

# CHINA BUSINESS REVIEW

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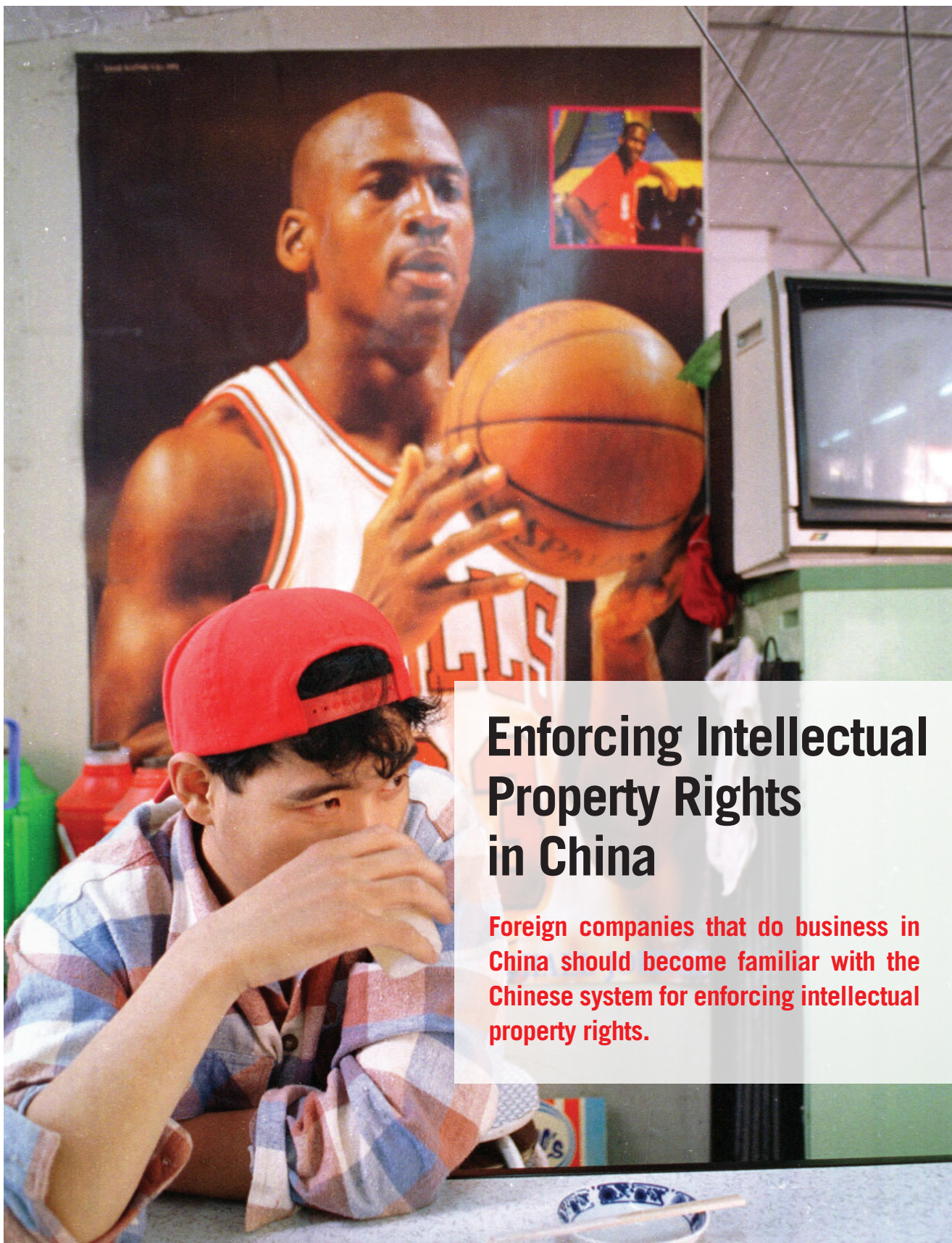
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SPECIAL REPORT ON  
INTELLECTUAL PROPERTY RIGHTS

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# INTELLECTUAL PROPERTY RIGHTS

BY THOMAS I. ROSS



## Enforcing Intellectual Property Rights in China

Foreign companies that do business in China should become familiar with the Chinese system for enforcing intellectual property rights.

