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INTRODUCTION

In recent years, the protection of intellectual property ("IP") rights in the People’s Republic of China ("PRC") has become a priority business issue for more and more companies. While being the “factory to the world” and a priority market for selling foreign-branded goods and technology, China is also the single largest source of goods that infringe IP rights. All of this underscores the need for companies to secure their rights in China through registration as early as possible, and to have an intimate understanding of the options for cost-effectively enforcing their IP rights.

Over the last two decades, the PRC has taken steps to strengthen IP protection legislation and to bring its IP system more in line with international practice. Legislative reforms were introduced following China’s entry to the World Trade Organization ("WTO") in 2001, and have significantly improved the civil remedies for IP violations. Much work remains to be done, particularly in relation to the fight against counterfeiting and copyright piracy. But the government is aware of the need for further reforms in these and other areas, and positive changes are being made, albeit slowly.

The roots of IP law in the PRC are not very deep. The country’s entire legal system was decimated by the Cultural Revolution (1966-1976), and modern trademark and patent legislation was only introduced in the early 1980s. Copyright and unfair competition laws, which provide for the protection of trade secrets, trade names and trade dress, were introduced in the early 1990s. Regulations on the protection of IP by Chinese customs and on the protection of domain names were introduced in the mid- to late-1990s.
China became a member of the World Intellectual Property Organization (“WIPO”) in 1980 and thereafter acceded to most major international IP treaties, including the Paris Convention for the Protection of Industrial Property, the Berne Convention and the Universal Copyright Convention.

China’s entry to the WTO in December 2001 required a number of changes to the country’s trademark, patent and copyright legislation in order to ensure compliance with the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPs”). The legislature recently amended its Patent Law, introduced the country’s first Anti-Monopoly Law, and is now in the process of amending most of its other major IP legislation, mainly with the goals of increasing efficiency and promoting the interests of domestic IP owners, rather than encouraging foreign investment.

Meanwhile, weak legislation and enforcement against counterfeits and copyright piracy – both in the real world and on the Internet – continue to pose critical challenges for foreign as well as domestic rights holders.

This Guide provides an overview of some of the main forms of IP protection in the PRC and has been updated to include some of the more significant recent developments in the law. It is intended to be an introduction to the relevant legislation and practice. It is not intended as advice on the full range of options that may be available in a particular case.
TRADEMARKS

Overview

Trademark Law and Implementing Regulations

The Trademark Law of the People’s Republic of China ("Trademark Law") came into force on 1 March 1983, and was revised on 1 July 1993 and on 27 October 2001 (effective on 1 December 2001). The Implementing Regulations of the PRC Trademark Law ("Implementing Regulations") were effective on 15 September 2002.

The Trademark Law and Implementing Regulations set out the rules governing the registration, administration and protection of trademarks and service marks in the PRC. All provisions in the Trademark Law and Implementing Regulations apply equally to trademarks and service marks.

International Treaties

The PRC acceded to the Paris Convention for the Protection of Industrial Property ("Paris Convention") in 1985. The Paris Convention contains provisions for the protection of foreign trademarks and patents, and obliges members to extend equal treatment to both domestic and foreign trademarks. As a member state, the PRC is required to provide protection for well-known trademarks, even if they are not registered in the PRC. Well-known trademarks are mainly protected, however, under the Trademark Law and its various implementing rules.

In November 1988, the PRC dropped its own trademark classification system and adopted the International Classification of Goods and Services. The PRC currently adopts
the 10th edition of the Nice International Classification of Goods and Services.

In October 1989, the PRC acceded to the Madrid Agreement for the International Registration of Marks ("Madrid Agreement"). The Madrid Agreement permits owners of international registrations to obtain trademark and service mark registrations in all other Madrid Union countries on payment of a fee. An international registration is obtained by filing a trademark or service mark application in a country in which the applicant has a "real and effective industrial and commercial establishment". The PRC has also acceded to the Madrid Protocol, which the U.S. joined in 2003.

Administrative Framework

Trademark Office and the TRAB

The Trademark Office is an administrative body that is mainly responsible for the registration of trademarks and service marks in the PRC. The Trademark Office examines trademark applications, issues decisions in trademark oppositions and also processes cancellation actions based on non-use grounds.

Appeals of the Trademark Office’s decisions in trademark application and opposition matters are handled in the first instance by another administrative body, the Trademark Review and Adjudication Board ("TRAB"), which also directly handles cancellation actions based on grounds other than non-use.

Judicial review of TRAB decisions has been available since 2002.

The SAIC and AICs

A diagram of the administrative entities that deal with trademark matters in the PRC is set out below.
The Trademark Office and the TRAB are divisions under the State Administration for Industry and Commerce ("SAIC"), a ministry-level body under the State Council responsible for the registration and general supervision of business activities of industrial and commercial enterprises. Local branches of the SAIC, known as Administrations for Industry and Commerce ("AICs"), exist at all levels throughout the PRC, including down to the district level in Chinese cities and county level in most rural areas.

The Trademark Law provides for the judicial enforcement of trademarks through the People’s Courts and for administrative enforcement via the AICs. Criminal enforcement is not governed by the Trademark Law, but under the Criminal Code of the PRC ("Criminal Code") (see below).

Under the Trademark Law, AICs are empowered to issue orders to prohibit acts of infringement, impose fines, seize infringing goods and tools of infringement, destroy trademark representations, etc. Under the Trademark Law, AICs lack the power to order payment of compensation in trademark infringement cases, although they may play the role of mediator in negotiations between the parties over compensation if both parties consent.
Registrable Subject Matter

Permitted Marks

In compliance with TRIPs, the Trademark Law provides that any “visually perceptible” sign capable of distinguishing the goods of one natural person, legal person or other organization from those of another, may qualify for registration as a trademark. There are no provisions in the Trademark Law or its accompanying Implementing Regulations to clarify the scope of “visually perceptible signs”. However, it is generally interpreted to cover only marks that can be represented visually. The sign may take the form of words, figures, letters, numbers, three-dimensional signs, color combinations or a combination of any of these elements. Smell, taste and sound marks are not registrable under current policy. However, a recent draft revision to the Trademark Law circulated for industry comment indicates that sound marks may eventually be registrable in the near future.

Trademarks must have distinctive characteristics and be easy to distinguish, and may not conflict with prior rights lawfully obtained by a third party, including trademark rights and copyright.

What Marks Cannot Be Registered?

The Trademark Law prohibits the registration of the following types of trademarks:

- Marks consisting exclusively of the generic name, depiction or model number of the specified goods;
- Those consisting exclusively of a direct description of the quality, main raw materials, functions, intended purpose, weight, quantity or other characteristic of the goods; and
Those otherwise lacking in distinctiveness.

Under the Trademark Law, the foregoing types of marks may be deemed registrable if they have acquired distinctiveness and become distinguishable through use.

Although the Trademark Law does not contain provisions explicitly prohibiting the registration of surnames, Chinese surnames are frequently rejected in practice on the ground that they lack distinctiveness. Foreign surnames are generally deemed registrable in practice.

PRC practice regarding laudatory marks has over time evolved towards the international position. Registration of marks incorporating words such as “excellent”, “super”, or “special” is unpredictable, and applications of such marks are sometimes rejected.

In general, slogans used in advertising will be rejected for registration in the PRC on the grounds that they lack distinctiveness.

The Trademark Law does not specifically provide for the disclaimer of generic or descriptive elements in a trademark. In practice, the Trademark Office will approve marks containing such elements, provided that they do not form the main part of the mark and provided the mark is not otherwise misleading. If, for example, a mark is applied for in respect of food products and the generic name “chicken” is retained as part of the mark, the Trademark Office will not allow the registration to cover goods other than chicken products, out of concern that consumers might be deceived.
What Marks Cannot be Used?

The Trademark Law prohibits both the registration and the use of trademarks that fall under the following categories:

- Marks that are the same as or similar to the state name, national flag, national emblem, military flag or medals of the PRC (see below);

- Marks that are the same as or similar to the specific names of places where PRC central state authorities are located, or the names or images of landmarks;

- Marks that are the same as or similar to the state name, national flag, national emblem or military flag of a foreign country, except where the government of that country has consented (it seems that evidence of registration of the mark at issue in the country concerned will be deemed as consent);

- Marks that are the same as or similar to the name, flag or emblem of an intergovernmental international organization, except where the organization has consented and use of the mark is unlikely to confuse the public;

- Marks that are the same as or similar to official signs or inspection marks indicating control or warranty, except where authorized;

- Marks that are the same as or similar to the name or mark of the “Red Cross” or the “Red Crescent”; 

- Marks that are discriminatory towards a nationality/ethnic group;

- Marks that promote in an exaggerated manner and are deceptive; and
• Marks that harm socialist morality or practices, or have other adverse effects. As the current law lacks comprehensive provisions on trademark piracy, i.e., bad faith filing of a mark belonging to another, the Trademark Office and TRAB routinely rely on this prohibition in dealing with pirated marks (see below).

The names of PRC administrative districts at or above the county level and commonly-known foreign place names are also prohibited from being used as trademarks, except where such names have other meanings or are an integral component of a collective mark or certification mark. Trademarks using place names that have already been registered in the PRC remain valid, notwithstanding these provisions.

On the first prohibited category above, in July 2010, the SAIC promulgated the Standards for Review and Examination of Trademarks Containing the Word “Zhong Guo” [China] or Beginning with “Guo” [National], which clarified the review of trademarks which may be deemed “similar to the state name” of the PRC.

Three-Dimensional and Color Combination Trademarks

The Trademark Law specifically permits the registration of three-dimensional trademarks and marks that consist of combinations of colors. The examination standards to be used for such marks are currently unclear, and there is a high degree of uncertainty as to the scope of protection available when actually enforcing them. The Trademark Law does, however, provide some guidance on the registrability of three-dimensional marks and specifically excludes certain signs from registration as trademarks. These include those that:

• Consist exclusively of the shape of the goods that results from the nature of the goods themselves;
• Consist exclusively of the shape of the goods which is necessary to obtain a technical result; and

• Consist exclusively of the shape that gives substantial value to the goods.

Court decisions have suggested that three-dimensional marks must be used as trademarks in order to enjoy protection, i.e., they must appear in advertising, promotional materials and/or packaging in a manner which helps consumers distinguish the source.

**Collective and Certification Trademarks**

Collective marks and certification marks can be registered as trademarks in the PRC. Under the Trademark Law, a “collective mark” is defined as a sign that has been registered in the name of a group, association or other organization, and that is intended to be used by the members of the organization in their commercial activities in order to indicate the user’s status as a member of the organization.

“Certification marks” are defined as signs that are controlled by an organization which has a supervisory capacity over certain goods and services, and that are used by units or individuals (other than the organization that owns the mark) to certify the origin, raw materials, manufacturing method, quality or other special qualities of the relevant goods and services.

Collective and certification marks are subject to special application procedures, as set out in the *Measures for the Registration and Administration of Collective and Certification Marks*, effective on 1 June 2003.
Overview of the Registration Process

Pre-Filing Considerations

Who Can Apply?

Any individual or legal entity from a country that has diplomatic relations or reciprocal agreements with the PRC can apply to register a trademark or service mark.

The nationality of company shareholders is generally not questioned, so an application will be processed even when the applicant is a company owned in whole or in part by a national of a country or resident of a region that has no diplomatic relations with the PRC.

Trademark or service mark applications are accepted from Taiwan-based companies and individuals, despite the fact that the PRC and Taiwan governments do not recognize each other. Applications from Taiwan may not however include the words “Republic of China” as part of the applicant’s address.

Joint Applications

Two or more natural persons or two or more legal persons or other organizations may jointly apply to the Trademark Office to register a single trademark. When the mark is registered, the parties in question may jointly exercise the exclusive right to use the trademark. The Implementing Regulations provide that one of the joint applicants must be formally designated as the “representative”. In the absence of such a designation, the applicant whose name appears first will be deemed the representative by default.
Obtaining Rights: the First-to-File Rule

The Trademark Law imposes a strict first-to-file rule for obtaining trademark rights, whereby the first party to file for registration of a mark pre-empts later applicants. Prior use of an unregistered mark is generally irrelevant unless the mark in question is well-known and therefore arguably protected either under the Paris Convention or pursuant to the Trademark Law, which protects unregistered well-known marks in respect of the goods for which they are well-known.

