# Inside China

## A special roundtable on recent developments affecting IP owners in China

By **Joff Wild**

The Chinese market continues to grow in importance for IP owners. But even as this happens, many of the undoubted improvements to both IP law and practice, as well as enforcement, remain under the radar. As a result, when it comes to China, much remains unknown or informed by rumour rather than fact.

In this special roundtable, a team of experts — Ling Jin and Tim Smith of Rouse, Connie Carnabuci of Freshfields, Samson Yu of Kangxin Partners, and Lili Wu and Lei Wu of CCPIT Patent and Trademark Law Office — set the record straight, look at the most significant developments in IP in China over the last 18 months and predict how the country's approach to IP may develop over the coming years.

***The new Patent Law came into force in October 2009. What have been the key amendments to the law and what impact could these changes have on IP owners?***

***Ling Jin:*** *Firstly, it is important to understand the context of the amendments. This round of changes exactly matches the objectives set by the Communist Party and central government: supporting China's drive for independent innovation and meeting China's objectives for commercialisation of academic research.*

*These are the golden threads which help link the individual changes of the patent law. The key amendments are:*

- *Absolute novelty, which sets a higher patentability requirement and allows a lack of novelty to be raised as a defence in infringement proceedings. The amendment sends the message to Chinese companies that they need to stop simply relying on foreign innovation and need to start innovating themselves.*
- *Replacement of compulsory first filing in China with a security review for foreign filing. The earlier draft changes which mandated first filing in China for inventions created in China have been postponed because of the need to attract foreign technology. This is a short-to-medium term compromise and reflects the reality that for the time being, China remains dependent on foreign innovation.*
- *Imposition of a stricter employee-inventor reward and remuneration system. This is self-explanatory and seeks to increase the incentive to employees to invent.*
- *Compulsory licences. The changes, which allow jointly owned patents to be more freely used and improve enforcement measures, are all intended to facilitate the commercialisation of academic research.*

***Samson Yu:*** *I agree. Under the revised Chinese patent law, a claimed invention which has been "in public use or known to the public worldwide" is considered as prior art. Such a change in the definition of novelty in the revised patent law will have a significant impact because it creates the same standard for both domestic and international applicants. In this regard, the revised Patent Law will better protect the IP rights of foreign patent owners. By contrast, the previous Patent Law allowed domestic applicants to obtain a patent based on inventions which had already been used in public or known to the public outside of China.*

*Another difference from the previous Patent Law is that the revised legislation does not require an inventor who wants patent protection abroad to file a patent application first in China*

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*if the invention is made in China. Instead, applicants must file an application for secret examination at the State IP Office (SIPO) in order to get a licence for foreign filing. Foreign patent applications based on inventions made in China, if filed without a licence from the SIPO, will not be issued a patent in China, even if a later Chinese patent application is filed.*

*The revised Patent Law allows the same applicant(s) to file both invention and utility model patent applications at the same time based on the same invention. An invention patent can be issued if the applicant files a request to abandon the earlier issued utility model patent which is still valid. This change has significant implications for the dissemination of novel technology, as the applicant can get protection in short time because, unlike proceedings required for issuing an invention patent, obtaining a utility model patent does not require substantive examination. However, the revised Patent Law does not clearly state or explain whether an invention patent will be issued later when, for example, the issued utility model patent based on the same invention has already been in use, on sale or licensed to other parties.*

***Lili Wu:*** *With regard to inventor remuneration, the requirement extends from state-owned entities to entities with all kinds of legal status, including foreign-invested companies and joint venture companies. Therefore, the statutory remuneration will apply in cases where an employer fails to compensate inventor(s) under provisions in a pre-existing contract or via the internal policy of the employer.*

*Also worth noting are measures for patent enforcement. For example, the offer for sale of a product with a design patent has been specifically identified as an infringement, while statutory damages have been raised from RMB500,000 to RMB1 million and evidence preservation may be undertaken before a lawsuit is initiated.*

***Connie Carnabuci:*** *Also important are the Implementing Regulations published to support the revised Patent Law. These contain extremely useful guidance on the manner in which patent claims should be interpreted, as well as useful clarifications on the availability of prosecution history estoppel and the defences of prior art and prior use, together with as guidance on determining contributory (or indirect) infringement.*

*In the main, these amendments are derived from a policy to bring Chinese patent law closely into line with international norms and are also in recognition of the importance of strong domestic intellectual property laws in supporting China's own efforts to grow a domestic innovation-based economy.*

***Other than the updates to the legal framework, what do you consider to be the most significant IP development to have taken place in China in the past 12 to 18 months?***

***SY:*** *The central state and local governments have been taking various measures to implement the China Intellectual Property Strategy stipulated by the State Council. The Chinese government has determined that the image of the country must change from being manufacture based to being innovation based (ie, from made in China to invented in China). As well as many supportive policies that have already been put into practice, the Chinese government is providing tremendous funding for domestic R&D in research institutes, universities and industries, and extra supports and rewards when filing domestic and/or international patents for inventions made in China.*

***Lili W:*** *Among the important changes to the legal framework and practice in the past 12 to 18 months, the issuance of official interpretation on patent infringement disputes by the Supreme People's Court of China constitutes the most significant development, as it sets forth clearly the approaches that may be adopted in the trial of patent infringement cases. In particular, it specifically describes the specific methodologies of calculating the damages — something that has to a great extent eased the enforcement of patent rights by patentees. In addition, China issued in the name of the Supreme Court the article "Opinions under Current Economic Circumstances on Some Issues in Respect of IP Trials to Serve Overall Interests", which not only clarifies specific issues about the IP laws and court practice arising in recent years, but also outlines the future attitudes of the courts regarding the trial of IP cases — that is, enhancing the IP protection and at the same time taking the public interest into considerations.*