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China's oft-stated reputation for being lax on protection of intellectual property rights (IPR) can deter foreign companies that want to do business in the world's second largest economy. While enforcement of copyright protection is still difficult in China, it is possible to win court cases or protection through administrative rulings in the areas of patents, trademarks, and trade secrets. But the only way for IPR holders to succeed is to familiarize themselves with China's system of enforcement.

### ENFORCEMENT OF IPR IN CHINA

Civil enforcement of IPR in China is a two-track system. The first is the administrative track, whereby an IPR holder enlists the aid of a local government agency office (see p. 26). The second is the judicial track, whereby complaints are filed through the court system.

Those who take the administrative route are almost exclusively Chinese. Set up in the provinces and some cities, these local government offices operate as a quasi-judicial authority and are staffed with people who specialize in their respective areas of IP law. If they are satisfied with an IPR holder's complaint, they investigate. The authorities can issue injunctions to bring a halt to the infringement, and they can even enlist the police to assist in enforcing their orders. But agency officials do not have the authority to award monetary damages. Also, there is no established appeal procedure, so if a party is dissatisfied with the agency's decision, it has to take the case to court to change the result.

The court procedure in China is the most popular method chosen by foreign companies for IPR enforcement for two reasons. First, IPR holders based outside of China are familiar with going to court to enforce their IPR. Second, administrative proceedings in China cannot award monetary damages. The time to trial in a Chinese court is usually less than a year from the filing of the complaint. (The conventional time to trial in the United States is at least two years.) However, in China, a court case for patent infringement is usually delayed to await the result of an invalidity determination, which is not decided by the court. In China, if a patent is contended to be invalid as a defense to infringement, that determination must be made by the State Intellectual Property Office (SIPO), China's patent office, and usually takes one to two years.

Upon filing of the complaint and receiving a timely answer by the accused infringer, the

court usually gives the parties a few months to submit their evidence in preparation for the trial. The court will usually forward a copy of the evidence submitted by one party to the other party, and may arrange a separate hearing to give both sides the opportunity to challenge the veracity of the evidence. The trial consists of opening statements by the parties, a court-conducted investigation of the evidence and witnesses, a debate usually under questioning by the court, and brief closing statements. After the trial, the court will issue a written decision unless the court requires further hearings.

There is no discovery procedure, as there is in the United States, whereby revealing documents are produced, and development, sales, and profit information are revealed to the lawyers for the opposing party. Therefore, actual damages for infringement are difficult to determine given the lack of information on sales numbers and profits. Statutory damages are adopted in most cases. Under the current patent and trademark statutes, the maximum amount is ¥1 million (\$158,000). Because this amount is relatively insignificant and only reached in exceptional cases, IPR owners do not typically litigate in China for the purpose of recovering significant damages. Instead, they do so to secure a court injunction against further infringement.

### NOTABLE CHINESE IPR CASE LESSONS

A few IPR enforcement cases in China have been widely reported and illustrate lessons for foreign companies experiencing IPR enforcement issues in China.

#### *Patents*

In 2006, the Chinese subsidiary of the French company Schneider Electric SA was sued by the Chinese company Chint Group Corp. for patent infringement in the Intermediate Court located in Chint's home city. Chint claimed that Schneider Electric had infringed on Chint's utility model patent relating to circuit breakers. In its defense, Schneider filed a patent invalidation petition with SIPO. In April 2007, SIPO affirmed the validity of the Chint utility model patent.