While the Trademark Office and the TRAB are receptive to oppositions and cancellations when it is shown that a party has applied for a mark in bad faith, the situations where an application can be deemed to be in bad faith are not clearly delineated in the Trademark Law or related legislation. As noted above, the Trademark Office and the TRAB have in practice refused to approve or have cancelled registrations based on a finding of bad faith, citing the prohibition in the Trademark Law on the registration of marks which may have “adverse effects”. But both the Trademark Office and the TRAB take a conservative approach when determining whether the evidence of bad faith which is presented is sufficient for these purposes. Consequently, trademark owners are strongly advised to file for their marks early, and for as wide a range of goods and services as appropriate.

The failure by trademark owners to file early can lead to prohibitions on the production and sale of goods in China, including production solely for export. When faced with such prohibitions, many companies have been forced to consider offering considerable compensation to buy their marks from pirates.
As the Trademark Law does not require trademark applicants to provide evidence of use or intent to use, trademark applications can be filed before there is any definite intention to use the mark in the PRC.

*Date of Filing*

The filing date for a trademark application in China is defined as the date on which application materials are received by the Trademark Office.

Applications that fail to comply with requirements imposed by the Trademark Office will be returned and denied any priority right. Where an application is basically complete but requires certain corrections, the Trademark Office will allow the applicant to make changes within a stipulated deadline. If the applicant does so, the original filing date will be retained as the application date and priority will not be lost. If the applicant fails to make the required changes within the time limit, the Trademark Office will return the documents and the original filing date will be lost.

Where two applications for identical or similar marks on identical or similar goods are filed on the same day, preliminary approval will be given to the mark first used in commerce.

The Trademark Law contains detailed provisions for determining priority rights. An applicant is entitled to a right of priority if, within six months of the date on which it first applies for registration of a trademark in a foreign country, it applies for registration of the same trademark for use on the same goods or services in the PRC. This right is subject to the existence of an agreement between the applicant’s home country and the PRC, an international treaty jointly acceded to by the two
countries (e.g., the Paris Convention), or reciprocal recognition of the right of priority.

A right of priority may also be claimed for a trademark first used on goods exhibited at an international exhibition held or recognized by the Chinese government. In such cases, the trademark applicant will be entitled to priority for six months from the date on which the goods were first exhibited.

*Trademark and Service Mark Searches*

It is highly advisable to arrange trademark searches before filing trademark applications in the PRC.

Three types of searches are normally recommended: searches through the Trademark Office’s own searching center, direct online searches of the Trademark Office’s computerized database, and searches of applications and registrations filed through the Madrid Agreement and Madrid Protocol. While more costly and time consuming, experience suggests that searching through just one or two of these channels creates a strong risk of missing potentially conflicting marks.

Official trademark searches are carried out by the Trademark Office’s appointed searching center, Tongda. Search reports issued by Tongda are not accompanied by an opinion regarding registrability. Official search reports provide basic information on identical or similar marks in a given class. They will reveal both registered marks and nearly all pending applications, aside from those filed within the prior two to three months.

Regrettably, Tongda searches are notoriously unreliable. Consequently, it is highly advisable for Tongda search results to be verified through direct searching of the Trademark Office’s online database, accessible through the office’s website, www.ctmo.gov.cn.
It is also advisable to search the online database of WIPO for pending applications for extension of International Registrations under the Madrid Protocol or Madrid Agreement. Such applications are not recorded in the Trademark Office’s own database until they are examined in China, normally 11 to 18 months after filing.

Trademark proprietor searches are available through the Trademark Office’s online database, and they do not require the consent of the proprietor. However, the information on the online database may be incomplete.

**Chinese Applicant Names**

Applications for trademark registration must be submitted to the Trademark Office in Chinese. Foreign trademark applicants are required to provide the Trademark Office with a Chinese translation of their names and addresses. As the Trademark Office’s records are maintained in Chinese, it is important to use the selected translations consistently. More than one foreign trademark applicant has found later trademark applications blocked by its own earlier registrations because of use of inconsistent Chinese translations of its name.

From a marketing perspective, it is advisable to adopt a single Chinese name for use in all Chinese-speaking jurisdictions, including the PRC, Hong Kong, Taiwan, Macau and Singapore. Chinese consumers in these jurisdictions will normally identify a foreign company by its Chinese name. Consistent use of a single Chinese name can magnify the corporate identity of a foreign company in the minds of Chinese consumers and will limit the potential for confusion in the future as the economies of these jurisdictions become more integrated.
Where a foreign company does not have a ready-made Chinese translation of its name and address, its trademark advisor will generally offer to devise a translation. The foreign company should review the selected name to ensure that it has no negative connotations and that it is in keeping with its corporate image.

*Development of Chinese-Language Trademarks*

It is not legally necessary to devise and register a Chinese-language equivalent for each foreign-language trademark owned by a foreign company. However, trademark owners are generally well advised to register and actively use a single Chinese-language counterpart for each of their foreign-language marks for a number of reasons.

Consumers in the PRC with a limited knowledge of foreign languages tend to identify products by their Chinese names. If a foreign company does not develop a Chinese mark itself, the market may choose one for it. In this case, there is no guarantee that the resulting Chinese name will flatter the company’s product or otherwise be in keeping with the image that the company wishes to project.

An undesirable nickname may gain widespread acceptance so that the company is effectively forced to adopt the name as a trademark or service mark. If the company does not act quickly in registering the name, a third party may do so first, either to take advantage of the goodwill associated with it or in an attempt to extract a fee to assign the registration.

One way of responding to the adoption by the marketplace of an undesirable name is to launch a brand transfer advertising program. However, such programs are expensive and they may also result in consumer confusion.
Classification of Goods and Services

The PRC adopted the International Classification of Goods and Services formulated under the Nice Convention in 1988, and the Trademark Office generally only permits the designation of goods and services specifically listed in the WIPO Classification of Goods and Services. With effect from 1 January 2002, the PRC adopted the new classes (43-45) under the WIPO Classification of Goods and Services.

In the PRC, a trademark application may only cover goods or services that fall within one international class. If the goods or services of interest fall under more than one international class, the applicant must file multiple applications.

It is not currently possible to register service marks covering retail or wholesale trading services. To address this restriction, some applicants file for the relevant goods that are sold in their retail and wholesale businesses. Others also file in Class 35 for business support services, including “services for business management, assistance for the sale of goods, sales promotion services, demonstration of goods, distribution of samples and shop window dressing services”. However, protection for these services should not be regarded as equivalent to protection for retail services per se.

As noted above, trademark applications can be filed in the PRC directly with the PRC Trademark Office or through the Madrid Agreement or Madrid Protocol. The following information relates to filings made directly with the Trademark Office.

Documentary Requirements

Trademark applications must include the following documents:

- A completed application form;
• A completed pro-forma power of attorney in favor of the trademark agent assisting in filing the application;

• Ten specimens of the mark being applied for (where colors are specified for the application, the 10 color specimens must be accompanied by two additional black & white specimens); and

• A “certificate of authorization” for the manufacture of the relevant products issued by the competent government department of the applicant’s home country, where required by relevant regulations. In the past, such certificates were required for foreign applicants filing for pharmaceutical and tobacco products. However, these requirements have now been removed.

Following the submission of application documents to the Trademark Office, a filing receipt with an application number and date will be issued.

In line with international practice, the Implementing Regulations permit the amendment of pending applications. Applicants can amend their name and address, change their trademark agent, or narrow the specification of goods or services via an application for amendment filed with the Trademark Office. Amendments to the representation of the mark itself (e.g., the deletion of one of its constituent parts) are not permitted.

Preliminary Approval and Publication

Applications for trademark registration undergo substantive examination by Trademark Office examiners. If a trademark is considered registrable under the Trademark Law, and if a search by the examiner discovers no conflicting applications or registrations, the Trademark Office will grant preliminary
approval for the application and schedule the application for publication in the gazette. The time from application to publication varies according to the Trademark Office’s current caseload and generally takes approximately two years, even where the application is straightforward.

If an application conflicts only partially with a prior registration or application, the Trademark Office can partially approve the application, for the goods and/or services that are not blocked by the prior marks. The part of the application that conflicts will be rejected by the Trademark Office and an appeal can be filed with the TRAB for the partial rejection to be overturned.

Where the partial rejection of an application is appealed to the TRAB, this has the effect of suspending the entire application pending the TRAB’s decision, and not just the rejected part of the application. If an appeal is filed, therefore, the preliminarily approved part of the application will also be suspended and will not be published for opposition until after a final decision is issued in the appeal.

Rejection and Appeal

Where the Trademark Office rejects an application filed by a foreign party, it will notify the applicant of its decision in writing via the applicant’s trademark agent.

The applicant may appeal against the rejection to the TRAB within 15 days of receiving notification. In the case of parties represented by trademark agents (which includes all foreign parties), this 15-day period runs from the date the agent receives the decision, and not from the date the applicant receives the decision.

Under the Implementing Regulations, no extension is allowed for filing an appeal, but there is a three-month deadline for
filing supplementary submissions in support of appeals, counting from the date when the initial appeal submission was filed. Where a party wishes to support its initial submission with supplementary materials, it must declare its intent to do so in the initial submission, and it must submit all the relevant evidential documents (excluding evidence based on new facts or not submitted previously for other reasonable cause) within the three-month deadline. Under the Trademark Law, all TRAB decisions are subject to judicial review, so any applicant dissatisfied with the TRAB’s decision may initiate appeal proceedings in the Beijing Intermediate People’s Court.

In conjunction with the amendment to the Trademark Law in 2002, the TRAB issued its own Rules for the Review and Adjudication of Trademarks ("TRAB Rules"), which were later amended in 2005. Under the TRAB Rules, parties are no longer required to have foreign-sourced evidence notarized, legalized or certified in any other manner, except in cases where the evidence in question is challenged by the other side. However, it is sometimes still advisable to notarize and/or legalize more sensitive evidence proactively, and for tactical reasons.

Where a decision rejecting an application is overturned on appeal, the application is returned to the Trademark Office for publication in the PRC Trademark Gazette. Assuming that the application is then unopposed within the statutory three-month opposition period, the mark in question will become registered the day after the opposition period expires.

**Oppositions**

After a trademark registration application has been granted preliminary approval by the Trademark Office, it will be published in the PRC Trademark Gazette. The statutory opposition period is three months, counting from the publication
date of the relevant issue of the gazette. No extension of time is available. Any individual, company or other organization can file an opposition.

Where an opposition is filed, the trademark applicant has 30 days from receipt of the Trademark Office’s notification of opposition to file a defense. Again, no extension of time is available. Failure to file a defense will not normally affect the Trademark Office’s deliberations on the opposition.

Either party to an opposition can appeal the decision of the Trademark Office to the TRAB. Under the Trademark Law, parties to an opposition appeal can now appeal the TRAB’s decision to the People’s Courts.

The Implementing Regulations allow “partial” oppositions, whereby parties may oppose portions of applications deemed to conflict with prior rights or that are otherwise objectionable. If the partial opposition is successful, the Trademark Office will approve the registration of only the portion of the application that does not conflict with the prior rights of another or is not otherwise objectionable.

Where an opposition or partial opposition is considered tenable, the Trademark Office will issue a decision rejecting the trademark or the objectionable portion of the trademark in question. Once the decision enters into effect, the trademark or portion of trademark will be rejected. If an opposition is not considered tenable, the trademark will be deemed to have been registered the day after the original opposition period expired, i.e., three months after the publication date of the relevant edition of the Trademark Gazette.
Registration of Trademarks

The Trademark Office will publish an announcement in the gazette and issue a registration certificate if no opposition is filed within the statutory three-month opposition period.

A registration in the PRC is considered effective from the final date of approval, i.e., upon expiration of the three-month opposition period, and marks are not deemed protected retrospectively as from the filing date. The only exception to this is in respect of marks extended to the PRC through the Madrid Agreement or the Madrid Protocol (see below).
Applications through the Madrid Agreement and Madrid Protocol

International trademark registrations may be extended to the PRC under the Madrid Agreement or the Madrid Protocol. As with directly filed applications, the Trademark Office has the right to reject Madrid extensions for marks deemed not conforming to PRC law. Once successfully extended to the PRC, a trademark filed through the Madrid Agreement or the Madrid Protocol will be deemed effective retrospectively from the date of filing for the extension, rather than the date of final approval by the Trademark Office. This is perhaps the biggest advantage of filing such trademark applications, as compared with filings made directly with the Trademark Office.