***CC:*** *Other than the updates to the legal framework, one of the most significant IP developments that I think has been taking place in China in the past 12 to 18 months is the growing appetite among domestic Chinese companies to actively enforce their own intellectual property rights. The fact that recent damages awards (particularly in patent cases) have been trending appreciably upwards has further whetted this appetite. Recent substantial damages awards in the patent*

*arena include the RMB15 million awarded against Samsung to a company in east China's Zhejiang province for infringement of its dual model cell phone patent; and, of course, the local electronics company Chint was able to successfully proceed against the European electronics company Schneider and was awarded US$48 million in damages, though the parties eventually settled for US$23 million. There is no doubt in my mind that patents will be the battleground in China and that the stakes are getting higher, and that with the continuing growth in the number of invention patents issued year on year (currently running at about 30%), the development of the laws and system underpinning them will continue to develop at an accelerated rate.*

***LJ:*** *There has been a cascade of guidelines and regulations that have followed the National IP Strategy of 2008 (the IP Plan). In the last 12 months, the rate at which the various ministries and bodies (including the Supreme People's Court at state and provincial level have been issuing guidelines to implement the IP Plan and achieve the objective of becoming an independently innovative economy by 2020 has increased. This includes important incentives such as direct financial support for PCT applications.*

*We have also seen the creation of a huge cross-ministry working group — or super-council — that spans more than 20 ministries to facilitate a coordinated implementation of the IP Plan. This indicates the seriousness with which the IP Plan is being taken.*

*The development of the teaching of IP in universities is also notable. Many universities are establishing specialised IP faculties and offering undergraduate and postgraduate programmes.*

*Finally, various industries, exemplified by telecoms, are buying into the IP Plan and responding actively with a significant increase in filing of patents (including overseas patents). In 2009, Chinese companies overtook foreign companies as grantees of Chinese invention patents. We have also seen growth in the acquisition of overseas technologies, with Geely's acquisition of Volvo being a great example.*

### *What do you see as the key issues that patent owners should be aware of when operating in China and how can they best deal with them?*

***Lili Wu:*** *The key issues certainly include understanding the current patent protection environment in China, both at the state policy level and at industry level — where the patentee and competitors/business partners are operating. To deal with them best, it is important to study the related regulations and practice in China so as to understand how to take appropriate measures to protect the interests of patent owners and to avoid the potential risks.*

***CC:*** *The single biggest issue is to plan ahead and ensure that your patent filings in China are made in a timely fashion so that your rights and the protective perimeter they provide are in place when you launch your business activity. Carefully reviewing the existence of third-party rights, to confirm freedom to operate, is also an important part of the risk assessment. Making use of the dual utility and invention patent filing methodology to achieve speed to market can also be strategically very helpful.*

***LJ:*** *Watch your competitors! Due diligence on competitors' patent filing strategies is increasingly important. Companies need to be extra vigilant in monitoring competitors' utility model and design patent filing activities; with no substantive examination, the grant of these rights (about 12 months after filing) will be the first that companies know about them.*

*Businesses, particularly those from common law jurisdictions such as the UK and US, must be aware of the impact on their patent strategies of the separation of invalidation and infringement proceedings. Although this in itself is not unique, being seen in civil law jurisdictions such as Germany, parties must be aware of the procedural nuances in China.*

*The combination of no discovery/disclosure in patent proceedings and heavy evidential burdens also presents challenges, particularly as regards presenting overseas evidence in China. Evidential preparedness is therefore critical, especially where challenges to the validity of local rights are to be based on overseas use.*

**SY**: *Patent owners should be aware of the following two key issues.*

- *As my colleagues have explained, there is potential for a patent owner's rights to be harmed by grants to third parties. The best way to guard against this is to monitor applications filed by competitors, as well as other parties in similar or other fields.*
- *Patent owners may benefit from licensing their patents through receiving the royalties from licensees. However, licensing a patent not only may affect the patent owner's rights, but may also make the IP vulnerable to infringement by exposing it more widely. Thus, patent owners are recommended to track carefully both the market share and the technological developments of their competitors and in the relevant industries*

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*generally, before and after licensing their patents, so that they may be able to anticipate and/or stop all kinds of infringing activities at an early stage.*

***China is often portrayed as unfriendly territory for IP owners. Is this reputation justified?***

***CC:*** *I am not sure whether it is China which is seen as unfriendly, or rather the PRC civil procedure rules. There is no doubt that there are a number of features of the PRC civil procedure rules which are cumbersome and can make foreign litigants (particularly those from common law jurisdictions) feel uncomfortable, or even frustrated. For example:*

- *Foreign evidence needs to be translated into Chinese and needs to be notarised or legalised by the Chinese embassy in the jurisdiction from which the evidence is sourced.*
- *Evidence from witnesses who are either employees of the plaintiff or business associates of the plaintiff, while admissible, is typically given very little weight by the court.*
- *Thier is no lack of compulsory pre-litigation discovery (ie, lawyers in China do not have the same duty to the court as those in common law jurisdictions to confirm that they have disclosed to their opponent all documents in their client's possession or control which are relevant to the case).*

*However, as an attorney who has successfully assisted clients to enforce their intellectual property rights in China, while it is important to be conscious of the lead time required to prepare evidence effectively, it is possible to enforce. In my experience, enforcement is most frequently difficult because the underlying rights have not been properly registered in China in a timely manner.*

