

PROTECTING PATENT RIGHTS IN THE PEOPLE'S REPUBLIC OF CHINA

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I. INTRODUCTION

The Background

Counterfeiting has always been an integral part of the economic and technological development of developing countries. Many businessmen of these countries, before injecting funds to their own manufacturing bases to support extensive scale of research and development, have gone through a phase of pilfering intellectual creations and designs from developed countries. It will not be startling to learn that South Korea and Taiwan owe their tremendous success to the United States and other western countries partly as a result of such practices. During the 1970s, the former nations strategically "borrowed" hi-tech blueprints, creations and designs which undoubtedly equipped their countries with advanced know-how and state-of-art technology in a very short period of time. The result was that the economies of South Korea and Taiwan ultimately flourished. Thus it is not surprising that the current hot spots for producing counterfeit products are those developing countries that have under-performing economies and low manufacturing bases, or countries that do not have adequate laws and regulations in place to stem intellectual property infringements.

In the case of the People's Republic of China (the PRC), the government faces a difficult situation. On one hand, the PRC needs to boost the growth of industry and to increase efficiency through technological advancement. This can easily be achieved by turning a blind eye towards counterfeiting activities. On the other hand, there is a pressing need for the country to absorb international investments at full speed. This requires an overt demonstration to the whole world that a comprehensive system of protection for intellectual property is in place. Everybody is watching the PRC attentively with respect to its intellectual property law implementation and enforcement.¹

There is no doubt that, in response to the upsurge in the number of counterfeiting activities in the last decade, the PRC authorities have put in a lot of effort to establish an all-inclusive legal framework and to strengthen the enforcement of intellectual property rights' protection. Various intellectual property protection authorities have also been established to counter infringements.

Nevertheless, infringement of intellectual property rights remains a concern for most investors in the PRC. Protection of corporate intellectual property is still an issue at the top of the agenda in many boardrooms. The intellectual property rights that call for legal protection include three areas, namely, patents, copyrights and trademarks. The objective of this paper is

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1 See Simon Cheatham, "Practical Protection for Intellectual Property" (1995) December *China Business Briefs*, p.7.

to discuss current measures available in the PRC to protect the rights of patentees and analyze existing problems with a view to finding possible solutions.

Pressure from the United States

Intellectual property is one of the major issues between the PRC and the world economy. It is not simply an offshoot of political and economic negotiations between the US and the PRC. It also concerns how far and how fast the PRC should commit to Western business norms and regulatory frameworks.²

Although intellectual property law in the PRC has been modernized and become more closely aligned with the laws of the industrialized nations, there are still concerns that the PRC is weak in enforcing intellectual property laws. More recently, continuous controversy over the PRC's intellectual property rights' protection has strained bilateral trade relations between the PRC and the US. The Special 301 provision, one part of the *US Omnibus Trade and Competitiveness Act 1988*,³ was designed to increase US leverage in trade negotiations in which the US seeks to promote international trade liberalization. The provision directed the US Trade Representative within thirty days after the issuance of the National Trade Estimate Report to identify those countries which denied "adequate and effective protection of intellectual property rights" or "fair and equitable market access to the US persons who rely on intellectual property protection".⁴

Concerned with the lax of enforcement of intellectual property laws by PRC officials, on November 30, 1993 the US Trade Representative Mickey Kantor switched the PRC from the "watch list" to the "priority watch list" which gives the names of countries that failed to protect the intellectual property investment of the US business people. Further disgruntled by successive failures of the PRC to fulfill its promise to prevent intellectual property piracy,⁵ on June 30, 1994 the US put the PRC under the "priority foreign country" category under the *Omnibus Trade Act "Super 301"* provision. Under this provision the PRC would suffer trade sanctions with financial penalties equal to the amount of losses suffered by US business people through theft of their intellectual property.

In 1995, the U.S. and the PRC entered an Agreement Regarding Intellectual Property Rights, which contained an Action Plan for the Effective Protection and Enforcement of Intellectual Property Rights.⁶ The Action Plan proposed that the PRC should establish four mechanisms in order to strengthen intellectual property protection. First, the PRC should establish an administrative network of provincial, regional and local administrative agencies and an Intellectual Property Working Conference for assisting the network for handling intellectual property infringement

2 "Intellectual Property Agreement: an End of All Trade Wars" (1996) July *China Business Briefs*, p.16.

3 Rupert Ross-McDonald, "Development in Intellectual Property Protection and Enforcement in the PRC" (1966) 5 *Asian CLR*, p.222.

4 Xiaolin Zhao, "US-China Trade Dispute and China's Intellectual Property Rights Protection" (1992) 24 *New York University Journal of International Law and Politics*, p.1117-9.