Owners of international registrations successfully extended to the PRC are occasionally required to present evidence that their marks are effective in the PRC. Where an administrative authority requests such evidence (e.g., when a registrant seeks to enforce its rights in the PRC), the registrant can apply to the Trademark Office for written certification of the status of its mark. The Trademark Office generally issues the certification within three to six months of the date of application. It is therefore advisable to apply early, particularly if actions against infringements are anticipated.

Use and Maintenance of Trademark Registrations

Renewals

Registered trademarks in the PRC are valid for a period of 10 years. Renewal applications can be filed with the Trademark Office during the last six months of the term or, subject to payment of an additional fee, within six months after expiration of the term.
Where a registered mark is also recorded with PRC customs, it is highly advisable to apply for renewal of the registration as early as legally possible so as to minimize the risk of lapses in customs recordals (see below).

**Cancellations for Non-Use**

Where a registered trademark has not been used for three consecutive years, any person may apply to cancel the mark on the grounds of non-use. The Implementing Regulations also permit the partial cancellation of a trademark registration on the basis of non-use, thereby resulting in deletion of only a portion of the specified goods or services.

To reduce the number of cancellation actions alleging non-use by the registrant, the Implementing Regulations provide that cancellation actions based on three years of non-use must include an explanation of “the relevant details”. In practice, market survey evidence suggesting that the mark is not known to members of the public is sufficient to raise a presumption of non-use. Alternatively, investigation reports can be filed which demonstrate that the owner of the registration has not produced or sold goods under the brand in the past three years.

Trademark owners that are the subject of non-use cancellation petitions can defend their registrations by producing evidence of use of the mark on the packaging, containers or trade documents for the specified goods. Commercial advertising, promotion, exhibitions or other business activities are also normally deemed sufficient to rebut the presumption of non-use.

In general, non-commercial advertising is deemed insufficient to protect a trademark registration from cancellation for non-use. The Trademark Office requires that advertising have a
bona fide commercial purpose. That said, these requirements are not set out in the Trademark Law or other regulations, and the Trademark Office retains a fair degree of discretion in determining whether evidence of use is sufficient to avoid cancellation of a registration.

**Assignments**

Unlike the law in most other countries, under Chinese law, assignments of registered and pending trademarks must be “approved” by the Trademark Office, and not just “recorded”, for legal title to pass to a new owner.

To apply for approval, the assignor and assignee must execute an application form which must be submitted to the Trademark Office in the name of the assignee with sealed certificates evidencing the assignor and assignee’s qualifications as entities and Chinese translations of any documents in a foreign language. The Trademark Office has the power to request supporting documents or notarized copies of such certificates to assess authenticity.

A party that assigns a PRC-registered trademark is required to simultaneously assign all other identical or similar registered marks covering identical or similar goods or services. This is to avoid different individuals or entities owning conflicting registrations.

Where an assignment is completed without the original owner’s consent, it has the right to challenge the assignment through a civil action before the People’s Courts.

Between the filing of an application for assignment and its approval, the assignor or another interested party may apply to the Trademark Office to request the suspension of the examination and approval process.
Following its approval, the assignment will be gazetted by the Trademark Office.

The Trademark Office does not normally require any other documents (such as a copy of the assignment agreement or evidence that taxes have been paid) to examine and approve an assignment application.

Approval of assignments normally takes six to 12 months from the time of filing. While approvals are pending, the assignor’s assistance will be required to take action against infringers.

**Trademark Licensing**

The Trademark Law requires a trademark registrant to enter into a written license contract when licensing registered trademarks to third parties. Although recordal of trademark licenses with the Trademark Office is mandatory, under the current Implementing Regulations, there are no penalties for failing to record licenses. However, in practice, most trademark licenses involving foreign licensors are recorded in order to facilitate the remittance of royalties in foreign exchange by PRC-based licensees.

Trademark license contracts must be submitted to the Trademark Office for recordal in the licensor’s name.

Under the *Measures for the Recordal of Trademark Licensing Contracts* ("Recordal Measures"), effective on 1 August 1997, trademark license contracts must contain the following minimum provisions:

- The identity of the licensed trademark and its registration certificate number;
- The scope of licensed products;
• The term of the license;
• The method in which representations of the trademark will be provided;
• Provisions for supervision by the licensor of the quality of the licensee’s goods for which the registered trademark is used; and
• Provisions requiring the licensee to indicate its name and the place of origin on the goods for which the registered trademark is used.

The Trademark Office can refuse recordal if any of these minimum provisions are missing from the contract. If the recordal application is in order, the Trademark Office will send a recordal notice to the licensor and publish details of the license in the gazette.

Parties are required to reapply for recordal of a trademark licensing contract in certain circumstances, e.g., where the scope of the licensed products has changed. Both licensor and licensee are also obliged to inform the Trademark Office of changes of name or if the trademark licensing contract is terminated early.

Where foreign exchange royalty payments are being made under a trademark license, the licensee’s bank is required to review the recordal notice before authorizing the remittance abroad of the royalties.

Although the current Implementing Regulations do not penalize failure to record a trademark licensing contract, there are still benefits to recordal that should be borne in mind, other than those relating to foreign-exchange remittances. For example, in certain circumstances, failure to record a license agreement
can undermine attempts by licensees to enforce rights against infringers that are deemed to be using a mark in good faith. Recordal of a license may also help licensees and sub-suppliers of packaging and labels in the PRC to demonstrate that they are lawfully authorized in response to spot inspections by local administrative authorities. The lack of evidence of authorizations can sometimes result in orders to suspend production, thereby interfering with lawful business.
TRADEMARK ENFORCEMENT

Introduction

Trademark owners face a variety of challenges in the PRC, ranging from trademark piracy (the preemptive registration of trademarks belonging to third parties) to the counterfeiting of registered trademarks. Since the mid-1990s, the problem of counterfeiting (i.e., the outright copying of a product and the unauthorized use of a PRC-registered trademark for goods covered by the registration) has been acute, with a wide range of consumer and industrial goods being targeted by PRC infringers.

The Chinese government has responded to calls from both foreign and local brand owners to take steps to address this problem, particularly through greater reliance on criminal enforcement. Campaigns against counterfeiting have previously been pursued by the SAIC and the State General Administration for Quality Supervision, Inspection and Quarantine (“AQSIQ”). Campaigns organized by the latter have focused on both counterfeiting and products that violate product quality standards. Campaigns have also been initiated by the Ministry of Public Security (“MPS”), which is empowered to pursue criminal investigations against IP violations under the Criminal Code. Finally, in recent years there have been an increasing number of national “Joint Campaigns” against IP violations, involving cooperation by several ministries, such as the MPS, the General Administration for Customs, the SAIC, and the State Intellectual Property Office, among others.

Trademark Piracy

Pirates in the PRC and abroad frequently file applications to register trademarks that are identical or similar to trademarks
belonging to third parties. These applications can be dealt with through opposition or cancellation proceedings, depending on whether the applications are discovered pre- or post-registration.

**Oppositions to Preliminarily Approved Marks**

Trademark oppositions must be filed within three months of publication of the relevant mark and can be filed by anyone, not just by parties who consider that their rights are being infringed. This means that oppositions can be filed anonymously (via apparently unconnected third parties), where this is considered desirable.

The Trademark Law contains a number of grounds to oppose pirate trademark applications. Reference can also be made to international treaties to which the PRC is a party and to local legislation regulating business activities carried out in the PRC (e.g., the *General Principles of the Civil Law* and the *Anti-Unfair Competition Law*).

The Trademark Law also prohibits the registration of trademarks that conflict with the lawful prior rights of third parties. In particular, improper means may not be used to preemptively register a third party’s trademark that is already in use and which enjoys a certain degree of influence.

Enhanced protection for well-known trademarks was also provided under the 2002 revision of the Trademark Law, its Implementing Regulations, and the *Regulations on the Recognition and Protection of Well-Known Marks*. These provisions are discussed more fully below.
Cancellations

The Trademark Law allows any party to apply to the TRAB to cancel a trademark registration obtained by “deceptive or improper means”. This phrase is not specifically defined in the Trademark Law or its Implementing Regulations. However, it is generally thought to refer to situations where registrations are obtained using fabricated evidence, withheld facts or forged documents.

Where a registered trademark violates provisions of the Trademark Law protecting well-known marks or those prohibiting registration of marks that infringe another party’s legal prior rights, the trademark owner or “interested party” (which should also cover an exclusive trademark licensee) may apply to the TRAB for cancellation of the trademark within five years of its registration. The owner of a well-known trademark is not subject to the five-year time limitation if the objectionable trademark was registered in bad faith.

Trademark registrations held by parties that have died or been “terminated” (e.g., whose business registration has been canceled) are also subject to cancellation. Petitions for cancellation may be filed where no efforts to transfer the registration have been made within one year after the death or termination of the trademark owner. Producing evidence acceptable to the Trademark Office in support of such an application remains problematic. In the case of a business entity, evidence showing that it has been deregistered by the relevant local AIC office for more than two years is usually sufficient.

As in the case of oppositions, cancellation applications can be based upon the provisions of the Trademark Law, other
applicable PRC legislation and international treaties to which the PRC is a party.

Where an application is made to cancel a PRC-registered mark, the TRAB must notify the parties and set a deadline for the submission of a defense. It must also promptly provide a copy of the trademark registrant’s response to the cancellation application to the party applying to cancel the registered mark.

As with oppositions, the TRAB may partially cancel registrations (by deleting certain goods or services from the list of specified items) where only part of the registration is found to have been improperly registered.

A party dissatisfied with the TRAB’s ruling on a cancellation application may initiate appeal proceedings in the People’s Courts.

**Infringement**

Under the Trademark Law, the following acts constitute an infringement of the exclusive right to use a registered trademark:

- Use of a trademark that is the same as or similar to a registered trademark on the same or similar goods without the permission of the trademark registrant;
- Sale of goods that infringe the exclusive right to use a registered trademark;
- Forgery or unauthorized manufacture of representations of another’s registered trademark, or the sale of representations of a registered trademark that were forged or manufactured without authorization;
• Substituting another trademark for the trademark of a trademark registrant without its consent, and putting goods bearing the substituted trademark back on the market; or

• Causing other harm to another party’s exclusive right to use a registered trademark.

The Implementing Regulations specify that registrations containing generic names, devices, model numbers or other descriptive elements will not be enforceable against third parties making legitimate use of such elements.

The Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of the Law to the Trial of Civil Dispute Cases Involving Trademarks (the “Trademark Civil Dispute Interpretation”), effective on 16 October 2002, also specifies three other circumstances that may be regarded as infringements:

• Use of a registered trademark within a trade name that is used “prominently” in relation to goods that are similar or identical to those for which the mark is registered;

• Use of a registered trademark that is a reproduction, imitation or translation of a well-known mark for goods that are dissimilar to those for which the mark is registered; and

• Registration and use of a domain name which is similar to a registered trademark where such use is made in relation to goods that are similar to those for which the mark is registered.

Where an act of registered trademark infringement occurs, the trademark registrant or interested party may pursue
administrative or judicial actions. In certain cases, criminal liability may also be pursued.

**Administrative Enforcement**

Complaints to AICs seeking administrative remedies may be filed by the registrant of the infringed mark or by an interested party.

**AIC Investigation Powers**

When investigating suspected trademark infringement cases, AICs can exercise the following powers, which, while significant, are limited when compared to those of Chinese police:

- Questioning the concerned parties and investigating the circumstances connected with the infringement;
- Consulting and copying the concerned parties’ contracts, invoices, account books and other materials connected with the infringement;
- Conducting an on-site inspection of the site where the concerned parties are suspected of being or having been engaged in the infringement; and
- Inspecting articles connected with the infringing activities, and sealing up or impounding those which it has evidence to show infringe the third party’s registered trademark rights.

**AIC Remedies**

If, after its investigation, an AIC determines that an infringement has occurred, it can impose these remedies:
• An order to the infringer to immediately cease the acts of infringement;

• Confiscation and destruction of the tools of infringement and the tools used to manufacture the infringing goods and to forge the representations of the registered trademark; and

• An administrative fine against the infringer.