The Intermediate Court moved forward with the infringement case and insisted that Schneider produce certain tax information to determine the company's sales and profits on the alleged infringing products. The infringement trial was held, and in September 2007 the court found Schneider was infringing

## QUICK GLANCE

- » Companies can pursue administrative or judicial avenues to enforce their intellectual property rights (IPR) in China
- » IPR owners do not typically litigate in China for the purpose of recovering significant damages because the damages awarded are usually small.
- » Copyright infringement is one of the most significant IPR enforcement issues.

Chint's patent. The court issued an injunction against Schneider and awarded \$49.2 million in damages to Chint. While on appeal, Schneider and Chint settled.

It is perhaps significant that this infringement suit was brought in Chint's home city. Because local protectionism is a concern in China (whether in a local court or agency office), foreign companies should consider preemptively bringing a suit in whatever may be considered their home court in China. For example, PRC law provides that an infringement lawsuit can be brought in the place of infringement—wherever the infringing product is sold—not just the place of defendant's domicile. PRC law permits a party accused of infringement to bring a declaratory suit in its home court seeking a judgment of non-infringement. A foreign company accused of infringement could also file an invalidity challenge with SIPO as a way of warding off a patent infringement suit.

### **Trademarks**

Two similar trademark cases are notable for their different outcomes. The first concerns Yi Jianlian, a famous basketball star in China. A Chinese sports products company registered the trademark "Yi Jianlian" even though there was no business relationship between Yi and the company. The PRC Trademark Law says that no trademark shall prejudice another person's existing prior rights in a trade name or the right to exploit their own famous name. Yi filed a cancellation action with State Administration for Industry and Commerce (SAIC) and provided substantial evidence to establish his popularity in China before the filing date of the trademark. On that basis, SAIC ruled that Yi owned name rights, and canceled the company's trademark.

However, when former National Basketball Association superstar Michael Jordan took a similar matter to court in China, he lost. In 1998 and 1999, Qiaodan Sports, a Chinese maker of sports products, filed trademark applications for "qiaodan," which is widely recognized in China as the translation for "Jordan." Qiaodan Sports used "qiaodan" as its products

## **CHINESE AGENCIES INVOLVED IN IPR ENFORCEMENT**

Administrative enforcement of IPR is unique to China. Here are the major agencies able to conduct enforcement actions.

- » **State Administration for Industry and Commerce (SAIC)**  
The Trademark Office, under SAIC, is located in Beijing and has authority over trademark registration and enforcement of trademark protection. SAIC can receive trademark applications and register trademarks. It also has the power to cancel a registered trademark, order that the sale of infringing items cease, order the destruction of infringing trademarks or products, impose fines, and remove machines used to produce counterfeit goods. Under the Law to Counter Unfair Competition, local AIC offices have been established in the provinces for administrative enforcement of trademark rights. The local offices address trade secret misappropriation and other unfair trade practices, such as trade libel.
- » **State Intellectual Property Office (SIPO)**  
SIPO at the national level serves as the patent office, which examines and issues patents. However, SIPO also oversees local IPO offices, which have authority to investigate and bring a halt to clear cases of patent infringement.
- » **National Copyright Administration (NCA)**  
NCA is responsible for nationwide copyright issues, including registering copyrights, investigating infringement cases, and administering foreign-related copyright issues, including developing foreign-related arbitration rules. Though administration enforcement is available, NCA encourages complainants to use the court system due to lack of personnel.
- » **General Administration of Customs (GAC)**  
Chinese customs regulations ban the import and export of goods that infringe on IPR. The IPR holder must proceed at the port of entry or exit where protection is sought to register its complaint. If the investigation concludes there is infringement, GAC has the authority to confiscate the goods, and may destroy the infringing goods and impose a fine.

—Thomas Ross

trademark. A market survey conducted in Shanghai showed that 90 percent of the 400 Chinese citizens polled believed "qiaodan" was Jordan's brand. Jordan sued Qiaodan Sports for name right infringement in the People's Court of Beijing. Despite the undeniable fact that Jordan is world-renowned, the court held that "Jordan" is a common surname in the United States and therefore not sufficiently unique to create exclusive recognition for Jordan to own the name right to "qiaodan."