5 See Henry JH Wheare, "Intellectual Property: China Unrewarded Efforts?" (1996) June *China Law and Practice*, p.38.

6 The Action Plan was signed by the Minister of the Foreign Trade and Economic Co-operation Ms.Wu Yi and the former US Trade Representative Mr. Michael Kanter on February 26, 1995.

cases. Second, the US required the PRC to direct her organs to fight against infringing activities. The Customs, the People's Courts, the Administrative Authorities and related organs must strengthen their intellectual property protection. Third, the PRC should adopt tough deterrence against the infringers: besides paying civil compensation to the intellectual property rights owners, the infringers should also be subjected to criminal sanctions of fines and imprisonment. The infringing goods should be seized and destroyed. Fourth, a temporary measure was proposed which required the PRC to set a specific enforcement period for nationwide campaign against infringement activities. Infringers against intellectual property rights in this period were to be severely penalized.

A year passed and the US was still unsatisfied with the PRC's performance. The US criticized the PRC for its lack of intellectual property rights' protection and threatened the country with the possibility of trade retaliation. However, the PRC claimed that it had comprehensively and earnestly implemented its obligations by promulgating a series of laws and regulations in this field and improving the law enforcement and supervision as well as the management over intellectual property.⁷ The two countries then entered into another agreement in 1996 under which the PRC promised to impose stiffer penalties, extended the special enforcement period, and tightened the supervision of the Working Conference.

II. PROTECTING PATENT RIGHTS: THE REGULATORY FRAMEWORK

Domestic Regulations

Patent Law of the People's Republic of China and its Implementing Regulations

Outsiders would question the sufficiency of the laws and regulations in the PRC even though it is claimed that blanket protection for intellectual rights has been offered. The basic law governing patents is stipulated in the *Patent Law* which was introduced in 1985 and amended in September 1992. It was drafted with the purpose of expanding the scope of patent protection and "upgrading the Chinese patent system generally in conformity with international practice".⁸ It provides a system for protecting inventions, simple inventions and designs by patents, utility models, and design patents.⁹ Since many categories of advanced technologies came into existence after the *Patent Law 1992*, the second revision of the *Patent Law* was proposed in 1995 to extend the patent protection for agricultural seeds and other areas of technologies. It is expected that the second revision will come into effect before 2000.¹⁰

7 "China Trade Monetary criticizes Special 301 Intellectual Property Rights Listing" *BBC Summary of World Broadcasts*, May 6, 1996.

8 For how the Patent Law 1992 was "upgraded", see Peter Feng, *Intellectual Property in China*, Butterworths, Hong Kong, 1997, pp.145 - 149.

9 For detailed discussion of the patent rights application and examination procedures, requirements for patents, rights and obligations of patentee, see Gui Guo Wang, "Integration of the Intellectual Property Laws of China - the Chinese Experience", in *Yearbook Law and Legal Practice in East Asia*, eds A.J. de Roo and R.W.Jagtenberg, Kluwer Law International, Netherlands, 1996, pp.66 - 79.

10 *China Daily*, 28 March 1995.

Infringing activities are defined as the exploitation of the patent without the authorization of the patentee.¹¹ Acts of infringers which include passing any unpatented product off as a patented product or passing any unpatented process off as a patented process constitute an infringement.¹² The patentee (or any interested party) may request the appropriate Administrative Authority (see below) to handle the matter, or may institute legal proceedings in the People's Court. If the circumstances are serious, the infringer may be prosecuted for criminal liability under the Criminal Law.

The Implementing Regulations of the PRC Patent Law were first adopted in 1984 together with the first version of the *Patent Law* and were subsequently revised in 1992 with the corresponding amendment. Its function is to fill in the procedural details involving the applications of patents, utility models and designs filed under the *Patent Law*.

Regulations from Customs

On October 1 1995, the *Regulations on the Protection by Customs of Intellectual Property of the PRC (the Customs Regulations)* were promulgated to provide a recording system and more efficient procedures for the Customs in handling items of imports and exports that infringe intellectual property rights, including patent rights. The details of the *Customs Regulations* are provided in the *Detailed Implementing Procedures for Protection by Customs of Intellectual Property* which were promulgated on the same date.¹³ These regulations forbid the importing or exporting of goods that violate Chinese Law, including the *Patent Law*, and the Customs may use their legal powers to protect intellectual property. Consignees of imports and the consignors of exports must now report to the Customs on the intellectual property related matters and to provide documentation for inspection. The patentee under the *Customs Regulations* has the right to require the Customs to take positive steps in protecting his patent rights, like seizure and confiscation of suspected infringing goods if he reports the record of his patent rights to Customs.¹⁴ The Customs will keep the records for seven years and are empowered to penalize infringers.¹⁵

On March 11 1997, the *Regulations of the General Administration of Customs and the China Patent Office on Several Issues Concerning the Implementation of Customs Protection of Patents (the General Regulations)* were jointly promulgated by the General Administration of Customs and the China Patent Office. These *General Regulations* were based on the 1995 *Customs Regulations* for effective implementation of the Customs protection of patents as well as for legal protection of the legal rights and interests of patentees. The *General Regulations* provide guidelines on the change or cancellation of recordings and define the patent administration authorities as those established by the State Council under Article 76 of the *Implementing Regulations*. They also make provision for application for protection, investigation of goods, as well as the mutual co-operation between the patent administration authorities and the Customs.¹⁶