Under the Trademark Law, AICs do not have the power to award compensation to the party whose rights have been infringed, and trademark owners must either seek compensation through negotiations or through civil actions in the People’s Courts. Local AICs are permitted to assist parties in reaching negotiated settlement through mediation, but they rarely do assist with mediation due to a range of practical considerations.

The Implementing Regulations grant AICs the power to impose administrative fines of up to three times the infringer’s “illegal business amount”, i.e., the value of goods seized as well as those previously sold. The Implementing Regulations also provide for discretionary fines up to RMB100,000 in cases where “it is difficult to ascertain the illegal business amount”. Unfortunately the Implementing Regulations do not provide detailed guidelines to AICs on the calculation of fines, and thus the final amount of fines imposed in most cases is disappointing. Consequently, trademark owners are normally encouraged to consider civil and criminal enforcement as means of generating greater deterrence.

If an infringer is dissatisfied with an AIC’s decision, it may seek a review from the same or a higher-level AIC or initiate proceedings in a People’s Court in accordance with the Administrative Procedure Law of the PRC. Such proceedings must be initiated within 15 days of the date on which the infringer
receives notification of the decision. However, such appeals are quite rare in practice.

While the Trademark Law is somewhat ambiguous on this point, trademark owners are in practice precluded from challenging AIC decisions, whether to higher-level AICs or to the People’s Courts.

**TSB Enforcement**

In cases involving the production of counterfeits or other products that fall under the category of “fake and inferior products”, the Technical Supervision Bureaus (“TSBs”), set up under AQSIQ, may be requested to intervene in much the same way as the AICs. The TSBs are authorized to take action under the 1993 *Product Quality Law of the PRC* (“Product Quality Law”), which was amended effective 1 September 2000.

Like AICs, the TSBs are empowered to investigate premises and make seizures without the need for search warrants or other lengthy procedural requirements. TSBs can also order the confiscation of products and the imposition of fines. It is however, important to note that the TSBs can only punish and penalize infringers under Product Quality Law regulations and not under the Trademark Law. Thus, the remedies and penalties described above for trademarks will not apply.

**Customs Enforcement**

PRC customs authorities are empowered to confiscate products that infringe registered trademarks, copyright or patents upon their import into or export from the PRC. Obtaining customs protection for trademark and other IP rights is explained more fully below.
Civil Actions

Civil litigation against trademark infringers in the People’s Courts has always been possible, but in the past brand owners have tended to avoid litigation due to concerns that compensation awards—if obtained—would not cover litigation expenses. However, Chinese courts in many cities have become increasingly generous in their compensation awards, prompting more companies to resort mainly to civil enforcement to protect their rights. Some companies report being able to pursue enforcement programs on a self-funding basis.

The Trademark Law allows courts to award statutory damages of up to RMB500,000 (about USD77,000) in cases where the plaintiff’s losses or the defendant’s profits cannot easily be proved. Further, courts can compensate trademark owners for enforcement-related expenses, including legal and investigation costs (although such awards are normally modest).

Most civil actions are decided within nine to 18 months. Delays of up to three years are possible, but occur only in cases where the subject matter is politically sensitive or complicated legal questions are presented.

In China’s major cities, civil courts are now relatively experienced in handling trademark infringement cases. IP Tribunals were first set up in the Beijing Intermediate People’s Courts and the Beijing Higher People’s Court, and have now been established in a number of other Chinese cities, including Shanghai, Fuzhou, Guangzhou, Chengdu, Shenzhen, Zhuhai, Shantou, and Haikou.

Jurisdiction for IP cases was further clarified by the Supreme People’s Court ("SPC") Notice on Adjustment of Jurisdictional Standards of Local People’s Courts at Various Levels over First
Instance Intellectual Property Rights Civil Cases, effective on 2 February 2010, under which Higher People’s Courts have jurisdiction over first instance cases where the claim is at least RMB200 million (about USD31 million), or where the claim is at least RMB100 million and one of the parties is domiciled abroad (including in Hong Kong, Macau or Taiwan). The Notice also provides guidance on jurisdiction in special types of first instance cases, including disputes involving new plant varieties, integrated circuit layout designs, and determinations of well-known trademarks.

Preliminary Injunctions and Pre-Trial Preservation Orders

The Trademark Law allows trademark registrants or interested parties to apply to a People’s Court for pre-trial injunctions against actual or threatened acts of infringement, and for orders for the preservation of property. To obtain such an injunction or order, the applicant must provide evidence showing that:

- Another person is carrying out or is about to carry out an act of infringement; and
- Failure to halt the act immediately would cause damage to the lawful rights and interests of the registrant or interested party that would be difficult to remedy.

In December 2001, the SPC issued an Interpretation on the Law Applicable to Pre-Trial Suspension of Acts of Infringement of the Exclusive Right to Use a Trademark and to Preservation of Evidence, setting out in greater detail the criteria for granting preliminary injunctions in trademark infringement cases.

Under the Trademark Law, trademark registrants and materially interested parties may also apply for preservation of evidence if the evidence might be destroyed, lost or difficult
to obtain later. In such cases, People’s Courts are required to make a decision within 48 hours of receipt of the application and they may order the applicant to provide security.

**Awards of Damages and Costs**

Under the Trademark Law, the measure of damages in trademark infringement cases is the benefit gained by the infringer or the loss suffered by the party whose rights have been infringed.

Plaintiffs may elect the method for calculating compensation. This can include an accounting of profits from the infringer or the plaintiff’s own losses. If the infringer’s profits are impossible to ascertain, the plaintiff’s profit margin may be used as a reference. Where the plaintiff elects compensation for its losses, those losses may be calculated by reference to the reduction in sales caused by the infringing product, or by multiplying the sales amount of the infringing product by the unit profit of the genuine product.

As noted above, statutory damages of up to RMB500,000 are also available. The Trademark Civil Dispute Interpretation requires courts to consider the following factors when determining awards of statutory damages:

- The nature, period and consequences of the infringement;
- The reputation of the trademark;
- The amount of trademark licensing royalties normally paid on sales of the genuine item;
- The types, periods and scopes of trademark licenses for the mark; and
• The reasonable expenses incurred in stopping the infringement.

Before 2002, sellers of infringing goods were exempt from liability unless there was evidence that they “knew” or “should have known” that the goods were infringing. This knowledge requirement for sellers has now been removed, and sellers may now be subject to fines, confiscation of fakes and other measures. However, sellers of infringing items are not liable for damages where they can prove that they obtained the goods lawfully and they identify the supplier. In practice, vendors rarely present such evidence.

Judicial Recognition of “Well-Known” Marks

The Trademark Civil Dispute Interpretation allows courts to formally recognize the well-known status of a mark during a civil dispute. In April 2009, the SPC promulgated the Interpretation on Several Issues Concerning the Application of Law in the Recognition and Protection of Well-Known Trademarks during the Trial of Civil Dispute Cases over the Infringement of Trademark Rights (“Well-Known Civil Dispute Interpretation”, effective 1 May 2009) which indicates the types of civil disputes in which a well-known mark status determination may be made. According to the Well-Known Civil Dispute Interpretation, a People’s Court may recognize a trademark as “well-known” in the following civil disputes:

• Trademark infringement disputes arising from the attempted registration of an alleged well-known mark on similar or dissimilar goods;

• Trademark infringement disputes or unfair competition actions based on an enterprise name being identical or similar to a well-known trademark;
Trademark infringement disputes where, in response to a charge of infringement, a defendant pleads or counterclaims that plaintiff’s registered trademark is a copy, imitation or translation of the defendant’s unregistered well-known trademark.

An earlier draft of the Well-Known Civil Dispute Interpretation explicitly acknowledged that evidence of fame outside of China should be taken into account, and while the final version removed that provision, in practice Chinese courts have taken evidence of fame outside China into account, depending on the nature of the case.

Finally, the Well-Known Civil Dispute Interpretation provides a non-exhaustive list of the types of evidence a court may consider when making a well-known mark determination, including evidence of wide distribution and sales of the mark in China, whether the mark has been infringed and protected before, and appraisals that objectively show the mark’s market value.

In cases where a mark has already been recognized as well-known by the Trademark Office (or another court), and the defendant does not dispute the well-known status, the court hearing the dispute can conclude that the mark in question is indeed well-known without conducting a separate detailed review.

**Civil Enforcement by Trademark Licensees**

Licensees’ ability to bring civil suits to combat infringements is clearly provided for in the Trademark Civil Dispute Interpretation. It divides trademark licenses into three categories: exclusive, sole and non-exclusive. Exclusive licenses permit only the licensee to use the mark within a
specified territory. Sole licenses permit the trademark owner and licensee, but no others, to use the mark within a specified territory. Non-exclusive licenses permit the trademark owner to use the mark and also to freely license it to other parties.

Under the Trademark Civil Dispute Interpretation, exclusive licensees may bring civil suits before the court without prior approval from the trademark owner. Sole licensees may do so jointly with the trademark owner, or on their own if the trademark owner decides not to file suit. Non-exclusive licensees may file infringement claims only if they are clearly authorized to do so by the trademark owner.

### Criminal Enforcement

Criminal enforcement of IP rights, including trademarks, is governed by the *Criminal Code*, under which the following acts of trademark counterfeiting can constitute a crime, if the circumstances qualify as “serious”:

- Use of a trademark identical to a registered trademark on the same type of goods without the permission of the owner of the registered trademark;
- Sale of goods in the knowledge that they bear a counterfeit registered trademark; and
- Forgery or manufacture without authorization of representations of another person’s registered trademark, or sale of representations of a registered trademark that have been forged or manufactured without authorization.

If the circumstances are “serious”, the defendant can be sentenced up to three years’ imprisonment and/or be required to pay a fine. If the circumstances are “exceptionally serious”, the defendant must be sentenced to at least three years’
imprisonment and a maximum of seven years, and must also pay a fine.

The SPC and the Supreme People’s Procuratorate ("SPP") jointly issued judicial interpretations in December 2004 and April 2007 setting out criteria for determining whether a particular case qualifies as “serious” or “exceptionally serious”, with most criteria focused on the value of offending goods involved. These interpretations also set out thresholds for handling copyright and trade secrets cases.

For trademark counterfeiting, the base threshold for criminalization of a case against a producer of fakes is RMB50,000 (about USD8,000). If two or more trademarks are being counterfeited by the same producer, the threshold is reduced by 40 percent, to RMB30,000 (about USD4,800).

Under the Opinion of the SPC, SPP, and MPS on Several Questions on Handling Criminal Cases involving Infringement of Intellectual Property (the "Joint Criminal IP Opinion"), issued on 10 January 2011, the relevant threshold for pursuing criminal liability against mere vendors is three times this amount, or RMB150,000 (about USD24,000).

Thresholds are also provided which rely on the amount of profits generated by an infringer. These thresholds are generally quite low, but proving infringers’ profits has traditionally been difficult in practice.

As noted above, where the counterfeiting is “exceptionally serious”, a minimum mandatory three-year prison term is required. A chart outlining criminal thresholds applicable in different circumstances is set out below.
## Criminal Thresholds for Counterfeiting Registered Trademarks

<table>
<thead>
<tr>
<th></th>
<th>Serious - One Mark Infringed</th>
<th>Exceptionally Serious - One Mark Infringed</th>
<th>Serious - Two+ Marks Infringed</th>
<th>Exceptionally Serious - Two+ Marks Infringed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producers</td>
<td>Illegal Turnover ≥ RMB50,000</td>
<td>Illegal Turnover ≥ RMB250,000</td>
<td>Illegal Turnover ≥ RMB30,000</td>
<td>Illegal Turnover ≥ RMB150,000</td>
</tr>
<tr>
<td></td>
<td>Illegal Income ≥ RMB30,000</td>
<td>Illegal Income ≥ RMB150,000</td>
<td>Illegal Income ≥ RMB20,000</td>
<td>Illegal Income ≥ RMB100,000</td>
</tr>
<tr>
<td>Vendors</td>
<td>Illegal Turnover ≥ RMB150,000</td>
<td>Illegal Turnover ≥ RMB750,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

“Illegal turnover” is generally calculated by the actual sales price of the goods. The judicial interpretations also permit reliance on the victim’s retail prices in cases where the infringer’s prices cannot be determined.