Jordan's lawyers have re-filed their name right infringement case, now in a different court, in Shanghai. Perhaps

the lesson from Yi's case is that Jordan should have started with SAIC, the governmental agency specializing in applying the trademark law for registering and policing trademarks, in his effort to cancel Qiaodan's mark.

### **Copyrights**

Since private party enforcement of copyright protections has not been effective, either because favorable judgments have not been forthcoming, or because infringers keep eluding punishment, copyright infringement is the most notorious of China's IPR issues. The United States and other countries even brought a World Trade Organization dispute

**CHINT GROUP CORP.** won \$49.2 million in damages in 2007 from Schneider Electric, which Clint accused of infringing on its circuit breaker patent.

over this matter in 2007. It seems that foreign business copyright holders have only achieved significant enforcement results when working in conjunction with Chinese law enforcement agencies as part of Chinese trade relations programs.

## STRATEGIES FOR ENFORCING IPR IN CHINA

Winning is unlikely if a company does not understand the rules of the game. Here are four litigation strategies to enforce IPR in China.

### *Citing precedent in a non-precedential legal system*

Unlike the United States, which has a common law legal system based primarily upon past judicial opinions that interpret legislation, China is a civil law country. Chinese judges make rulings based directly on statutes without regard to other court decisions. The judges make their decisions autonomously by requesting and challenging evidence, questioning the witnesses, receiving briefs and hearing arguments from legal counsel, and even consulting their own experts. Judges in China do not respond to precedent. But the Chinese Supreme People's Court (SPC) recently issued illustrative cases for reference in judging IPR disputes in the lower courts. These cases do not form a part of the law as they would under a common law system, but coming from the SPC they carry the weight of authority. Drawing the local court's attention between one's case and such illustrative cases should have a favorable effect on the ruling of the local court.

### *Exploit local relationships*

In China, the courts are not independent of the government as in the United States. Court appointments are made by the local government, and the local government depends on local companies for employment and tax income. These relationships tie local businesses to the courts. In the United States, it is considered inappropriate for a litigant or a prospective litigant to get to know the judge to improve their likelihood of success in court. In China,



however, conflict of interest is traditionally not a concern for Chinese officials. Foreign companies should try to establish contacts in the local government as well as the courts as part of doing business. Generally, the involvement of a Chinese lawyer or qualified agent to handle an IPR enforcement case in the court or before the local administrative authority will be a legal requirement. The goal for foreign companies should also be to identify local counsel with strong local relationships and a prominent reputation.

### *Seek an early injunction from an administrative agency*

Administrative enforcement of IPR is a feature particular to China. Local authorities may not be able to hear complex or highly technical IPR cases; however, they should be able to handle simple patent, trademark, or misappropriation cases. Foreign companies should not overlook this enforcement route simply because monetary damages are not available. Damage awards in China are generally modest anyway, due to the lack of discovery and statutory award limits. Also, if the attempt at enforcement by the administrative authority fails, a company can sue the infringer in court.

### *Obtain utility model patents*

China grants two levels of patents: invention and utility model. Invention patents are similar to utility patents in the United States. Utility model patents are different in that they are not exam-

ined, have a term of only 10 years, and can only be directed to the structure of an apparatus. Because they are quick and inexpensive to obtain and granted without substantive examination, utility model patents are often dismissed as lower quality patents vulnerable to invalidation challenges. This misperception has led many foreign companies to pay little attention to or even exclude them from their patent portfolios. However, since utility model patent applications are not substantively examined before issuance, a utility model patent holder can be in position to take infringers to court in a matter of months or up to a year from filing the patent application. As demonstrated by the *Chint v. Schneider Electric* case, the consequence of infringing a utility model patent is no less devastating to the accused infringer than with a regular invention patent.

Except in the area of copyright enforcement, there are procedures and remedies in China that are effective for enforcing the gamut of valid IPR. However, those procedures and remedies are China-centric, which is what foreign companies need to accept if they wish to enforce IPR in China.

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