11 Article 60 of the Patent Law 1992.

12 Article 63 of the Patent Law 1992.

13 The Procedures provide detail on the system of registrations of intellectual property with Customs, applications by the intellectual property owners for the protection enforcement and handling of investigations by Customs. See "Customs Protection of Intellectual Property" (1995) December *China Business Briefs*, p.4

14 Article 6, 8 and 23 of the Customs Regulations.

15 See "Customs IP Regulations Issued" (1995) August *China Business Briefs*, p.5.

16 See *China Legal Developments Bulletin*, Baker and McKenzie, Vol.4, No.6, July 1997, pp.13-14.

Criminal Law

The *Criminal Law of the PRC* has been significantly amended and a new version was promulgated on March 14, 1997 and came into effect on 1 October 1997. It has “essentially codified the criminal laws and regulations and contribute[d] a more uniform and comprehensive legal system in the PRC”.¹⁷ The new *Criminal Law*, with a total of 452 articles, categorizes intellectual property offences under the Chapter “Crimes Against the Order of the Socialist Market Economy”.

Article 216 of the *Criminal Law* provides that, where any person passes off the patent of another person, if the circumstances are serious, he shall be sentenced to a fixed term of imprisonment of not more than three years of criminal detention, and/or be sentenced to a fine. This Article is likely to be applied in situations where there is a large amount of illegal income, a heavy economic loss to the patentee, a repeated offence, or damaging political consequences at home or abroad resulting from the infringement.¹⁸

The Article is an adoption from the *Patent Law*¹⁹ which creates a criminal offence of “passing off the patent of another person” by making Article 127 of the *Criminal Law* 1979 applicable to patents as well.

Apart from Article 216, the *Criminal Law* also provides other regulations with universal application. For example, the infringing activity can be committed by both legal persons and natural person and the infringing activity can only be considered a crime if it is committed intentionally where the defendant must have the requisite knowledge of the illegality of his activity.

Criminal Procedure Law

The *Criminal Procedure Law* 1979 was also amended significantly and a revised version was promulgated in March 1996 and became effective from January 1, 1997. The old version stated that the patentee whose right was infringed might start legal action via the Administration for Industry and Commerce (AIC), which would then handle the case under its Administrative Authority, or file a law suit in the economic division or the intellectual property division of the People's Court. The AIC or the People's Court would then handle the infringement case by way of administrative or civil route. If the case was serious, the patentee might report to the People's Procuratorate who would decide whether or not the case was to be treated as a criminal case.

The new version of the *Criminal Procedure Law* provides that the criminal division of the People's Court can decide whether or not to classify the case as criminal.²⁰ In order to establish this, the patentee must show that, firstly, the infringing activity concerned amounts to criminal activities that lead to criminal sanctions under the PRC law, and secondly, the harm done to the patentee warrants legal protection. Lastly he ought to show that the People's Procuratorates have not investigated or prosecuted the matter for criminal liability before.²¹

17 For the reasons of amendment, see Susan Finder and Hualing Fu, “Tightening Up the Chinese Courts’ “bags” - the Amended PRC Criminal Law” (1997) June *China Law and Practice*, p.35.

18 August Zhang, “New Criminal Law Addresses Intellectual Property Infringement” (1997) August *Intellectual Property Asia*, p.36.

19 Article 63 of the Patent Law.

20 See Article 170 - 173 of the Criminal Procedure Law.

21 Shirley Kwok, “New PRC Criminal Procedures Enable Private Prosecutions” (1997) May/June *Intellectual Property Asia*, p.62.

Under the new *Criminal Procedure Law* the patentee, as well as the owners of other intellectual property rights, can take both civil actions and criminal prosecutions against the infringer.

Local Legislation

The *Patent Law* still remains unclear and imprecise in many aspects. Many provinces thus promulgate their own patent legislation, which prevails over the national *Patent Law* within the provincial territory. An example is provided by the *Guangdong Province Patent Protection Regulations* which took effect from 9 October 1996. They clarify ambiguities regarding to the scope of the investigative powers of the Administrative Authorities for Patent Affairs, and their precise authority to order cessation of infringing activities. Local legislation also supplements the national law and provides regulations for the particular needs of the province, which have not been covered under the national *Patent Law*. The *Guangdong Regulations*, for example, impose financial penalties on infringers in respect of the patent infringement, which penalties are missing in the national *Patent Law*.

Apart from supplementing the national *Patent Law* to fulfill the needs of a particular province, the provincial patent legislation can provide a guide for the future changes of the national law and an effective administrative route for patent enforcement.²²

Supplementary Regulations

There are also supplementary regulations which regulate particular kinds of invention-creations. For example, the *Regulations on the Administrative Protection of Pharmaceuticals*, promulgated on December 19 1992, provide a system of patent-like protection for pharmaceutical products which were not previously entitled to patent protection under the 1984 *Patent Law* and the amended *Patent Law* 1992.²³

International Agreements

Paris Convention for the Protection of Industrial Property

The *Paris Convention for the Protection of Industrial Property*²⁴ became effective in 1984. Pursuant to the *Paris Convention*, if a patent application for invention or utility model is first filed in another Convention-member country within twelve months from the filing date in the PRC, the prior filing date will be regarded as the priority date in the PRC. The relevant period is six months in the case of design applications. The term of patent protection for inventions is 20 years and the terms of patent protection for utility models and designs are 10 years.