The judicial interpretations also provide some guidance on what is meant by “identical trademarks”: they include those that “by and large are not visibly different from the trademark passed off and thus are misleading to the public”. In the past, police and prosecutors have refused to proceed in cases where even a small and nearly imperceptible variation existed between the registered trademark and the mark depicted on counterfeit products, arguing that the two marks were not “identical.”
Unfortunately, these interpretations failed to include provisions in prior guidelines which allowed for criminal prosecutions or convictions in cases involving repeat offenders, but the Joint Criminal IP Opinion explicitly indicates that revenues and profits generated from separate violations within a two-year period may be accumulated to meet criminal thresholds where the infringer has not previously been subject to administrative or criminal punishment. If an earlier violation committed more than two years before the second violation already met criminal thresholds, then the two-year limit will not apply.

While these interpretations represent a substantial step forward in loosening the constraints on prosecution of IP related crimes in the PRC, and despite a successful defense of thresholds before the WTO Dispute Settlement Body, the current thresholds still function as a severe barrier to involvement of Chinese police in the investigation of IP crimes.

**Regulations on Transfer of Cases to Police**

In early 2006, the MPS issued four sets of regulations together with national prosecutors, customs and the SAIC intended to promote transfer of administrative enforcement cases to the police, after verification that they satisfy thresholds for prosecution set out in judicial interpretations. These regulations set out detailed procedures for transfer of cases and for IP owners and the authorities to challenge the rejection of transfers.

**Private Prosecutions**

Where the Chinese police and prosecutors are unable or unwilling to handle individual counterfeiting cases, Chinese law permits IP owners to pursue criminal enforcement through the filing of “private criminal prosecutions”. There have been
relatively few private prosecutions to date in China, but a few cases have previously been pursued with positive results by foreign and local brand owners.
CUSTOMS PROTECTION

Under the current PRC *Customs Regulations* (last amended on 24 March 2010, effective 1 April 2010), holders of trademarks registered in China, patents issued by the PRC Patent Office and any copyrighted subject matter may apply for protection of those rights via customs recordal. Customs protection against import or export of suspected infringing goods can be obtained either administratively via the General Administration of Customs (“GAC”), or judicially via the People’s Courts, depending on the nature of the seizure of the suspected infringing goods.

**Recordal of Rights**

As noted above, customs recordals may be obtained for PRC registered trademarks, patents and any copyright subject matter. Although recordal is not required for customs to seize suspected infringing goods, in practice customs will not take action in cases without recordal unless the IP owner specifically requests it to do so. Recordal also gives an IP owner access to a substantially reduced seizure bond schedule (see below). An owner who has not recorded must post a substantial bond.

Recordals last for 10 years, provided the underlying right remains valid throughout this period.

When a trademark registration expires (normally after 10 years), the corresponding customs recordal expires as well, unless the owner renews the trademark registration before its expiry. It normally takes three to five months for the Trademark Office to process a renewal application, so to reduce the risks of temporary lapses in customs protection, trademark owners are strongly recommended to apply to renew their trademark registrations as early as possible. As noted above, renewal
applications may be filed only six months before the expiration date. The GAC decides whether to approve an application for renewal of a customs recordal in ten [10] working days.

If customs protection does lapse, a fresh application for recordal can be filed at little additional cost.

An IP rights holder must keep its recordal details up to date. GAC has the power to cancel recordals, either ex officio or upon application of an interested party, where failure to update has seriously affected the legitimate import or export operations of others or the customs’ discharge of its duties in supervising and managing import and export activities. Customs encourages IP rights holders to provide them with updated lists of authorized exporters/factories.

**Administrative or Judicial Determination**

If customs detects suspected infringing goods and an appropriate customs recordal is in place, customs will detain the goods and ask the IP owner to quickly confirm whether the goods are infringing and to request formal enforcement measures. If the owner does request enforcement measures, it must post a seizure bond and submit an application with evidentiary documents while customs further investigates. Customs must make an infringement determination within 30 working days after the seizure.

If the goods are determined to be infringing, PRC customs rules call for them to be confiscated and disposed of. If customs cannot determine whether the goods are infringing, the IP rights holder must then obtain a preliminary injunction or other notice of assistance from a civil court within 50 working days from the date of the seizure.
If a customs recordal is not in place, the process is similar, except that the IP rights holder will normally have to post a significantly higher bond, and must obtain a preliminary injunction or other notice of assistance from a civil court within 20 working days from the date of the seizure.

**Articles Sent by Post or Carried by Individual Travelers**

The Customs Regulations provide that articles sent by post or carried by individual travelers that are found to infringe others’ IP rights will be handled as “infringing goods”, and provisions for infringing goods will apply to them. Accordingly the sender or traveler could be subject to an administrative fine or even criminal liability.

**Withdrawal of Complaint and Settlement of Dispute**

The Customs Regulations allow IP owners to withdraw a complaint before customs has determined that the seized goods are infringing, in which case, customs should release the goods. This provides a legal basis for a rights holder to settle with an importer / exporter and have the goods released.

**Bonds**

Bond requirements guarantee that customs costs will be covered in the event of an improper seizure or an IP owner’s refusal to cover storage or other disposal costs. Bonds must be paid in local currency. IP rights holders may either post a letter of guarantee provided by a bank or a non-banking financial institution or tender cash.

IP owners who have not recorded their rights must post a bond equal in value to the seized goods. For those who have recorded
their rights, bond requirements may be significantly lower, as follows:

<table>
<thead>
<tr>
<th>Value of goods seized with recordal</th>
<th>Amount of bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB20,000 or less</td>
<td>Equal to value of goods</td>
</tr>
<tr>
<td>Between RMB20,000 and RMB200,000</td>
<td>50 percent of the goods’ value but in no case less than RMB20,000</td>
</tr>
<tr>
<td>More than RMB200,000</td>
<td>Bond requirements capped at RMB100,000</td>
</tr>
</tbody>
</table>

Seized goods that are suspected of infringing a patent right may be released via a counter-bond in the amount of 100 percent of the value of the goods.

IP owners must pay destruction and storage costs for the seized goods, and there are no provisions requiring infringers to pay these costs. They should be recoverable as part of a separate civil claim for compensation, but in practice IP owners have so far rarely pursued such claims for various reasons.

The *Customs Regulations Implementing Rules* allow trademark owners who have experienced relatively severe counterfeiting over the previous 12 month period to file a general bond with GAC to avoid having to post individual bonds in each case.

**Deadline for Customs Determinations**

Although customs is theoretically required to issue decisions on seized goods within 30 working days, in practice, decisions normally end up taking six to 24 months, during which time substantial storage fees, payable by IP owners, may accumulate.
Disposal of Offending Products

If customs deems goods to be infringing, it may choose one of four methods to dispose of them:

- donation to a charity;
- sale to the rights holder;
- auction (subject to removal of all infringing features); and
- destruction (if offending labels cannot be removed).

Regulations continue to favor the donation of infringing goods to charity without the removal of infringing labels. IP owners can insist upon removal but they will likely be required to pay the costs.

If the goods are auctioned, the proceeds will be remitted to the national treasury. Typically, IP owners are required to pay for the destruction of infringing goods.

Notably, simple removal of unlawfully affixed trademark representations is insufficient for customs to release imported counterfeits into commercial channels except under special circumstances. Customs must destroy infringing goods where infringing features cannot be removed. This is a new provision in the current Customs Regulations, seen as a response to a ruling of the WTO’s Dispute Settlement Body in a case filed by the USA against China several years ago.

Administrative Penalties

Customs may impose fines of up to 30 percent of the value of the infringing goods. Customs can also impose fines of up to RMB50,000 (about USD8,000) against consignors and consignees if they fail to truthfully declare the IP rights at issue.
or otherwise fail to submit proper supporting documentation. However, in practice, customs does not routinely impose fines, mainly because most exporters of counterfeit goods are just small-scale traders, not producers, and collecting fines from them has proved challenging (as with civil awards).

Where an individual is fined more than RMB10,000 (about USD1,600), or an enterprise more than RMB100,000 (about USD16,000), there is now the right to prior notice and a hearing. Unfortunately the infringed party does not appear to have a similar right to appeal determinations on fines.

**Criminal Enforcement**

In principle, customs is now required to transfer all cases that meet criminal prosecution thresholds to the Chinese police. As noted in the trademark enforcement chapter of this Guide, an infringer can in theory be criminally prosecuted where the value of the seized goods exceeds RMB50,000. But in practice Chinese police have been reluctant to accept customs cases due to a lack of resources, legal uncertainties in pursuing middlemen traders (who are normally engaged as a buffer by the producers of fakes), and difficulties in generating the required evidence against the real culprits.

Chinese law requires that middlemen be found to have acted with knowledge as a condition to criminal liability, and in most cases, trading companies handling exports of fakes are able to convincingly demonstrate to police they lacked actual knowledge.

**Access to Information**

The Customs Regulations Implementing Rules set out the types of information that customs may provide to IP owners
following the formal seizure of goods, including the quantity of infringing goods, the name of the consignor/consignee, and the source and destination ports of the infringing goods. The Customs Regulations Implementing Rules also permit customs to provide “other information”, but in practice, absent a court order, local customs is normally reluctant to provide copies of documentation or even the identity of the intended buyers overseas or the factory suppliers of the goods in China.

**Scope of Enforcement**

Chinese customs only has authority over parties that declare goods to customs for import or export. In most instances, these parties are not the manufacturers of the goods but the import and export agents that arrange for the shipment of goods into or out of China.

Accordingly customs has routinely limited its investigations and penalty decisions to only the agents, leaving the rights holder to independently investigate and pursue manufacturers of infringing goods.
DOMAIN NAMES

A domain name is an alphanumeric name that corresponds to an Internet Protocol address (“IP Address”), which is in turn, a routing address on the Internet, made up of a string of numbers. For instance, the domain name www.internic.net corresponds to the Internet Protocol address of 192.0.34.161.

Domain names consist of a sequence of letters or numbers separated by dots. The last dot and the group of letters after it is known as the top-level domain (“TLD”). Moving backwards, the group of letters immediately preceding the last dot is known as the second-level domain (“SLD”), and so on. For example, in www.abc.com, “.com” is the TLD and “abc” is the SLD.

Domain Names in the PRC

A “ccTLD” is a country code top-level domain name. It typically consists of two letters representing the name of a country, territory or other geographical location. For example, “.cn” is used to represent the PRC.

In the PRC, “.cn” SLDs are further divided into “category domain names” and “administrative division domain names”. The different category domain names and their meanings are illustrated in the table below.

<table>
<thead>
<tr>
<th>Domain Name Type</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>.com.cn</td>
<td>Enterprises of industry, business and finance, etc.</td>
</tr>
<tr>
<td>.org.cn</td>
<td>Non-profit organizations</td>
</tr>
<tr>
<td>.gov.cn</td>
<td>Governmental organizations</td>
</tr>
<tr>
<td>.ac.cn</td>
<td>Science and research institutions</td>
</tr>
<tr>
<td>.edu.cn</td>
<td>Educational institutions</td>
</tr>
<tr>
<td>.cn</td>
<td>The People’s Republic of China</td>
</tr>
</tbody>
</table>
Chinese-Language Domain Names

Chinese-language domain names consist of Chinese characters, and may also contain Roman letters, numerals and/or hyphens. Chinese-language domain names can be registered in both simplified and traditional Chinese characters. Simplified Chinese characters are typically used in the PRC, while traditional Chinese characters are used in both Taiwan and Hong Kong.

Registration of a domain name in either simplified or traditional Chinese characters will permit visitors who input the other Chinese character version to access the same website. Once a domain name has been registered using either simplified or traditional characters, third parties will not be permitted to register the other Chinese character version as a domain name.

There are currently 43 separate and competing registrars that facilitate the registration of Chinese-language domain names. Two of the 43 registrars are based outside the PRC. The remaining 41 are all domestic registrars, accredited by the China Internet Network Information Center ("CNNIC") to manage applications for Chinese-language domain names.