***Tim Smith:*** *China remains a challenging jurisdiction as far as infringement and competition go, but its reputation as unfriendly — particularly as regards the commitment from the Chinese state and the attitude of the courts is concerned — is increasingly unjustified.*

*From a baseline 30 years ago, when there was no IP law in China, the commitment of the Chinese government to create a sound IP regime and environment has been unwavering, and the pace of development in the last two years, driven by the objective to achieve an innovation — based economy, is startling. And as data from CIELA (www.ciela.cn), Rouse's IP litigation analysis service shows, the treatment of foreign IP holders generally is fair. Taking all published first instance trademark infringement cases since 2006 as an example, foreign plaintiffs have been successful against Chinese defendants in 95% of cases, compared with 87% of Chinese plaintiffs.*

*There does remain concern in certain areas. We expect to see a more hostile, protectionist position from the Chinese government in those fields of technology identified as key areas for domestic companies to develop — not necessarily in relation to the underlying IP per se, but more likely in the regulatory environment. The blocking of of Coca-Cola's acquisition of the Huiyuan juice business as the first decision under the monopoly law suggests that successful domestic brands may also be protected.*

***SY:*** *This reputation is no longer justified. In general, IP protection strategies have been successfully implemented in China and have shown remarkable progress year by year. The government's commitment to establishing a world-class IP system has been obvious and is demonstrated by the fact that the government has provided huge and increasing resources to enhance IP protection each year. Courts in China are also on their way to completing the IP legal court system. For example, Beijing and Shanghai established specialised IP courts in 1993 and the Supreme Court established its IP court in 1996. So far, 31 high courts have created specialised IP courts. However, IP owners should understand that current differences between judges with respect to their juridical knowledge and educational background may affect IP protection. Furthermore, the district economic imbalance, the jurisdiction of the courts as well as different IP policies implemented in different places in China can also greatly influence IP protection in these places.*

***Lei Wu:*** *It is not justified to portray China as an unfriendly territory for IP owners, especially under the current situation, whereby every effort is being made to create an innovative country. China has been making great progress in IP protection in recent years. This may be seen from the report "Intellectual Property Protection by Chinese Courts in 2009", issued by the Supreme People's Court of China in early 2010. This report, for the first time, makes a brief introduction to intellectual property protection in China in the last 30 years. After 30 years of efforts, China has established a complete and advanced legal system for protecting IP.*

*It is most likely that little information about the Chinese IP legal system and mechanisms, and a slight understanding of Chinese culture, leads to the unfriendly*

*reputation. Many cases show that the Chinese IP environment is friendly to both Chinese IP owners and foreign IP owners. According to the report, from 2002 to 2009, a total of 808 applications for pre-trial preliminary injunction in IP-related cases were admitted by local courts, with 84.18% granted approval; 1,312 applications for pre-trial preservation of evidence were admitted, with 93.72% granted approval; 527 applications for pre-trial preservation of property were admitted, with 96.04% granted approval.*

**There has been much criticism that IP law in China does little to deter potential infringers. Do IP owners have sufficient reason to feel confident not only that the law protects their rights, but that those rights are realistically enforceable?**

***TS:*** *There remain problems with enforcement and with the ability of rights holders and/or the system to deliver meaningful deterrence. This is perhaps the most challenging aspect of IP law in China currently.*

*For brand owners, administrative enforcement can be swift and effective in the short term, removing infringing goods from the market, but it does not deliver a long-term deterrent. As the administrative authorities are responsible for — and wish to encourage — business registration and the issuing of business licences, there is an inherent conflict with their enforcement role, limiting their interest in hitting infringers hard and potentially putting them out of business.*

*In addition, administrative enforcement is weak for copyright owners at best and is effectively non-existent for patent owners.*

*The progress and increasing knowledge and sophistication of the courts are definitely encouraging. Sensible judges with a keen eye on international practice can be found in the major Tier 1 city courts, and the Supreme People's Court takes an active role in recognising and disseminating best practice. Civil litigation is therefore becoming a key element of enforcement programmes to establish and develop rights protection, and to deliver increased deterrence. The lack of effective laws on deterrence and the weakness of the enforcement chambers do, however, act as a negative counterbalance to the positive developments in the IP tribunals.*

***SY:*** *The Chinese IP system has been developed only over the last 20 years or so. It is understandable that the current system is still incomplete as compared to those in developed countries. However, the tremendous effort that the Chinese government has put into improving public consciousness and the acknowledgement of IP rights (eg, through education and media promotion), and the resulting remarkable progress made in the past years, are well witnessed. This is reflected in the fact that IP rights have not only been effectively put into practice through numerous channels, but also protected to great effect via various measures taken by judicial and administrative departments in recent years.*

*For example, with regard to patent infringement, an owner can either file a complaint with the patent office and request an action to seize the infringing products and issue a mediation decision, or file a civil complaint with the court for injunction and damages. If a registered trademark is infringed, the owner can either file a complaint with the Administration of Industry and Commerce (AIC) and request seizure of the infringing products, as well as the issuance of a penalty decision, or file a civil complaint with the court claiming an injunction and damages. If a party or parties involved in the infringement import and/or export the infringing products, customs actions can be requested by the infringed IP owner to detain such products. Once the products are detained, the owner can file civil complaints with the court claiming for infringement and asking for damages.*

***Lei Wu:*** *China has been committed to providing protection for IP rights in accordance with the WTO's requirement for members since it became a member of the WTO. It may be easily seen from amendments to IP laws that China has kept abreast of international developments. Taking the Patent Law, for example, China has adopted almost all the principles that may be found in the laws of developed countries.*