Patent Cooperation Treaty (PCT)

The *PCT*²⁵ became effective on 1st January 1994 and enables a single "international application" to be filed with the right to designate a large number of different countries in one application. The vast majority of

22 Zizhen Bian, "New Patent Protection Regulations in Guangdong" (1996) December *China Business Briefs* pp.8 - 10.

23 See *Intellectual Property Protection in China: Practical Strategies*, Asia Law and Practice, Hong Kong, 1996, pp.94-95.

24 Paris Convention of March 20, 1883, as amended on October 2, 1979 at Stockholm.

25 Patent Co-operation Treaty, June 9, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231.

developed countries and a large number of the more important developing countries are now members of the *PCT* and as a result the *PCT* procedure is becoming an increasingly popular method of filing patent applications throughout the world.²⁶

Agreement on Trade-Related Aspects of Intellectual Property Rights, Including the Trade in Counterfeit Goods (TRIPS Agreement)

The *TRIPS Agreement* entrenches the general principles of the former GATT regarding “national treatment” and “most favored nation status” with respect to the following seven categories of rights: namely, copyrights, trademarks, geographic indications, industrial designs, patents, integrated circuit designs and trade secrets. Accordingly, the *TRIPS Agreement* binds member states to provide foreign intellectual property rights’ holders with the same rights of protection available to local nationals, and to provide member states with equal treatment offered by other member states. In conformity to the growing demands for treaty-based remedies, the *TRIPS Agreement* provides judicial injunctive relief and contemplates private damage award to compensate the losses of petitioners in infringement cases.

As the PRC is not yet a member of the World Trade Organization (WTO), it remains outside the scope of the *TRIPS Agreement*. However, since the PRC is actively attempting to join the WTO, successful entry would signify a willingness to be bound by the *TRIPS Agreement*. Although the PRC has taken a series of steps to bring current intellectual property rights regime in line with the *TRIPS* requirements, additional reforms by the government will be necessary in order to achieve full compliance.

III. PROTECTING PATENT RIGHTS: THE ENFORCERS

Administrative Enforcement

Article 60 of the *Patent Law* provides that, if any act of patent infringement arises, “the patentee or interested parties may request the Administrative Authorities for patent affairs to handle the matter or may directly file suit in the People’s Court”. Administrative enforcement of patent right is an alternative to judicial enforcement, which is not uncommon in many countries. It has the advantage of being economical, time-efficient and convenient, and is therefore widely used in the PRC.

Working Conference on Intellectual Property Rights

The State Council Working Conference on Intellectual Property Rights was established and led by the State Council and the concurrent director of the State Science and Technology Commission, and consists of the heads of various central departments, among them the China Patent Office, SAIC, Ministry of Foreign Trade and Economic Cooperation (MOFTEC), General Administration of Customs (GAC), Ministry of Foreign Affairs, and Legal Bureau of the State Council. The Working Conference has the main powers

26 See “White Paper: Intellectual Property Protection in China”, Information Office, State Council, June 1994, Beijing.

and functions of the State Council IP Working Conference which can be briefly described as follows:

- to coordinate, study, and decide on major policies and measures for the effective protection and enforcement of intellectual property rights, and to coordinate and organize enforcement activities among provinces, directly administered municipalities, autonomous regions, as well as central ministries and departments to achieve uniform and effective protection and enforcement of intellectual property rights;
- to monitor the implementation of laws and regulations on intellectual property rights, to organize and instruct the relevant authorities within regions and departments to investigate and substantially reduce infringement of intellectual property rights;
- to instruct and organize the relevant authorities within regions and departments to provide education on and publicity for the laws regarding intellectual property rights, to foster an understanding of intellectual property rights' protection among people throughout the country, and to improve the intellectual property law enforcement skills of leading officials at various levels of government, as well as the skills of enforcement personnel;
- to instruct that administrative, civil and criminal processes and sanctions are applied consistently and uniformly to all Chinese and foreign persons and all public, private, and nonprofit-organizations engaging themselves in infringing conduct;
- to direct and coordinate the work of the Sub-central Intellectual Property Working Conferences; and
- to issue directions to the provincial, directly administered municipalities, autonomous and city bodies coordinating and guiding intellectual property rights, so as to formulate action plans and work programs in their own localities for effective enforcement of the laws on intellectual property rights, as well as plans on providing information and education on intellectual property rights.

Apart from the State Council Working Conference, there are also sub-central Working Conferences established in provinces and directly administered by municipalities and autonomous regions for the purpose of organizing and carrying out activities within their respective jurisdictions under the direction of the State Council Intellectual Property Working Conference. The Central Working Conference will request the sub-central Working Conference to immediately formulate and carry out enforcement plans, and report the results of inspection once every week; and to popularize the law and run professional training programs.

Enforcement Task Forces

Under the Action Plan agreed by the US, the PRC promised to organize Enforcement Task Forces (ETFs), consisting of the SAIC, CGA, China Patent Office, and police at the national, provincial and city levels, to use their resources to initiate and carry out investigations of any suspected infringement of intellectual property rights. In cases where investigations involve more than one sub-central jurisdiction, the relevant sub-central Working Conference will organize and coordinate the ETFs to carry out investigations. Each agency participating in an ETF is required to give assistance to ensure effective enforcement.