Legislation

Registration and administration of domain names in the PRC was first established by the Provisional Measures for the Administration of the Registration of Domain Names on China’s Internet (the "Provisional Measures") and the Detailed Implementing Rules for the Registration of Domain Names on China’s Internet (the “Internet Implementing Rules”), both of which were promulgated on 3 June 1997.
The PRC has subsequently issued several sets of rules and regulations which dramatically improve upon the initial regime for the registration and protection of Roman letter domain names under the “.cn” country code and Chinese-language domain names registered under suffixes equivalent to “.cn”, “.com”, and “.net” [中国, .公司, and .网络].

The Measures for the Administration of Internet Domain Names in China, issued by the Ministry of Industry Information Technology ("MIIT"), effective on 30 September 2002, superseded the Provisional Measures. These Measures were in turn superseded by newer Measures for the Administration of Internet Domain Names in China, effective on 20 December 2004 (the “Domain Name Measures”) which provide additional compliance requirements in relation to the establishment of domain names system root servers in the PRC.

In June 2009, CNNIC implemented the Detailed Implementing Rules of the China Internet Network Information Center for the Registration of Domain Names (the “Registration Rules”). The Registration Rules provide additional rules for CNNIC-accredited registrars, detailed provisions on domain name ownership changes, and dispute resolution procedures. At present, the Domain Name Measures together with the Registration Rules are the main legislation governing the registration and administration of domain names in the PRC.

Other rules and regulations governing PRC domain name issues include the Measures of the China Internet Network Information Center for the Resolution of Domain Name Disputes (the “CNNIC Dispute Resolution Measures”), and the accompanying Procedural Rules for the Measures of the China Internet Network Information Center for the Resolution of Domain Name Disputes (the “CNNIC Dispute Resolution Procedural Rules”), effective on 17 March 2006 and 8 October 2007, respectively.
The MIIT *Measures for the Administration of Internet IP Address Recordal*, effective on 20 March 2005, provide a structured framework for the allocation of IP addresses and compliance issues.

**Administrative Authorities**

Top-level domain names “.cn” in the PRC are administered by CNNIC. CNNIC’s database of “.cn” top-level domain names is freely accessible by the public via searches at CNNIC’s website, www.cnnic.net.cn.

**CNNIC Registration Procedures**

Protection for “.cn” domain names is generally achieved through registration. However, CNNIC has recently announced that foreign companies are prohibited from registering .cn domain names in China. They may only register such domains in the name of their PRC or Hong Kong subsidiaries.

Like many other countries, the PRC’s domain name registration system follows a first-to-file rule, that is, the first applicant to file an application will preempt all later applicants.

Although registration of domain names incorporating third-party names or marks is prohibited, CNNIC does not verify compliance with this rule prior to registration and will not conduct independent checks to verify that a domain name does not infringe upon the trademark rights of others.

As noted above, Chinese-language domain names must contain Chinese characters and may also incorporate Roman letters, numerals or hyphens. Such domain names may not be longer than 20 Chinese characters.
Although CNNIC is responsible for maintaining the registry, it does not accept applications for registration of “.cn” and Chinese-language domain names directly from applicants. Instead, applications are filed through registration agencies, known as “registrars,” authorized by CNNIC. A list of accredited registrars is available on the CNNIC website.

Application for Domain Name Registration

Applications for the registration of a domain name may be carried out by submitting a domain name application form to an appointed domain name registrar and executing a domain name registration agreement with the registrar via online registration either by e-mail or by other means.

An application for the registration of a domain name must include the following particulars:

- The domain name applied for;
- The host names and IP addresses of the primary and secondary domain name servers;
- The name, person-in-charge, industry, correspondence address, postal code, e-mail address, telephone and facsimile numbers and certification information of the applicant; and
- The names, units, correspondence addresses, postal codes, e-mail addresses, telephone and facsimile numbers of the contact persons for technical aspects, administration and payment of fees in respect of the domain name and the person handling the application of the domain name.

- CNNIC has recently required that photocopies of identification cards/passports of administrative contacts be included with applications to register new .cn domain
names. CNNIC may soon require that such materials be filed for all existing .cn domains as well. CNNIC recently imposed a prohibition on offshore registrars filing .cn domain name applications, aside from those submitted by local subsidiaries of foreign companies.

In the domain name registration agreement, the applicant must also warrant that:

- It will abide by the relevant laws and regulations;
- It will abide by the *Measures for the Administration of Internet Domain Names in China* and other relevant regulations of the competent authorities;
- It will comply with the relevant CNNIC regulations and their amended versions; and
- The domain name registration information which it submits is true, accurate and complete.

Domain name registrars are also empowered to delete domain names that violate regulations. In practice, however, domain name registrars do not normally exercise this power for various reasons.

If a domain name applicant or owner is dissatisfied with the domain name registrar’s deletion of its domain name, it may petition the authority in charge of domain names for a review of the registrar’s decision.

The information on the domain name registration application form will be made publicly available on CNNIC’s website (www.cnnic.net.cn) and the relevant registrar’s website, unless the applicant expressly requested that it not be disclosed.
Assignment of Domain Names

A domain name registrant may assign its “.cn” domain name by submitting to the relevant registrar a domain name assignment application form that bears the applicant’s official seal or has been notarized. Both Chinese language and Roman letter domain names may be assigned.

Upon approval by the registrar, the assignment is effective and the domain name is made available for use.

Internet Service Provider/Internet Content Provider Registration

All websites that rely on servers based in the PRC and those connected to .cn domain names that rely on foreign servers are now required to designate an entity in China to apply for registration with MIIT. The applicant would then presumably be held accountable for the website’s compliance with Chinese law.

Also, all Internet Service Providers ("ISPs") inside China which provide access to servers now have to register with MIIT. But owners of .cn names and other domains that rely on China-based servers are not required to register with MIIT.

Once the Internet Content Provider ("ICPs") registration has been approved, the ICP Registration number should be displayed on the website. Failure to comply with this requirement may result in the imposition of fines.

Provision of Registrants’ Information

Since late 2009, owners of existing .cn domain names have had to provide more detailed information on administrative contacts and upload through their registrars copies of their business licenses.
Trademarks Versus Domain Names

Although one might reasonably expect a domain name consisting of a trademark to be associated with the trademark owner, this may not necessarily be the case, since domain names differ from trademarks in both their nature and the rights that they confer.

Each domain name is unique and can only be allocated to one entity. Therefore, unlike trademarks, where it is possible for different owners to register and use identical trademarks, only one unique domain name can be registered under each TLD, regardless of the registrant’s geographical location or the nature of its business.

It is possible, however, for the same name to be registered by different entities under different TLDs. Furthermore, domain names *per se* do not attract rights that can be protected. Under the existing ccTLD registration systems (which may differ from country to country), domain names are granted quite liberally, usually on a first-come-first-served basis.

Domain Name Dispute Resolution

Chinese Dispute Resolution Proceedings

As of 17 March 2006, disputes involving the registration or use of “.cn” domain names and Chinese-language domain names subject to CNNIC’s management are to be handled in accordance with the CNNIC Dispute Resolution Measures and the CNNIC Dispute Resolution Procedural Rules.

Any organization or individual that believes a domain name registered by a third party conflicts with its legitimate rights or interests may file a complaint with one of two bodies appointed by CNNIC to handle domain name disputes: the Domain Name
Dispute Resolution Centre of the China International Economic and Trade Arbitration Commission ("CIETAC") and the Hong Kong International Arbitration Center ("HKIAC"). Both are required to adjudicate disputes in accordance with CNNIC’s Dispute Resolution Measures, which are modeled on the Uniform Domain Name Dispute Resolution Policy ("UDRP").

In 2001, both CIETAC and the HKIAC were authorized by the Internet Corporation for Assigned Names and Numbers ("ICANN") to establish the Asian Domain Name Dispute Resolution Center ("ADNDRC"), which permits both to offer UDRP dispute resolution for .com disputes involving registrants based in China and Hong Kong.

In 2007, CNNIC issued rules limiting dispute resolution proceedings to .cn domains registered for two years or less. Names registered beyond this limit may only be addressed through civil actions.

To succeed, a complainant must satisfy all three of the following conditions:

- The disputed domain name is identical with or confusingly similar to the complainant’s name or mark in which the complaint has civil rights or interests;
- The disputed domain name holder has no right or legitimate interest in respect of the domain name or a major part of the domain name; and
- The disputed domain name holder has registered, or is using, the domain name in bad faith.

The owner of the disputed domain name is deemed to have registered or used the domain name in bad faith if:
• It has registered or accepted the assignment of the domain name in order to sell, lease or otherwise transfer it so as to obtain improper benefits;

• It has on numerous occasions registered, as its own domain names, names or marks in which third parties have legitimate rights and interests, so as to prevent the third parties from using those names or marks as domain names;

• It has registered or acquired the domain name for the purposes of damaging the complainant’s reputation, disrupting its normal business activities or creating confusion about its name or mark to mislead the public; or

• It has otherwise acted in bad faith.

Decisions issued by an authorized dispute resolution institution are typically limited to changing the status of the domain name, and may include cancellation or transfer of the domain name to the complainant. The dispute resolution institution does not have the power to award damages to the complainant.

Domain name dispute resolution proceedings are speedy and are usually concluded within two to three months. They are normally conducted via written submissions and all correspondence is sent via email. Where necessary, the presiding panel may hold an open hearing on a case. Hearings may also be held at either party’s request, subject to payment of additional fees.

Before a complaint is filed, while the dispute resolution procedure is pending, or after the presiding panel has rendered its ruling, either party may institute legal proceedings in respect of the dispute with a PRC court of the place where CNNIC is
located or, if an agreement between the parties so provides, submit it to a PRC arbitration institution.

When a dispute resolution institution rules to cancel a domain name or transfer it to the complainant, the registrar must implement the ruling within 10 days from the date of its publication.

Finally, the domain name owner may not apply to transfer or deregister a disputed domain name while the domain name resolution procedure is pending or within 10 days after the publication of the ruling, unless the transferee agrees in writing to be bound by the dispute resolution ruling.

**Civil Litigation**

As noted above, trademark owners may, in addition to filing a complaint with an appointed dispute resolution institution, commence legal proceedings in the People’s Courts in respect of a domain name dispute.

The standards which the People’s Courts are to apply to such disputes were clarified in an explanation issued by the SPC on 17 July 2001, which sets out the circumstances under which a defendant’s use of a domain name constitutes trademark infringement and/or unfair competition. In particular, each of the following criteria must be satisfied:

- The plaintiff’s rights and interests in the domain name are legitimate and effective;
- The domain name or the main part of the domain name constitutes:
  - A copy, imitation, translation or transliteration of the plaintiff’s well-known mark; or
- Is identical with or similar to a registered trademark, domain name, etc., of the plaintiff to a degree sufficient to cause mistaken identification among the relevant public;

• The defendant does not enjoy any rights or interests to the domain name or the main part of the domain name and has no justification for registering and/or using the domain name; and

• The defendant’s registration and/or use of the domain name is in bad faith.

The courts are inclined to find bad faith if the defendant’s conduct constitutes any of the following:

• The registration as a domain name of a well-known trademark for commercial purposes;

• The registration of a domain name which is the same as or similar to a registered trademark, with the intent to cause confusion with the plaintiff’s products and/or services or the plaintiff’s website in order to mislead consumers into accessing the defendant’s website or another website for commercial purposes;

• Offering to sell, lease or transfer a domain name at a “high price” and having obtained “unfair benefits” from such conduct;

• The registration of a domain name with the intent to prevent the rights holder from registering it, where the defendant has not used and/or has no intention of using the domain name after registration; or

• Other circumstances evidencing bad faith.
Once trademark infringement or unfair competition has been established, the court may order the defendant to cease the infringement and/or deregister the domain name, or, at the request of the plaintiff, order that the domain name be transferred to the plaintiff.

The court may also order the imposition of damages where the defendant’s egregious conduct has resulted in actual damage to the plaintiff.
UNFAIR COMPETITION

Legislation

The Law of the PRC Against Unfair Competition ("Unfair Competition Law") came into effect on 1 December 1993 and was formulated “to ensure the sound development of the socialist market economy, encourage and safeguard fair trade, stop acts of unfair competition and protect the lawful rights and interests of business operators and consumers”. The scope of the Unfair Competition Law is broad and covers passing off, imitation of trade dress, infringement of trade secrets, unauthorized use of an enterprise name or personal name, and a number of other legal areas not necessarily IP related, such as prize sales and false advertising.