*As a law firm providing professional service in the IP area, we frequently found that some foreigners could not efficiently and realistically enforce their IP rights in China due to the fact that they had failed to have substantial IP rights registered in China. For example, some foreigners did not have trademarks registered in China when they found the potential infringers infringed on their trademark rights. On the other hand, past experience shows that IP owners in China do have sufficient reason to feel confident for realistic enforcement of IP rights, as long as their IP rights are timely registered. Confidence comes from good preparation; one suggestion, from a practical point of view, for foreign IP owners is always to take China as a must-file country for IP registration when drawing up a strategy for IP protection, so as to procure IP rights in China before, during and after business entry into the country.*

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***CC:*** *Historically, damages awards in China have been relatively low, with the statutory maximum for patent infringement being set at RMB500,000 (this has recently been increased to RMB100,000,000). However, the recent spate of substantial damages awards (particularly in patent cases) has begun to produce a degree of deterrent value. In fact, Ying Xinlong, deputy director of the Shanghai Higher People's Court, was quoted in* China Daily *on 27th November 2008 saying: "We are hoping that harsh penalties will prevent more intellectual property infringement in the future".*

*Having said that, it is fair to acknowledge that the threshold required to be satisfied before criminal proceedings can be instituted remains difficult to meet, especially for those rights owners dealing with more mass-market infringements — particularly in the luxury goods and fast-moving consumer goods sectors. The recent Supreme Court guidance on the availability of interim injunctive relief for intellectual property infringement also caused quite a stir with many China IP commentators. Many have viewed the guidance as suggesting that interim injunctive relief is effectively no longer available for complex patent infringement cases, given that the difficulty in determining whether a serious issue to be tried exists such that a court would never be able to assess the matter properly on an interim basis, and so this test is an absolute bar to granting the relief. My own view is that the guidance should not be read in such a narrow way. Rather, litigants looking to secure urgent interlocutory relief, especially in complex patent matters, should understand that the burden of establishing entitlement to the relief will be significant and that the court will be very judicious and cautious in granting such powerful relief; but that in the appropriate circumstances of irreparable harm it would be available.*

**If an IP owner does find that its rights have been infringed, what strategies can it put into place to ensure the problem is resolved as quickly and efficiently as possible?**

***SY:*** *The IP owner should first analyse the circumstances, as well as the detailed information and evidence obtained of the infringement by other parties, then evaluate whether such infringement has seriously damaged its business and reputation in the Chinese market and whether it can estimate the amount, as well as the possibility of receiving reasonable compensation from the infringer once legal action has been taken. Where the IP owner either cannot clearly analyse its situation when infringement occurs or is not confident enough to file a lawsuit, it may consider taking other options such as filing requests with Customs or the patent office for them to take action. If the infringement by others has caused minor damage, the IP owner may send a request to the parties involved to cease infringing activities and warn of the legal consequences of non-compliance.*

***Lei Wu:*** *To deal with IP infringement in China, suggested strategies include understanding the law, the local legal environment and mechanisms of enforcement; dealing with infringement unemotionally and with due consideration; and keeping constantly alert as to the would-be infringement before, during and after it takes place.*

*Specifically, IP owners need to investigate and collect as much comprehensive information and evidence of infringement as possible, and analyse both the upside and downside of initiating actions against such infringement, as well as what actions would best suit the situation (administrative or court action, ADR and so on).*

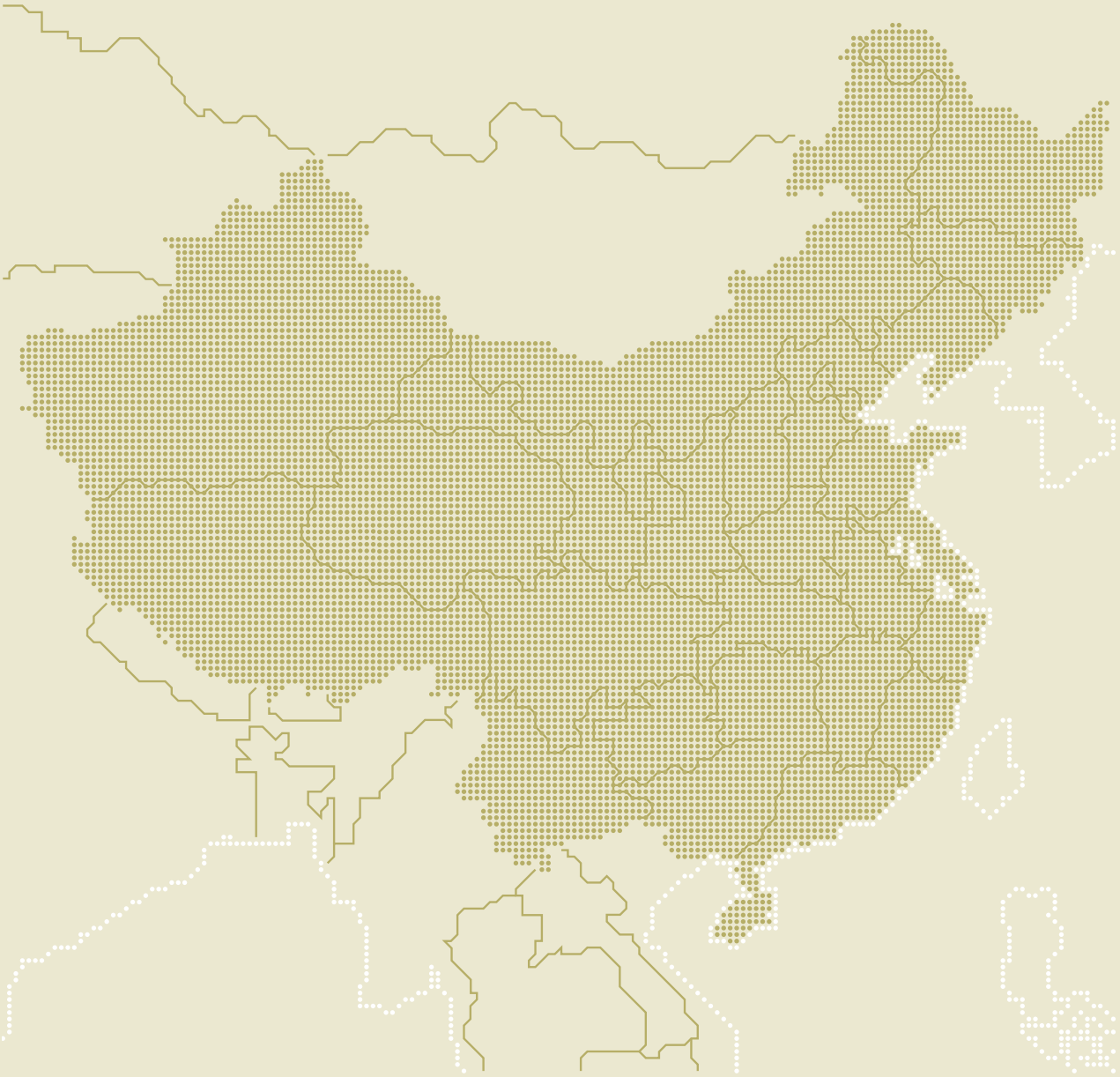
*IP owners need to tackle infringement wisely and intelligently and to look at the matter from the business perspective — that is, ie, concentrate on issue of market share, compensation amount and possible settlement etc.*