ETFs have the following powers and functions:

- each ETF is entitled to look into situations in which there is reason to believe or suspect that there has been an infringement of intellectual property rights, to enter and search premises, review books and records for evidence of infringement and damages, and confiscate suspected goods and the materials and equipment directly and predominantly used to make them;
- when infringement is identified, ETF has the inherent authority to impose fines, order an abrupt stop of production process, or reproduction and sale of audio-visual products, revoke the permits for producing and reproducing audio-visual products, confiscate the infringing goods and the reproducing audio-visual products, and confiscate the infringing goods and the materials and equipment directly and predominantly used to make them without compensation;
- the authority to order the infringement to stop while the infringement case is being processed. The party seeking such relief may be required to provide sufficient security or equivalent assurance such as a bank guarantee to protect the alleged infringer and the competent authorities and to avoid abuses. The amount of such security or equivalent assurance shall not deter recourse to these procedures. Cases of infringements that are suspected to be of a criminal nature shall be passed over to the prosecutors as well as being subject to administrative actions. In each criminal case, the relevant authority will seek severe penalties against the infringer which are commensurate with the level of infringement;
- all sub-central level intellectual property protection and enforcement authorities participating in the ETF will undertake aggressive ex-officio actions against all types of intellectual property rights' infringement and investigate all complaints from intellectual property rights' holders, their representatives or their exclusive licensees filing their cases with the relevant administrative agency;
- foreign and domestic rights holders may submit petitions for investigations and enforcement actions to an ETF by addressing them to the contact person at that ETF. Petitions should be forwarded to the Administrative Authority within the ETF in charge of the intellectual property rights at issue for disposal of the case. Petitions will be accepted subject to uniform two-prong criteria: firstly, the authority has to determine whether or not there is reason to believe that the petitioner is the intellectual property rights' holder, and, secondly, that there is reason to believe or suspect that a right has been or may be infringed. Within 15 days of the receipt of the petition, the petitioner must be notified that the petition has been accepted or, if it is not accepted, notified in writing with specific reasons for its refusal. Requests for administrative enforcement actions and receipt of administrative remedies will not affect the right to seek relief through judicial action.
- in regional areas in which the situation is particularly serious, ETFs shall set up Ad Hoc Groups to take immediate action against infringement in specific fields. Each Ad Hoc Group will be headed by the departments in charge of their respective area of responsibility and shall act with the assistance of the other departments concerned. The Ad Hoc Groups will have the same authority as the ETFs.

China Patent Office

The China Patent Office is the primary administrative organ authorized to examine, grant and revoke patent rights, issue compulsory licences, regulate and announce assignments. It is based in Beijing and has a staff of several hundred, including examiners, attorneys and administrators. The China Patent Office maintains a Patent Register which obtains a record of all registered patents, publishes Patent Gazettes which contain public patent applications, produces abstracts of the invention or utility model, and handles any requests for substantive examination of decisions made by China Patent Office.

The Patent Review Board, a special division of the China Patent Office, is established to review rejected patent applications and submissions for invalidation of patent rights as decided by the Patent Office.²⁷

Local Patent Administrative Bureau

The Patent Administrative Bureau is the most active body dealing with patent disputes. There are more than 50 administrative bureaux established in various ministries under the State Council and local governments at the provincial and city level. They are empowered to mediate patent licensing disputes and handle patent infringement cases, and may impose penalties on patent infringers.

General Administration of Customs (GAC)

The State Council has made it clear that GAC has the authority to stop the importing and exporting of any infringing goods through a Circular issued in September 1994, which was designed to target the ever-increasing number of intellectual property violations in foreign trade. In July 1995, the *Customs Regulations* specified that GAC should prohibit the importing and exporting of any infringing goods. With a simple registration process which takes approximately 30 days, intellectual property rights can be protected throughout the whole of China's Customs.²⁸

The *Customs Regulations* further provide that, where a patentee discovers that suspected infringing goods are going to enter or exit China's Customs territory, he may file a petition to protect the registered patent rights. If the patentee applies to detain the suspected infringing goods, he must pay a deposit to the Customs, which will issue in return a certificate of detention for notification. The petitioner and patentee may bring the dispute to the People's Court or to the Administrative Authorities for dispute settlement with the evidence on hand.²⁹

The Customs officials of many developed countries also help the PRC to train the Customs officials. For example, some US Customs officials were involved in the training of the Shenzhen Customs officials on intellectual property investigation and enforcement.³⁰

27 See Cheng Yongshum, "Judicial Protection of the Intellectual Property Rights in China" (1995) January *China Law*, p.68.

28 For the details of the registration system and the fees to be paid, see Edouard Hohe "New Fees for Customs Registrations in the PRC" (1997) May/June *Intellectual Property Asia*, p.67.

29 See Lugang Xu, "Recording Intellectual Property Rights with Customs" (1995) November *China Business Briefs*, pp.11 - 13.