The Unfair Competition Law has been supplemented by a number of regulations intended to clarify some of its ambiguities. These include the Several Regulations on the Prohibition of Acts of Unfair Competition Involving the Passing-off of a Name, Packaging or Trade Dress Peculiar to Well-Known Merchandise ("Trade Dress Regulations"), effective on 6 July 1995, and the Several Regulations on the Prohibition of Acts of Infringement of Trade Secrets ("Trade Secret Regulations"), effective on 23 November 1995, and Interpretation of the Supreme People’s Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition ("UCL Interpretation"), effective on 1 February 2007. While the Trade Dress Regulations and Trade Secret Regulations provide administrative enforcement officials with much needed definitions for key terms in the Unfair Competition Law, the UCL Interpretation provides similar guidance binding on PRC People’s Courts handling related civil actions.
The Fair Trade Bureau under the SAIC oversees implementation of the Unfair Competition Law. At the local level, AICs are entrusted with administrative enforcement of the law, and many AICs have a so-called Economic Inspection Section for this purpose, separate from the Trademark Section with jurisdiction over trademark matters.

There is some overlap between the Unfair Competition Law and the Product Quality Law. The Product Quality Law sets out the obligations and liabilities of producers, suppliers and sellers in relation to product quality and includes provisions targeting the production and sale of fake and substandard merchandise.

**Passing Off**

The Unfair Competition Law prohibits business operators from engaging in these acts of unfair competition:

- Passing off a registered trademark;
- Making unauthorized use of the name (i.e., an unregistered word mark), packaging or trade dress peculiar to or similar to that of well-known merchandise;
• Making unauthorized use of an enterprise name or personal name;
• Making use of certification marks, marks of fame or marks of excellence that are counterfeit or used without authorization; and
• Falsifying the place of origin of merchandise or making misleading and false statements as to merchandise quality.

Under the Trade Dress Regulations, “well-known merchandise” is defined as merchandise that has achieved a certain level of name recognition in the market and is known to the relevant public. In addition, merchandise may be deemed well-known if the unauthorized use is sufficient to cause purchasers to be mistaken. In practice, trade dress infringement actions are generally only possible where the legitimate owner is able to demonstrate that his or her goods were introduced into the PRC market-place prior to the infringer’s goods. The UCL Interpretation defines “well-known merchandise” similarly, though they provide People’s Courts judges with far more guidance on how “well-known” should be determined.

One area where the Unfair Competition Law and the Product Quality Law overlap is their prohibition against falsification of the place of origin of merchandise. One result of this overlap is that rights holders sometimes have the choice of filing an administrative complaint with the local AIC, which has jurisdiction over unfair competition matters, or with the local TSB, which has jurisdiction over product quality matters.

There is also considerable overlap between the Unfair Competition Law and the Trademark Law, which both prohibit “passing off” (i.e., counterfeiting) PRC-registered trademarks. Because of this overlap, the Unfair Competition Law specifically refers back to the Trademark Law and the Product Quality Law
in its provisions dealing with punishment for acts of passing off registered trademarks, falsifying the place of origin, etc.

**Trade Secrets**

A trade secret is defined in both the Unfair Competition Law and the PRC Criminal Code as technical and business information that is private, can bring economic benefits to the rightful party, is practical and for which that party has adopted measures to maintain its confidentiality. A non-exhaustive list of measures to maintain confidentiality is included in the Trade Secrets Regulations, and the UCL Interpretation provides courts with a similar list. Such measures include: disclosing secrets on a need to know basis only, adopting physical preventive measures such as locking, marking information “confidential”, requiring access codes and passwords, and requiring confidentiality agreements.

The following acts of infringement are both civilly and criminally prohibited:

- Obtaining trade secrets by theft, enticement by promise of gain, duress or other unfair methods;
- Divulging, using or allowing others to use trade secrets obtained by unfair methods; or
- Divulging, using or allowing others to use trade secrets in breach of an agreement or confidentiality requirements.

Third parties that obtain, use or divulge trade secrets through what they know or should know are such illegal acts of infringement will also be deemed to be infringers.
Administrative Enforcement

Under the Unfair Competition Law, AICs above the county level have the power to investigate acts of unfair competition. They have the authority to:

- Make inquiries of business operators, interested parties and witnesses, and require them to provide evidence or other information concerning acts of unfair competition;
- Inquire about and duplicate agreements, account books, bills, receipts, documents, records, business letters, business facsimiles and other materials connected with acts of unfair competition; and
- Examine property connected with acts of passing off, unauthorized use of another’s enterprise name or personal name and the misuse of certification marks and, in such cases, order the business operator under investigation to give details of the source and quantity of the merchandise and to suspend sales.

Penalties depend on the nature of the act of unfair competition. Where a business operator has passed off the name, packaging or trade dress of another party’s well-known merchandise, for example, AICs have the power to:

- Order the business operator to cease the illegal act;
- Confiscate the illegal income;
- Impose a fine greater than the illegal income and not more than three times the illegal income; and
- Revoke the business operator’s business license.

As AICs have no power to award compensation in unfair competition cases, parties seeking damages must institute
proceedings in the People’s Courts. The Unfair Competition Law provides for such damages to be calculated based on the profit derived from the infringements. The infringing business operator is also liable for “reasonable” expenses incurred by the injured party. As the Unfair Competition Law has not been updated, there are no provisions on statutory damages. However, if the act of unfair competition is passing off a registered trademark, statutory damages provisions under the Trademark Law will apply.

Where trade secrets have been infringed, AICs could under the Unfair Competition Law order the infringer to cease the illegal act and impose a fine between RMB10,000 and RMB100,000. The Trade Secret Regulations increased the maximum fine to RMB200,000, and gave AICs the following powers:

- To order and supervise the return by the infringer of blueprints, drawings, software and other relevant materials containing the trade secrets; and
- Unless the rightful party agrees to purchase or sell the goods or there are other methods of dealing with them, to supervise the destruction of goods manufactured using the rightful party’s trade secrets and which, if allowed onto the market, would make the secrets public.

Where a local (PRC) company has unfairly incorporated a trademark as part of a PRC company name, this is referred to in Chinese as “piggybacking” or “riding off another’s coat-tails.” This behavior was addressed in 2011 in an Opinion issued by the SAIC entitled “How to Definitely Resolve Questions Concerning Behavior Related to the Sales of “Piggybacked” Goods.” The Opinion is addressed to the local AICs tasked with enforcing trademark rights and supervising the registration of domestic company names.
The Opinion states that “piggybacking” is outlawed under Article 5, paragraph 3 of the Anti-Unfair Competition Law, which prohibits the “unauthorized use of the enterprise name or personal name of another party that would cause consumers to misidentify the merchandise”.

It also clarifies the scope of Article 5 as limited to instances where the prior mark (or marks) have attained sufficient fame in the PRC marketplace such that PRC consumers would become confused if they were to see it as part of an unrelated company’s enterprise name.

This was already stated earlier in the the Opinion on the Resolution of Several Issues Concerning Trademarks and Enterprise Names. As such, it does not break any new grounds. However, by stating that Article 5 is applicable regardless of whether the marks belong to a foreign or local company, the SAIC appears to be attempting to address the concerns of foreign owners of trademarks and to provide additional legal justification to local enforcement authorities who have traditionally been reluctant to take action under a theory of unfair competition unless the enterprise name in question is deemed well-known or otherwise enjoys a very high degree of fame in the PRC.

**Criminal Enforcement**

Under the Criminal Code and a December 2004 SPC and SPP judicial interpretation on IP crimes, prison sentences of up to three years may be imposed for infringement of trade secrets if the loss caused is “serious” (meaning more than RMB500,000). If the loss is more than RMB2.5 million, the matter will be deemed “exceptionally serious,” and the defendant must be imprisoned for between three to seven years and fined.
A major problem under this scheme, besides the high thresholds, is that, essentially, no crime has been committed until actual losses are incurred. Proving that someone has stolen trade secrets of significant value is not enough. In general, the prosecution must also show the secrets were used and caused substantial losses. In theory, criminal action could be pursued without evidence of actual harm, and on the basis of the theory of attempt, but local police and prosecutors are generally reluctant to do so for various reasons.
ENTERPRISE NAMES

Legislation

The two primary pieces of legislation governing registration and use of enterprise names in the PRC are the Regulations for the Administration of the Registration of Enterprise Names (the “Enterprise Name Regulations”), effective on 1 September 1991, and the Implementing Measures for the Administration of the Registration of Enterprise Names (the “Enterprise Name Measures”), effective on 1 January 2000 and amended on 1 July 2004.

To supplement the Enterprise Name Regulations and the Enterprise Name Measures, the SAIC has issued a number of ad-hoc opinions on the use of enterprise names. Of these, the most important is the Opinion on the Resolution of Several Issues Concerning Trademarks and Enterprise Names (the “Enterprise Name Opinion”), issued on 5 April 1999, which sets out guidelines for the resolution of conflicts between enterprise names and trademarks. The Trademark Law’s Implementing Regulations also provide possible additional relief to owners of marks deemed to be “well-known”.

The Enterprise Name Measures require enterprises to select and apply to register their names in accordance with the law, and enterprise name protection is provided from the date of registration. Enterprises have an exclusive right to use their registered enterprise name within the enterprise’s stated industry and within the relevant territory. The Enterprise Name Measures also state that an enterprise name may not contain the name of another enterprise or legal person, unless permission is obtained from the SAIC.
Registration of Enterprise Names

Foreign Investment Enterprises

AICs that have been authorized to approve and carry out the registration of foreign invested enterprises ("FIEs") are required under the Enterprise Name Measures to verify and approve FIE names. Newly established FIEs must register their enterprise names after the project proposal and feasibility study report have been approved by the relevant AIC, and before approval of their contract and articles of association. To register they must provide:

- An application letter signed by the responsible person;
- The approval documents for the project proposal and the feasibility study report; and
- The certificate of incorporation and business registration of the foreign investor, as issued by the competent authorities in the country or region where the investor is located.

Enterprise names must be written in standard Chinese characters and, as a general rule, no foreign script, Pinyin Romanization or Arabic numerals may be used.

Enterprise names are required to be composed of an administrative division indicator (e.g., the name of the city in which the enterprise is located), business name (trade name), industry and form of organization (e.g., the Chinese equivalent of “Co. Ltd.” in the case of limited liability companies). Wholly foreign-owned enterprises that use the name of the foreign investor may put the Chinese characters “中国” (meaning “China”) in their name but this is subject to approval by the SAIC, as opposed to local approval by the relevant local AIC.
According to the Enterprise Name Measures, an enterprise name may not contain any of these elements:

- Content or words that are harmful to the state and public interest;
- Content or words that may deceive or mislead the public;
- Names of foreign countries or regions, or of international organizations;
- Names of political parties, government departments, military units, mass organizations or social organizations;
- Designations of military units; or
- Other content or words prohibited by Chinese laws and administrative regulations.

Foreign Enterprises

Although the Enterprise Name Regulations specifically allowed foreign enterprises (including Hong Kong enterprises) to apply to register their company names in the PRC (even without a PRC business presence), applications have not been accepted since November 1994 and it is now no longer possible for foreign companies to register their enterprise names in the PRC, except as trademarks with appropriate disclaimers for generic elements such as “Co.”, “Inc.”, etc.

Assignment of Enterprise Names

The Enterprise Name Regulations allow the assignment of a registered enterprise name in connection with the transfer of a business or part of it. The assignor and assignee must enter into a written contract and submit the contract to the original registration authority for approval. After the name has been
assigned, the assignor may not continue to use the enterprise name.

**Enforcement**

**Handling of Disputes**

The Enterprise Name Measures provide that where a dispute arises between an enterprise and a third party over the latter’s registration of an enterprise name, the enterprise may apply to the relevant AIC to handle the dispute or can institute proceedings in the People’s Courts.

The Implementing Regulations to the Trademark Law specifically provide that owners of well-known marks may apply to cancel third parties’ enterprise names incorporating those marks if the use of the name may give rise to confusion or be misleading to the public.

