process takes time. Finnegan was fortunate to receive the government’s approval in the spring of 2008 and we opened the Shanghai office in June of 2008. It has been over a year since the opening, and we have been very pleased with the positive response from all sectors of IP, including private companies, the government, bar associations, and others who are trying to learn more about US legal systems and its IP framework. We are happy to be working with everyone to serve our clients and to educate the market in China.

You were very involved in the DC community back in the US; how did Finnegan convince you to come and start the Shanghai office?

The chairman of the firm approached me in 2006 to ask that I consider serving as the founding manager partner to open and manage the Shanghai office. Although I had been to China on many occasions for business and had developed some good ties, I had not considered moving to China because of my deep connections to the DC community. Given the rapid growth of the Chinese economy and its IP system, however, the prospect of working here in China was intriguing. Well, the rest is history, as the saying goes. Today, I am honored to be serving the firm in this capacity.

As you know, it is a general suspicion in the West that IP laws in China are not up to par with global standards. Do you believe this stigma is warranted? Is it dissolving over time?

There have been significant improvements in recent years. China's national IP strategy and other efforts have made it very clear that, from the top level of government down, IP has become a focus of primary importance. China recognizes how critical IP is to developing an innovative market, and in the pharmaceutical area both for traditional and western-style medicines. As you are aware, the Third Amendment to Patent Law became effective on October 1, 2009, which is another indicator of China's commitment to respecting IP and improving the legal system. These changes are remarkable in the short time period that IP has been relevant to the market. Even in the US with an IP system that has been around for over two hundred years, there are still continuing changes by the legislature, the agencies, and the judiciary. The legislature has been working on patent reform bills. The US Patent & Trademark Office is considering new regulations that could fundamentally change how we prepare, file, and prosecute applications. The courts are facing significant issues–such as what can be patented–that will have a huge impact on not only in the hi-tech and software industries but in the medical and pharmaceutical sectors as well. The US Supreme Court will review patent eligibility in a closely watched case called Bilski, which will be argued on November 9th. Thus, even the US, which has had many more years to deal with IP issues, is undergoing great change. China's IP framework is also changing, and a lot of credit should be given to the government for catching up as quickly as it has and implementing new laws and regulations.We have spoken with several biotechs that have noted many of the laws here are geared towards a generic manufacturing framework and that their biggest problem is trying push through laws for innovative new patents.

Do you see this changing in a more rapid pace here than in the US? What is the impact of having the government hand down laws in China?

The debate between the rights of pioneering and generic companies is an ongoing issue. The US is also struggling to find the right balance. China is an emerging and developing market so it is natural to see a greater focus on the generic industry. However, there is also great interest and focus on fostering innovative pharmaceutical research. It requires so much research and investment to discover a successful product. Chinese companies focused on R&D recognize the worldwide market as their stage, and as you have more innovative companies, the laws will catch up and address the needs of the industry. Many multinational companies have been coming to China for years to take advantage of cost savings in manufacturing opportunities.

Do you see any trend indicating foreign companies are coming to do research or more IP-heavy activities in China?

Yes, I have definitely seen this development. I have spoken with many IP counsels of multinational pharmaceutical companies with operations in China. One of the challenges facing pharmaceutical companies with an innovative focus is accessing key research personnel who can come up with new ideas leading to commercially viable applications. It takes a large team, including key scientists, to research and develop an innovative solution. While previously, many scientists would go to the US for their education and stay to work, it has become increasingly popular to return to their home country– for example, to China–as its market develops and provides excellent opportunities. These ‘sea turtles’ are interested in working with Chinese companies to develop new drugs and be a key player in an exciting stage of potential growth. As you have more people returning to China, there is more personnel available for research and innovation for both multinational and domestic companies. With lower compensation levels and an increasing talent pool, more and more companies will find China an attractive market to conduct research. Companies are setting up systems, if they haven’t already, to facilitate this transition and to conduct research in China.When multinational companies come to the Chinese market they don’t know the market or the culture and they are often scared of hazards such as getting into a bad joint venture and having difficulties distinguishing IP ownership down the line.

Can you speak to what multinational companies can do to protect themselves from these situations and how to better work with their partners here?