30 *South China Morning Post*, 24 August 1995.

Judicial Enforcement

The *Circular on Jurisdiction of Patent Infringement* promulgated in 1987 provides that if the infringer manufactures, uses or sells invention or utility model patented products, or manufactures or sells products with design patents, the court in the same province with the infringer factories shall have the jurisdiction to hear the case. However, many People's Courts interpret this Circular in a broader sense whereby the patentee can file a lawsuit in any forum where it has investments or in a province having a good reputation for intellectual property protection.³¹ The Intermediate People's Court is the court of first instance for hearing patent cases, and the Higher People's Court is the court of second instance which makes the final decision.

Civil Court

Pursuant to the *Organization of Courts Law of PRC*, each People's Court consists of several functional divisions, including civil, economic, administrative and criminal divisions. The civil and economic divisions of the Intermediate People's Courts are important throughout the PRC with enforcement activities, although some are suffering from pressures of local protectionism, and lack of sufficiently trained judicial personnel.

Intellectual property cases normally fall within the jurisdiction of civil divisions and economic divisions, as well as the intellectual property tribunals (see below). Where administrative disputes arise from decisions made by Administrative Authorities in intellectual property matters, the cases are subject to the jurisdiction of administrative divisions. Those cases involving criminal elements may be subject to the jurisdiction of the criminal divisions. The People's Court's role in intellectual property enforcement includes:

- securing evidence through pre-litigation raids and post-litigation raids;
- hearing all intellectual property-related cases and reaching binding decisions;
- reviewing intellectual property-related administrative decisions and supervising the executive branch in such a way that Intellectual Property laws and regulations are properly enforced;
- handling intellectual property-related criminal cases and imposing sanctions on criminals so as to deter intellectual property-related criminal activities; and
- carrying out compulsory execution of court decisions and rulings of administrative tribunals, so as to guarantee the legal interests of intellectual property owners.

The intellectual property courts of the PRC represent a new development in the court structure and appear to explain why the PRC is cautious with the intellectual property legislation and enforcement.³²

Intellectual Property Tribunals

Intellectual Property tribunals are set up in the Intermediate and Higher People's Courts to deal with intellectual property cases. The first specialist

31 See Yiqiang Li, "Evaluation of the Sino-American Intellectual Property Agreements: A Judicial Approach To Solving The Local Protectionism Problem" (1996) 10 *Columbia Journal of Asian Law* p.417.

32 Simon Cheetham, *supra*, n 1, p.7.

intellectual property tribunal was established in Beijing in July 1993. Since then, over 20 such tribunals have been established in a number of provinces and cities including Shanghai, Tianjin, Guangdong, Fujian, Jiangsu and Hainan.³³ The tribunals are staffed by well qualified judges, most of whom also have a good standard of English and a science or engineering background.

The Supreme People's Court is also planning to establish its own intellectual property tribunal to strengthen the hearing of its intellectual property cases.³⁴

IV. INFRINGING PATENT RIGHTS: THE PUNISHMENTS

According to Article 11 and 60 of the *Patent Law*, one commits an infringement by carrying out the following acts without the authorization of the patentee: to make, use or sell the patented products or to make and sell products incorporating the patented design, or to use the patented process and then sell the products for business purposes. The patentee may seek investigation of the civil liability accordingly. If the infringer acts contrary to the *Criminal Law*, criminal investigation may also be sought.

Civil Actions and Sanctions

To constitute civil liability of patent infringement, four pre-requisites must be established: namely, the objective existence of the illegal infringing acts, the consequence arising from the infringement, the logic linking the illegal act to the consequences of the infringement, and the fault of infringer under certain circumstances.³⁵ Civil sanctions for the infringement of patent rights include an order requiring the infringer to cease the infringement, to make public apology, and to pay damages.

For a patentee to obtain damages, according to the *Official Reply Regarding Several Questions in Patent Disputes* issued by the Supreme People's Court on 29 December 1992, courts may consider three means as the basis for calculating damages. These are:

- actual loss as damages. Since sales of infringing products will reduce the patentee's market share, the amount equal to the total volume of market losses multiplied by the profit that each item of a patented product can generate is the actual financial damage that the patentee has suffered;
- total illegal profits as damages. The amount equal to total sales volume of the infringing products multiplied by the profit that each infringing product can generate are the infringer's total illegal profits. The infringer's total illegal profits are presumed to be the patentee's damages; and
- reasonable royalties as damages. The parties may choose another means to calculate damages, or the court itself may consider another method, provided that it is fair and reasonable, namely, the calculation of reasonable royalties expected on all sales of infringing goods.

33 Guo Guang Li, "China's Courts Strengthened Power on Judicial Protection of IPR" (1996) 3 *China Law*, p.57

34 See "Supreme People's Court to Establish Intellectual Property Tribunal", (1996) July *China Business Briefs*, p.14.

35 Lulin Gao, "How Do Foreigners Seek Patent Protection for Their Technology in China" (1996) 1 *China Law*, p.86-87.

A recent case *Lego v Blocko* involved the infringement of a wide range of intellectual property and related rights, some of which included six design patents of the plaintiff.³⁶ The plaintiff was a well-known brand brick building toys maker and brought the lawsuit in the Nanjing Intermediate People's Court in January 1995 against the Nanjing Blocko International Co. in Nanjing. After three court hearings, the court issued a mediation statement for settlement and *Blocko* was required to pay damages, to make public apology, and to destroy all the infringing moulds and plates, as well as bearing costs.