*China is big in both population and territory, and infringement can happen anywhere. Consequently, constant watch must be made so as to prepare as well as possible for any new or reoccurrence of infringement.*

***CC:*** *At a very pragmatic level, it is possible to prepare in advance certain key items of evidence which will be required in order to be able to file suit, such as a certificate of incorporation of rights owner; patent/trademark/copyright registration certificate; evidence of payment of all registration fees related to the patent/trademark/copyright; and if the rights are used under licence, evidence that the licence has been registered with MOFCOM or a translated, notarised and legalised copy of the licence. These documents can be prepared in advance and held in reserve for up to two years, so that if an infringement occurs only the notarised infringement evidence and possible expert evidence need be compiled.*

*In my experience, getting before the court and being heard is quite quick. Most cases for final relief can be disposed of within six months of filing.*

***TS:*** *There is no one-size-fits-all-strategy, and no single silver bullet guaranteed to be effective. The critical thing for rights holders and their*



*advisers is to be creative in their strategies and to use all the tools in the toolkit. Customs actions, administrative enforcement and criminal enforcement all need to be considered. Civil proceedings offer different benefits and can often be used in addition to using the authorities as a way to increase deterrence and develop jurisprudence around key rights. For example, stripped-down civil proceedings for trademark infringement following from and based on a penal finding of infringement by the administrative authorities can be brought at low cost to generate compensation for the rights holder and significantly enhance the deterrent effect of action.*

*It is also important to consider lobbying strategies to support significant or difficult action. Embassies and trade organisations can play a part in making clear the scrutiny of the wider community as to the progress and due process of proceedings. Engagement with enforcement authorities to provide them with more background, greater understanding of the law and court precedents can be crucial in persuading them to take action or to take a more mediative role with infringers. And of course, lobbying key government bodies such as SIPO and MOFCOM on the development and interpretation of IP and related law is an important element of a long-term IP strategy.*

***China bucked the downward patenting trend that the rest of the world followed last year and saw an increase in the number of***

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***patent applications received by SIPO. Is the office in a position to deal with these applications efficiently and to grant patents of an acceptable quality?***

***Lili Wu:*** *Yes — along with the increase in filings, the SIPO has been recruiting and training examiners and recent years have seen more and more patent examiners come up and become competent in the examinations of applications. Furthermore, the SIPO has been improving and perfecting the examination mechanism, which has in fact ensured quality of the grant of patents. In particular, the SIPO has a sophisticated quality control system, in which both the formal examination and the substantial examination of each application is monitored. The performance of an examiner is evaluated based on the quality of the work he/she has done.*

***CC:*** *SIPO, like many other Chinese government agencies — including the Treaties and Law Division of MOFCOM, handling the merger filing aspects of the new anti-monopoly law — has been extremely active in providing training to its staff in order to ensure that they are properly equipped to deal with the task at hand. In particular, SIPO has been working closely with the European Patent Office and there have been secondments and exchanges.*

***LJ:*** *SIPO has made considerable efforts to tackle the issues and there is continuing improvement, but we will have to wait and see whether this results in higher-quality patents being granted.*

*Key efforts from SIPO include:*

- *The E-application system, which has been in formal operation since 10th February 2010 after more than three years of preparation. This e-system is intended to improve significantly the efficiency, consistency, information sharing and quality of all procedures in SIPO.*
- *Recently, SIPO has also devoted extra efforts to quality control, including improvement in procedures generally, training for examiners, spot checks on quality by expert panels, and sharing experience and best practice to give positive guidance to examiners.*