Many multinational companies that establish their research facilities here seem to not only have people coming from outside the country but also has a good team from within China. A well-managed company takes advantage of the knowledge and insights from both sides in order to bring an international model and localize it to the Chinese market. The companies that are successful do this very well, but it clearly poses a challenge. There are differences in business culture, customs and legal framework. As such, many companies seek the advice of good, local lawyers as well as international law firms to ensure compliance with the IP laws of both countries and to maximize IP value. We have noticed in several recent, large cases that multinational companies have been able to defend their IP, the most recent example of which is Eli Lilly with their drug Cialis.

Is this a trend towards better government protection and an acknowledgement to the importance of IP?

This has become more common in not only the pharmaceutical industry but the IT industry as well. There have been larger damage verdicts issued in a number of cases and a willingness to uphold strong patents. I believe this is only the tip of the iceberg for stronger IP enforcement here in China. Many have noted throughout the regulatory framework in China there is a variation in enforcement between larger cities that have dealt with foreign investment for years and those that are farther out to the west and are still developing. At the same time many of the advantages that companies are looking for, such as cheap labor are outside of the developed regions.

Is there a balance to be struck here and what do you advice do you give to your clients?

It is very much a business decision and, since IP is critical to a pharmaceutical company, IP should be one of the primary factors in deciding where to locate R&D facilities. You need to manage and oversee research and ensure that IP is properly protected. Aside from patents, trade secrets often pose a key challenge to managing IP in China. As to enforcement trends in relation to geography, I would note that while it is a frequently discussed topic in China, it is not a concept unique to this market. Even in the US, forum shopping is often discussed–for example, the Eastern District of Texas.One of the cases that made a huge splash in recent months is the Centocor vs Abbott case in the Eastern District of Texas where the jury ruled in June for a record-breaking $1.67 billion in damages. That case demonstrates the remarkable power that a patent can yield, and serves as a good lesson for companies that may question the value of their investment in IP. Clearly, IP matters in courts and in the market place. You may be stopped from selling your product because of a competitor’s patent that is valid, enforceable and infringed. Even cases with smaller damages, whether in China or the US, help to educate and incentivize companies to be competitive in the future. If you want to be a global competitor in this market, you have to recognize the value of IP. A recent survey of S&P 500 companies in the US shows that 80% of their market valuation is based on intangible assets of which IP is a key component. Clearly, IP is critical on the road map of a company’s innovation and success.

What would you say is the major role Finnegan is playing in China to help bring the same level of patent security that exists in the US to this market?

Our office focuses on several areas. We, of course, provide direct assistance as we work with domestic and multinational companies on a wide range of IP-related projects covering all aspects of IP including prosecution, litigation, licensing, opinions, due diligence, and portfolio management.

We also work with the community to raise IP awareness, which we do by giving presentations, participating in seminars, developing courses and visiting companies. It’s important to educate the relevant people, whether they be in business or legal roles, on how to identify, protect and monetize IP. We help them plan, build and enforce their IP portfolio. We have cooperated with many government agencies, bar associations, industry groups, and private sectors to teach on topics relating to US IP laws and practice. For example, starting in 2010, we will teach a new IP course for post-graduate law students at Renmin University School of Law. We also write and publish extensively to help inform the Chinese community about the latest IP developments and trends. Finnegan has been here for a year and as we have seen across the entire pharmaceutical industry, whether it be in law, banking or biotech there is a ‘talent war’ going on for the best people. Even though there are many returnees and new university graduates, there is an influx of multinational companies and a rising number of domestic firms competing for a limited pool of people.

How do you attract the best representatives for your practice in Shanghai?

Finnegan has been fortunate to attract a large group of very talented individuals with Mandarin speaking capabilities. There are about 40 Mandarin-speaking lawyers, student associates, and technical specialists who cover all technical disciplines. Many earned their bachelors degree in China and moved to the US for advanced technical degrees before being introduced to the wonderful world of IP. We continue to receive inquiries from many talented candidates.

Do you have a final message to the readers of Pharmaceutical Executive on behalf of Finnegan?

We are honored to have an office in China and to work with the companies, agencies and the government. We greatly appreciate the positive responses we have received at all levels. Our office has been extremely busy and growing faster than we anticipated. We remain optimistic about the future of China and IP. China sure feels like the Wild Wild East.

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