V. CRIMINAL ACTIONS AND SANCTIONS

If the circumstances of an infringing activity are serious enough to constitute crime, the infringer will be punished under Article 127 of the *Criminal Law*, on the top of his civil liability.³⁷ The sanctions provided are detention, a fine or even the death penalty.

The People's Procuratorate requires local prosecutors to bring criminal actions against the infringers if the total value of infringing products exceeds RMB100,000 or the profits made exceed RMB20,000. Most of the patent infringement cases involve illegal profits which could go over the minimum. The case will be investigated by the People's Procuratorate for the purpose of gathering evidence. Generally speaking, the People's Procuratorate has more power in investigating a criminal action since many coercive measures available under the criminal proceedings are not available under the civil cases.³⁸

The patentee has three advantages when pursuing criminal proceedings. First, he can press upon the infringer to settle the case out of court through negotiation as penalty under court jurisdiction is usually more severe and harsh. Second, the enforcement officials have more power to investigate the case under criminal actions. Third, the local officials are usually more reluctant to intervene in criminal investigations as they may violate the law by wilful obstructions.³⁹

Administrative Actions

Article 60 of the *Patent Law* provides that, if any acts of the patent infringement arise, "the patentee or interested parties may request the Administrative Authorities to handle the patent dispute". The China Patent Office and its Patent Review Board, the Patent Administrative Bureaux, can be parties involved in resolving patent disputes. Even though it is said that the administrative actions are time-efficient and money-saving, in practice, a large number of decisions made by patent bureaux are appealed to the People's Court so the whole trial process resumes, which inevitably prolongs the time of dispute resolution.⁴⁰

36 Intellectual Property Asia, July 1997, p.18.

37 See Cheng Yongshun, *supra*, n 27, at p.70.

38 Li Yijiang, *supra*, n 31, p.418.

39 *Ibid.*

40 See Yinglie Xing and Ruihu Xiao, "What Action can a Foreign Patent holder Take Upon Discovering That the Patent Has Been Infringed Upon" (1996) March *China Law*, p.74.

VI. PROBLEMS

Although the legal framework provided for patent rights has already taken shape in the PRC, legal enforcement of the law is still seen as a toothless tiger with meagre deterrent effect against infringers. Disparities between the legislation and its enforcement widely exist. The main problem which brings patent rights to the brink of dwindling protection is the lack of serious enforcement.

Obtaining Evidence

Since many infringers are operating in small anonymous factories, the process of manufacture, assembly, packing and labelling is often handled by different people in different locations. In a vast territory like the PRC with land area of 9.6 million sq. km and a population of 1.2 billion, it is exceptionally difficult for the enforcement officials to join the hide-and-seek game to track down infringements and infringers. While manufacturers and distributors become the targets of investigation through the retailing channels, early action against suspected retailers can hamper the progress to locate the source of supply of the counterfeit products.

Enforcement Authorities

There is no separate law dealing with the jurisdiction of Administrative Authorities in different localities and on different levels. Generally a complaint may be initiated via the Administrative Authority which is closest to where the infringement has taken place. The immediate issue to follow is to determine at which level of authority should a complaint be filed. Chinese laws and regulations are quite ambiguous as they provide authorities at country level or above with jurisdiction to handle infringement cases. In practice, if a complaint is filed at lower level, the officials there may turn down the case with the excuse that the matter is beyond their power. If the complainant tries to file at a higher level, chances are that the officials may refuse to accept the case on the ground that it should come under the local authority's jurisdiction.

In addition, since the central administration is financially deficient and critically understaffed, it cannot strain all resources to carry out regular investigations in local provinces. They usually rely on the local authorities for the investigation and enforcement. The local officials, however, are rather reluctant to follow the instruction to the letter to avoid ruining their relationships (*guanxi*) with their local communities. Local protectionism slows down the pace of advancing intellectual property protection.

Limited Authorities of Enforcers

The scope of the investigative powers and the precise authority to order the cessation of infringing activities of the patent administration are always limited. Making raids is difficult because the enforcers do not have the power under law to forcefully enter premises and seize infringing goods. Furthermore, relevant authorities feel their hands are tied due to lack of resources to eradicate the problem. Successful enforcement actions are few and far between.

Local Protectionism

In order to protect their own interests or interests of the region, local officials are hesitant to take action against infringers with connections or

production facilities that provide income and employment opportunities for the region. This stems from the badly-crippled legal system of the PRC where the local governments assume greater controls over their regions, which makes the local officials indifferent to the campaigns run by the central government.

Local protectionism can be reflected through obstruction by the local authorities of law enforcement, and intervention in judicial or administrative proceedings. As the relevant central government authorities and those of the other regions may require assistance of a local government to provide assistance in the infringement investigation, local officials can easily block the investigation by not giving any help or hiding evidence so as to protect their local counterparts, particularly when some other local officials are involved in the activities.