*The quality of domestic granted patents is still significantly lower than that of international — US, Japanese and European — patents. In part, this is of course an issue with the quality of the initial applications, but it also reflects the absence of the same levels of quality and rigour at SIPO.*

***SY:*** *SIPO has invested huge amounts of funds which have significantly improved its hardware and software systems to facilitate the examination of patent applications in recent years. Meanwhile, SIPO has not only recruited several thousand new examiners, but also provided extensive training for staff to ensure sufficient manpower to handle the growing number of patent applications with high quality. As noted, SIPO has set up a system of quality control and has adopted electronic filing. This has led to much greater efficiency in the patent application examination process. For example, a utility model application may be granted within 10 days in the very near future, if no correction needs to be made to the document originally filed.*

***Turning to the courts, it is anticipated that the number of IP disputes will increase significantly over the coming years. Are the courts prepared and able to handle the number of cases?***

***CC:*** *In my view, it is undoubtedly the case that the number of IP disputes coming before the Chinese courts will increase significantly over the coming years. I think we are very lucky that the Third Civil Division (which is the specialist tribunal within the intermediate people's courts being the court of first instance for intellectual property matters) has proven itself to be somewhat of a poster child. The ability of the courts to handle the increased workload will depend on the continuing availability of quality individuals to act as judges, as well as appropriate levels of staffing in the court registries. There will no doubt be the potential risk that top talent will be attracted away from the public court system to more lucrative private practice, a trend that we have already seen occurring.*

***LJ:*** *The commitment from the Supreme People's Court is considerable and includes the following positive moves:*

- *Extending jurisdiction for IP cases to more courts. There are now 430 courts with jurisdiction to hear trademark cases, more than 400 for copyright and 75 for patents.*
- *Designating more specialist courts to hear specialist cases. There are now 41 plant variety rights courts, 46 integrated circuit courts and 41 well-known trademark courts.*
- *This has been complemented by quality training, such as the joint EU-China IPR2 programme in 2010 to support the National Judges' College in advanced training for more than 200 judges on international best practice in IP law and procedure.*
- *The consolidation of administrative cases relating to the ownership or existence of IP into the civil IP tribunals of the Beijing*

courts (when previously heard by the administrative tribunal), thereby improving both the utilisation of resources and the consistency of decisions.
- A trial in five high courts, 44 intermediate courts and 29 district courts, under which civil, administrative and criminal IP cases are consolidated to be dealt with by the IP tribunals, again to utilise expertise more effectively and to enhance consistency and quality.
- Increased publication of judgments generally (though it is still not mandatory) and the recognition by the Supreme, higher and intermediate level courts of Top 10 cases as good precedents for handling difficult issues.

**SY:** A growing number of Chinese courts have set up specialised IP panels composed of trained and experienced IP judges to handle IP-related disputes. It is worth mentioning that, unlike in the past, when IP disputes could be handled by independent courts (administrative tribunal, criminal tribunal and disputes tribunal), depending on the nature of the case, these three courts now have merged into one. This has greatly facilitated internal communication among judicial personnel in the IP courts, so leading to the resolution of IP disputes much more efficiently than before. Moreover, the Chinese government has put great effort into recruiting and training IP personnel with higher educational backgrounds, as well as comprehensive skillsets. The Chinese courts have already shown they are capable of providing sufficient experienced professionals to handle the increasing volume of cases; for example, the term to complete a patent litigation case in Beijing courts might be just six months. As this trend continues, I am confident that the courts will not only be able to meet the challenge of dealing with the growing volume of cases, but also provide even better and higher-quality service.

**Lili Wu:** The increase in IP cases is imposing a greater workload on court judges and it is foreseeable that cases will increase further in the coming years. However, the courts of China have been well developed to prepare for such an increase. According to a report issued by the Supreme People's Court, by the end of October 2008, local courts had established a total of 298 separate intellectual property divisions and 84 intellectual property panels in civil divisions, and staffed 2,126 specialised intellectual property judges. In addition, judges are provided with guidance for trying intellectual property cases and provided with intensive training for improving their professional knowledge and adjudication skills. For example, the courts have a cooperation programme with law schools in the US and the UK to train Chinese IP judges so as to enrich their experience and enhance their understanding of IP law system around the world. It is not unusual that judges in Chinese courts now adjudicate IP cases by reference to the principles or doctrines practised in other countries.

### Are there any differences between the regional courts that IP owners should be aware of?

**TS:** Absolutely. The flexible jurisdiction rules in China, allowing plaintiffs in many cases to take defendants away from their home courts, mean that awareness of the differences is critical.

Many international rights owners are reluctant to stray beyond Beijing and Shanghai if they can avoid it, but the most suitable court for a plaintiff will depend on its priorities in bringing litigation: the court of choice may well be different depending on whether the priority is to win on a difficult technical issue, to maximise deterrence through high compensation or to achieve as swift a victory as possible and obtain a final injunction.

CIELA, Rouse's unique IP litigation analysis service, provides critical information to inform effective IP litigation strategies.

Take invention patent infringement proceedings as an example. The Beijing courts have the most experience and in published first instance decisions since 2006 have awarded compensation in excess of RMB400,000 on average when finding for the plaintiff, which they do 64% of the time. Compare that with Changsha — a lesser-known city with patent jurisdiction, but one that still has material experience. Average compensation awards there are less than RMB100,000, but plaintiffs have a win rate of over 90%.

Knowing your venue is a key element in bringing effective proceedings.