Interventions in the judicial and administrative proceedings are always regarded as serious issues in the PRC legal system. Since the judiciary is funded by the local government, the judges usually do not make decisions that put local officials in trouble, as this may jeopardize their job and those of the subordinates of the judges.⁴¹

It is not uncommon for the local authorities to fail to take action against the patent infringement with the excuse that there is insufficient evidence to pursue the case. Alternatively, little or no follow up action is taken by local officials after a raid. Where infringers have good connection in the local area, they may be given notice of any administrative enforcement action in advance, which allows them either to remove evidence or take steps to stop such enforcement. Even if enforcement action is taken, the infringer may be able to use influence to have low fines imposed and no compensation awarded. In some cases, the local officials may return the seized goods to the infringers.

Lack of Knowledge and Traditional Ideology

China, being a socialist country, did not recognize property at all before the Economic Reform. The invention-creation of one was regarded as a general asset of the community, not belonging to the individual⁴²

The development of intellectual property started only in recent years and much of the society remains relatively unaware of intellectual property rights' issues. Besides, officials in some locations and departments do not fully appreciate the importance of such protection. The knowledge of intellectual property among the general public and the responsible authorities is limited, which leads to an increase in the occurrence of infringement and reduces the efficiency of patent rights' protection.

VII. THE WAY OUT

Strengthening Judicial Enforcement

Due to the more public nature of court action, there is less likelihood that a judge will give in to local pressure not to take action. Therefore, in order to solve the problem of regional protectionism, the action for patent right protection should be taken through the courts rather than by administrative means, or the complaint may be instituted at a higher

41 Li Yijiang, *supra*, n 31, pp.398-401.

42 See William Alford, *To Steal a Book is an Elegant Offence*, Stanford, 1996.

administrative level. Both civil and criminal action may be taken either through the People's Procuratorate or by private prosecution in the People's Court. Furthermore, administrative decisions may themselves be challenged in court.

Empower the Enforcers

The patent authorities should be further empowered to investigate and punish patent infringement. The recent *Guangdong Province Patent Protection Regulations*, passed by the Standing Committee of the Guangdong Province People's Congress on 25 September 1996 and which took effect from 9 October 1996, are a good example of a guide for the future development of the national patent protection. The *Guangdong Regulations* empower the Administrative Authorities for Patent Affairs to make inquiries and inspect the scene where the infringing activities are taking place and to seal or provisionally seize records, drawings, materials, books and other original evidence relating to the infringing activities. Upon request and payment of an appropriate guarantee by the patentee, the officials can take action to seal or provisionally seize goods, materials, special tools and/or equipment relating to the infringing activities. The Administrative Authorities are also empowered to punish parties, including individuals, who refuse to submit to or who hinder an investigation.

Education

It is argued that it is unfair to enforce intellectual property rights solely by imposing heavy fines and imprisonment. To achieve the aim of long-term and effective enforcement, the authorities should consider providing civil education to the general public on both the rationale of intellectual property protection and the regulatory system.⁴³ Of course, what comes first is their respect towards the legal system. Great efforts should be made by the government to train up more intellectual property specialists and to disseminate knowledge about intellectual property rights' protection among officials and the general public. Through ongoing dissemination and education, the awareness of the whole society on intellectual property concepts and their protection will gradually increase and thus be favorable to protection of intellectual property rights.

Education of the patent officials is of equal importance. Before they enforce the laws and regulations relevant to the patent rights, the officials themselves must possess sufficient knowledge in patent rights. Besides, well educated officials can also give guidance to business enterprises, scientific research institutes and universities as to how to take effective measures to protect their own patent rights, and at the same time to conscientiously pay respect to the patent rights of others. The PRC government should take advantage of the Action Plan under which the US government has committed itself to provide training of intellectual property personnel and advice on setting up of systems and procedures. The US government has agreed to provide intellectual property rights' enforcement training for Chinese customs officers, including how to identify infringing merchandise through physical examination, verification of documents, laboratory testing and assistance in creating a centralized system of intellectual property rights' recordings.

43 "Intellectual Property Protection Takes a Great Leap Forward?" (1995) July *China Business Briefs* p.16.

VIII. CONCLUSION

The PRC patent protection related laws and regulations, the courts and administrative tribunals that enforce them provide a basic framework for the protection of patent rights in the PRC. The primary weakness of enforcement lies in the enforcing agencies. The Patent Administrative Bureau is exceedingly slow in making decisions. The Enforcement Task Forces are formed on an ad hoc basis with little real substance, and the People's Courts are hindered by low salaries, lack of adequate training of judges, and local pressure.

Protecting patent rights is essential to fair competition, research and innovation. Successful patent rights protection is important for the development of science and technology. To synchronise with increasing integration of the global economy and international science and technology, and to accelerate the progress to gain the membership of the WTO, the PRC government should place more effort on improving the enforcement of the patent rights' protection. Patentees should also take up the baton that is being offered to them, and start cooperating more closely with the authorities, collecting evidence of infringement and seeking criminal prosecutions.