**SY:** There are definitely differences between the regional courts. We suggest that IP owners should keep several major factors in mind:
- First, generally speaking, IP judges in the courts from developed cities such as Shanghai, Beijing, Shenzhen and Guangzhou are more experienced and better trained compared to those in the courts from relatively less developed cities.
- Second, most district courts have no jurisdiction over IP infringement cases.
- Finally, differences do exist in terms of the knowledge and experience of judicial personnel, while there also different IP policies implemented in different places.

Each of these factors plays an important

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*role in the how IP rights might be protected regionally.*

***Lei Wu:*** *There are some differences between regional courts that IP owners should be aware of. Generally in China, those areas with better economic situations — for example, coastal areas — have more IP cases. Understandably, the courts in these regions have more chances to try IP cases and consequently have accumulated experience. IP owners should be aware of these differences so that they can make the best choice to suit their needs in case of infringement. However, the courts have tried to train all the IP judges to improve their skills and to enhance their understanding of the laws so as to unify the standard of trying cases.*

***CC:*** *There are 350 or so intermediate people's courts that are competent to hear IP disputes. Of these, only 62 are specifically authorised to hear patent disputes. These are located in Beijing, Tianjin, Shanghai and Chongqing, each of the provincial capitals and certain other developed cities. Careful forum selection is an important first step in any IP proceedings to be brought in China. We do monitor (to the extent possible) decisions being handed down by the relevant judges in the patent authorised courts to see the position that those judges take on certain issues. There are currently no official law reports in China, given that judgments of superior courts are not strictly binding on lower courts under the civil law system. However, some courts are now publishing their more significant decisions online and some commercial case reporting database services are emerging. A plaintiff can commence proceedings in an intermediate people's court in the capital city of the province where the defendant is based or the capital city of the province in which infringing activities take place. If infringing products or services are being distributed nationwide, the plaintiff can effectively choose any one of the 350/62 available courts (as applicable). I think it is fair to say that the specialist intellectual property courts have developed quite a formidable reputation for themselves as being highly efficient, intellectually robust and transparent. It is instructive that the intellectual property courts have been chosen as the relevant court of first instance for antitrust matters to be heard under China's Anti Monopoly Law. The complexity of such antitrust cases is, I think, a further testament to the regard in which the specialist IP courts are held.*

***Looking specifically at copyright and trademarks, how can owners best protect themselves and their IP in the Chinese market?***

***SY:*** *Chinese IP law follows the first-to-file principle for trademark registrations with the exception of well-known trademarks. However, in the case of later registration of the well-known trademarks, it may require a large amount of evidence to prove their wide usage and high reputation in China. We have seen many cases where the owners of a famous brand in foreign countries did not register its trademarks in China earlier, and at the time when they intended to file the applications in China, the same or similar trademarks were already registered by other parties. When they asserted their trademarks as the well-known ones, the evidence they could provide, though massive or even convincing in many other countries, was irrelevant to the market in China as required. In most situations like this, owners could not obtain their trademark rights. Therefore, we strongly recommend that foreign owners file trademark registrations in China as soon as possible if they consider China to be a potential market of interest. Monitoring the use of registered trademarks and publicly announced trademark registrations by other parties on a regular basis is also highly recommended, so that the IP owners can protect their trademark rights to maximum effect and stop any infringing activity at an early stage.*

*In regard to copyright, as in most countries, the Chinese Copyright Law provides for automatic copyright protection. Nevertheless, it is recommended that owners have their copyright recorded at the China Copyright Protection Centre and have the certificates of registration issued. Such certificates can be* prima facie *evidence when legal action is taken.*

***Lei W:*** *Copyright issues account for most of the IP cases in China. To best protect copyrights, owners are encouraged to register their rights as quickly and as extensively as possible, as the voluntary registration of copyright (including computer software) will be regarded as admissible preliminary proof of copyright that may to some extent ease enforcement. Owners are also advised to keep a close watch on the Chinese market via, for example, salesmen of their copyrighted works so as to be informed in a timely manner of any infringement, so that they can take timely action.*

*Trademark infringement has been a long-term issue and, from years of practice, China has created an efficient and quick mechanism for enforcement-administrative raid actions. Past experience shows that the best way to protect trademarks is to register first and quickly, and to initiate administrative action whenever an infringement is found.*

***CC:*** *Given that China is a civil law system, obtaining registered rights is a crucial part of being able to enforce effectively. Unregistered*

*rights, such as copyright, while technically enforceable, place a burden of proof on the plaintiff in terms of establishing the ownership and subsistence of the work. If the copyright owner has submitted to the voluntary system of copyright registration, then ownership and subsistence will be presumed by the court. Registration of copyright in packaging (where the get-up of the packaging is an important cue to end users) has been an extremely powerful tool for certain of our clients in the fast-moving consumer goods sector — particularly where they are still waiting for their PRC trademark registration rights to come through (which can take up to 18 months), as copyright can be registered in a much shorter period (usually about three months from submission of the relevant documentation).*

*Ensuring sufficient forward planning of your trademark strategy is essential in China, given that despite recent improvements, there remain considerable time delays between filing and achieving registration of trademarks. Careful consideration also needs to be given to bilingual branding and whether a Chinese version of your foreign trademark will be developed for the local market, even if merely as a defensive measure. Corresponding domain name rights should also be secured. Failure to coin a Chinese version of your foreign mark pre-emptively may mean that the market adopts an unofficial Chinese version of your mark, which is not ideal. Ensuring that the brand owner controls the Chinese version of the mark is important. Recently, we have witnessed international brands creating China-specific brands to support localised product lines.*

***TS:** As Connie says, for brand owners, key elements of an IP protection programme will include registering trademarks and doing so in both Latin alphabet and Chinese characters. In addition, recording marks at Customs and actively responding to seizures, having an active watch service and developing a clear, prioritised opposition policy to maximise protection in a cost-effective way are all very important. From an enforcement point of view, it will be important to use all of the enforcement tools available — from market sweep administrative actions to precedent-forming, boundary-pushing civil cases. And, in a market where the increasing sophistication of competitors means a shift away from counterfeits and straightforward trademark infringement to lookalike and me-too products, developing rights under the unfair competition law by proactively building evidence of use and reputation of the brand and trade dress are equally important.*

*For copyright owners, the nature of the problems varies considerably across the different copyright industries, so it is difficult to generalise. For example, for software licensors, sound contractual provisions along with recordal of copyright in the source code (without disclosing key elements) to aid in its identification and enforcement will be important. For those suffering physical piracy in volume, recordal will again be important to support complaints to copyright/cultural enforcement authorities. For those suffering infringement online, the most important strategy may be to develop a swift, cost-effective takedown programme and to seek to develop a working relationship as an industry with intermediaries, supported by precedent litigation to establish liability. Given the weakness of administrative copyright enforcement and significant experience of the courts with copyright cases, right holders often need to consider taking civil proceedings to establish rights and develop precedents.*

***How has the IP landscape changed in China in the past five years? What are your hopes and expectations for the coming five?***

***Lili W:** China has made notable progress in IP protection and it is reasonably foreseeable that over the coming five years, China will keep abreast of international developments in IP protection in order to improve further and to enhance its own IP development. Further, more and more Chinese companies have realised the importance of IP rights and are starting to invest more in protection. It is to be expected that Chinese companies will have more qualitative and quantitative IP rights as a result.*

**CC:** *The progress made in the last five years is really quite remarkable. Most important is the change in mindset that China must move towards an innovation-based economy. This is especially so given the availability of an increasingly well-educated and highly skilled workforce, and given that rising labour costs mean that the supply of less skilled labour is shrinking so that China's relative attractiveness as a location for less skilled activities is diminishing. There has also been a strong educational element in rolling out programmes in local schools and communities to help teach the younger generation and the wider community about the importance of IP rights; this generational shift will be important. No doubt with a country as vast and as economically and socially diverse as China, ensuring a universal approach on IP rights — or any issue, for that matter — remains a very real challenge.*

***LJ:** In the past five years, the biggest change has been that the IP objectives which underpin the central economic policies are driving the*

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*government's strategies and decisions. At the core of the 11th five year plan (2006-2010) is the transformation of China's economy from one built on manufacturing to one that is led by innovation in science and technology. The entire Party and bureaucracy are behind it now, as — slowly, but increasingly — are the Chinese people. China's commitment to innovation is real and is happening; the country's ability to achieve the transition must not be underestimated.*

*The coming five years are critical to China for implementation of its objective of becoming an independently innovative economy with a harmonious society by 2020. We would expect the following to be key themes moving forward:*

- *Development and improvement of IP enforcement to benefit the innovation and technological upgrading of domestic companies.*
- *Further improvement of the IP protection system and legal environment. It is key that the system provides the sort of protection that will truly encourage real innovation, rather than the incremental improvements that typify the approach today. We have seen steps towards this with the new Patent Law, but there is more that could be done. A full upgrade of the Copyright Law can also be expected to follow once the current amendments to the Trademark Law are finally in force.*
- *The continued attraction of foreign direct investment, but only in the short term.*
- *Government policies to drive and support a decreasing reliance on foreign technology.*
- *Substantial efforts and improvement in commercialisation of academic research. This is perhaps one of the keys to China achieving its objectives. At the moment, there is a crucial gap between the research that is happening at an institutional level and the entrepreneurial system that refines products and brings them to market. In addition, the funding of research is currently driven largely by the volume of patent applications generated; a shift in emphasis from quantity to quality is much needed.*

***SY:*** *Several major breakthroughs have been made in IP practice, which in turn have greatly influenced policy makers in developing an IP system that has help to facilitate rapid economic and massive IP growth. Some of these notable breakthroughs include the following:*

- *The IP policy makers have started investigating the effect of TRIPs on IP and economic growth. They also advocated that the force and scope of IP rights protection should not be set up at a similar standard as is applied in developed countries. Rather, the regulations for IP rights protection should accommodate the current situation in China. This was a realistic policy as it helped to stimulate economic growth, while also improving the IP regime.*
- *IP research has been focused not only on merely understanding laws, but also on IP's impact on social and economic development in China.*
- *Calculating damages in civil IP cases is difficult, but under the revised Chinese law, the maximum compensation for statutory damages has been raised from RMB500,000 in the past to RMB1 million now.*
- *Previously, the burden of proof in IP cases was on the plaintiff, but the revised Patent Law has amended this. Now we have the reverse onus clause that shifts the burden of proof onto the defendant, though the duty of plaintiffs to provide a level of proof has not been completely removed.*

*The successful implementation of political, economic and IP policies, and marvellous economic growth have in recent years has been evident. It is not surprising that IP researchers and policy makers will keep putting their efforts into enhancing the protection of the IP rights in China, as well as focusing on studies which show the important correlations between IP development and economic growth, IP development and the construction of China as an innovative country, and IP and national public policies. Results from these studies will definitely provide in-depth insights for IP policy makers in creating a better IP enforcement system and strategies that will not only speed up making China an innovation-based economic giant and one of the major players on the world stage, but also have a great impact on worldwide business and economic growth in the coming years.* ■