If an enterprise initiates administrative proceedings, it is required to submit the following materials to the AIC that verifies and approves the third party’s name:

- A written application setting out the details of the applicant and the respondent, the facts and the cause of the name dispute, the claims, etc;
- Evidence of the qualifications of the applicant;
- Other evidence and relevant materials; and
- Where an agent has been appointed, a power of attorney and evidence of the qualifications of the agent.

The AIC must handle the case “in compliance with the principle of protecting industrial property rights and in accordance with the relevant regulations on the administration of the registration
of enterprise names” (i.e., the Enterprise Name Regulations, which provide, among other things, that disputes are to be disposed of in accordance with the “first to register” principle).

The Enterprise Name Opinion sets out procedures for handling disputes where enterprise names conflict with registered trademarks or vice versa. The two types of conflict are:

- Registration, as a trademark, of a word that is the same as or similar to the trade name in another party’s enterprise name, thereby causing confusion on the part of the relevant public; or
- Registration, as the trade name in an enterprise name, of a word that is the same as or similar to another party’s registered trademark, thereby causing confusion on the part of the relevant public.

In order for a dispute to be accepted, it is necessary to show that confusion has arisen because of the conflicting trademark and enterprise name, and that the lawful rights and interests of the prior rights holder have been damaged as a result. In addition, the relevant rights (enterprise name and trademark) must both be registered and the dispute must be brought to the authorities within five years of the relevant registration date, except where bad faith can be shown, in which case no time limit applies.

Applications for the resolution of disputes relating to trademarks and enterprise names can be filed with the SAIC or a provincial-level AIC. If the case falls within one province, the case should be dealt with by the provincial-level AIC. If the case crosses provincial borders, it should be dealt with by the SAIC. Where the SAIC or provincial-level AIC decides that a case of confusion has been made out, it can order the enterprise name to be changed or the registered trademark to be cancelled.
In practice, it has proven very difficult for owners of registered trademarks to persuade AICs or the SAIC to order the change of enterprise names. Jurisdictional issues sometimes arise and evidence of actual confusion is not always easy to collect.

Infringement of Enterprise Names

The Unfair Competition Law prohibits the unauthorized use of the enterprise name of a third party, which would cause confusion among consumers. In cases where unauthorized use is made of an enterprise name registered in the PRC, it is generally relatively straightforward to take action. AICs are empowered to investigate such cases and, under Article 21 of the Unfair Competition Law, to punish infringements in accordance with the relevant provisions of the Trademark Law, which could include an order to immediately cease the acts of infringement, the confiscation of infringing goods and the imposition of fines.

Where a local (PRC) company has unfairly incorporated a trademark as part of a PRC company name, this is referred to in Chinese as “piggybacking” or “riding off another’s coat-tails.” This behavior was addressed in 2011 in an Opinion issued by the SAIC entitled “How to Definitely Resolve Questions Concerning Behavior Related to the Sales of “Piggybacked” Goods. The Opinion is addressed to the local AICs tasked with enforcing trademark rights and supervising the registration of domestic company names.

The Opinion states that “piggybacking” is outlawed under Article 5, paragraph 3 of the Anti-Unfair Competition Law, which prohibits the “unauthorized use of the enterprise name or personal name of another party that would cause consumers to misidentify the merchandise”. It also clarifies the scope of Article 5 as limited to instances where the prior mark (or
marks) have attained sufficient fame in the PRC marketplace such that PRC consumers would become confused if they were to see it as part of an unrelated company’s enterprise name.

This was already stated earlier in the *Opinion on the Resolution of Several Issues Concerning Trademarks and Enterprise Names*. As such, it does not break any new grounds. However, by stating that Article 5 is applicable regardless of whether the marks belong to a foreign or local company, the SAIC appears to be attempting to address the concerns of foreign owners of trademarks and to provide additional legal justification to local enforcement authorities who have traditionally been reluctant to take action under a theory of unfair competition unless the enterprise name in question is deemed well-known or otherwise enjoys a very high degree of fame in the PRC.

Under the Implementing Regulations to the Trademark Law and the Well-Known Trademark Regulations described above, where a third party registers a well-known mark as part of its enterprise name, and use of the name may give rise to confusion or be misleading to the public, the owner of the well-known mark may apply to the relevant authorities for cancellation of the enterprise name.

In addition, Article 1 of the Trademark Civil Dispute Interpretation provides that the prominent use of a third party’s registered trademark within an enterprise name on goods the same as or similar to those for which the mark is registered is considered trademark infringement, and is actionable as such if use of the enterprise name is likely to cause confusion.
COPYRIGHT

Overview

Copyright Law and Implementing Regulations

The Copyright Law of the People’s Republic of China ("Copyright Law") was first promulgated in 1990. It was significantly amended in 2001 ("2001 Amendment"), and again in 2010 ("2010 Amendment"). The Implementing Regulations of the Copyright Law of the People’s Republic of China ("Copyright Implementing Regulations") were last revised on 8 January 2011. There are also other State Council regulations and Supreme People’s Court Judicial Interpretations concerning copyright issues.

On 13 July 2011, the National Copyright Administration ("NCA") announced a plan to further amend the Copyright Law ("Third Amendment").

Although the Copyright Law was amended in 2010, the 2010 Amendment only affected two provisions of the legislation. It is therefore expected that the Third Amendment will be much more comprehensive. According to senior officials of the NCA, the Third Amendment will focus on Internet issues and the need for stronger enforcement.

The main driving force behind the 2010 Amendment of the Copyright Law was the WTO Dispute Settlement Body’s decision in Dispute DS362 (China - Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WT/DS362/R), brought by the United States in 2007, and joined by the European Union, Japan and ten other countries with large economies, which alleged that Article 4(1) of the 1990 Copyright Law, providing that "Works whose publication and/
or dissemination are prohibited by law shall not be protected by this Law”, was inconsistent with China’s obligations under the TRIPs Agreement. The Dispute Settlement Body agreed. The 2010 Amendment removed that language, and also inserted (as Article 26) a provision allowing pledges of copyright. The Copyright Implementing Regulations were also amended in 2010 to comply with the 2010 Copyright Law.

The 2001 Amendment had been driven mainly by the need to comply with the minimum requirements of the TRIPs Agreement. It integrated many provisions previously contained in subsidiary regulations, introduced preliminary injunctions and new prohibitions on anti-circumvention measures, and added provisions to encourage the development of collecting societies.

In 2004, the SPC and the SPP issued a joint judicial interpretation which set out new, lower thresholds for the criminalization of copyright offenses and explicitly recognized online infringements as potential criminal offenses. The number of infringing copies required for criminal prosecution was further reduced by another interpretation in April 2007, but the industry remained concerned over problems in the copyright provisions of the Criminal Code itself that create steep barriers to pursuing criminal enforcement against vendors of infringing works. In January 2010, the SPC and the SPP issued a new joint interpretation providing for criminal investigation jurisdiction and numerical thresholds for prosecution and criminal liability in cases of Internet piracy.

The Measures for the Administrative Protection of Internet Copyright (the “Internet Copyright Measures”) came into effect on 30 May 2005. These measures impose liability on Internet service providers (“ISPs”) for the content published by their services. Upon receipt of a notice of infringement
from a copyright owner, the ISP is required to remove the offending contents from its service and keep records of the information provided. The Internet Copyright Measures provide rules for the form of the notice and administrative penalties to be imposed on the ISPs. Similar take-down provisions are found in the 2006 Regulations on the Protection of the Right to Network Dissemination of Information (“Network Dissemination Regulations”), which introduced civil liability for circumventing technical protection measures, as well as clarified ISP liability for end-user copyright infringement.

**Administrative Framework**

The NCA is responsible for guiding administrative enforcement and policy making with respect to copyright. The NCA manages the work of local copyright bureaus responsible for enforcement at the regional level. The NCA is an affiliate of the State Press and Publications Administration, which approves the establishment of presses and newspaper agencies.

**Protection of Copyright**

**Eligibility for Protection**

The Copyright Law protects works of PRC citizens, legal persons and other organizations, whether published or not. While foreigners or stateless persons enjoy copyright protection for a work published outside the PRC either pursuant to an agreement between their home country/country of habitual residence or pursuant to an international treaty which both the PRC and their country have acceded to, such works are also protected under the PRC Copyright Law. Works of foreigners or stateless persons that are first published in the PRC also enjoy copyright protection under the Copyright Law. Works of
foreigners or stateless persons that are published in China within 30 days after first publication outside China are now deemed as having been simultaneously published in China, a change from earlier regulations that deemed such works as first published in the PRC.

Scope of Protection

Protected Subject Matter

The Copyright Law provides that the term “works” includes literary, artistic, natural science, social science and engineering technology works, etc., created in any of the following forms:

- Written works;
- Oral works;
- Musical works, operatic and dramatic works, works of Chinese folk art, choreographic works and acrobatic works;
- Works of fine art and architectural works;
- Photographic works;
- Cinematographic works and works created using methods similar to those used for the filming of cinematographic films;
- Graphic works such as drawings of engineering designs, drawings of product designs;
- Maps, schematic drawings, etc., and model works;
- Computer software; and
- Other works as stipulated in laws and administrative regulations (including, in practice, works recognized as meriting protection by the NCA).

The Copyright Law provides explicit protection for databases, i.e., compilations of several works or extracts from works or data or other materials. These are treated as “works of compilation”, provided that they show originality in the selection or arrangement of their contents. Copyright in such works vests in the compiler, provided that the compiler’s exercise of the right does not prejudice copyrights in the original works.

Consistent with China’s WTO commitments, the Copyright Implementing Regulations recognize protection for performances and sound recordings produced or distributed by foreigners and stateless persons, and for rights in radio and television programs broadcast by foreign radio and television stations. These provisions make the PRC’s copyright legislation fully compliant with Article 14 of the TRIPs Agreement.

**Subject Matter Excluded from Protection**

The Copyright Law does not apply to the following:
• Laws, regulations, decisions and orders of government authorities, administrative or judicial documents and their official translations;

• News of current events; or

• Calendars, numerical tables and forms in common use and formulas.

Software Protection Regulations

Copyright protection for computer software in the PRC is governed by both the general provisions of the Copyright Law and the Regulations for the Protection of Computer Software ("Software Regulations"), initially issued in 1991 and last amended in 2002. The 2002 amendments reflected advances in technology and business practices affecting copyright in software, including rental rights, and the right to authorize “publication over information networks” (presumably including the Internet). The Software Regulations thus provide administrative sanctions for unauthorized distribution of software online, for profit or otherwise.

Copyright Owners and Their Rights

The Copyright Law provides that the term “copyright owner” includes authors, and other citizens, legal persons or other organizations that enjoy copyright under the Copyright Law. The term “copyright” is defined to include the following moral economic rights:

• Publication;

• Attribution;

• Revision;
• Integrity;
• Reproduction;
• Distribution;
• Rental;
• Exhibition;
• Public performance;
• Display;
• Broadcast;
• Communication through information networks;
• Cinematization;
• Adaptation;
• Translation;
• Compilation; and
• Other rights to which a copyright owner is entitled.

**Term of Protection**

Under the Copyright Law, an author’s moral rights of attribution, revision and integrity are perpetual. A citizen’s right of publication and the various economic rights are protected for the life of the author plus 50 years.

For works of legal persons or other organizations, or works for hire vested in a legal person or other organization, the right of publication and other economic rights are protected for a period of 50 years from first publication (expiring on 31 December of the 50th year). Where the work in question is not published
within 50 years after completion of its creation, it loses its protection under the Copyright Law.

For photographic works, cinematographic works and other works created by a process analogous to cinematography, the right of publication and economic rights are protected for a period of 50 years starting from the date of first publication. Where the work in question is not published within 50 years after completion of its creation, it loses its protection under the Copyright Law.

The amended Software Regulations also extend the duration of protection in software to life plus 50 years where the author is an individual, and 50 years from the date of first publication where the author is a legal person.

Ownership of Copyright

The Copyright Law generally assumes copyright in a work will vest in the author or, in the case of jointly created works, the co-authors.

However, where creation of a work is sponsored by, represents the will of, and is the responsibility of a legal person or other organization, then the legal person or other organization is deemed to be the author of the work.

The PRC Copyright Law also includes a category of work distinct from sponsored works, namely “works for hire”, defined as works “created by a citizen in order to accomplish a task assigned to him” by an employer. Copyright in works for hire vests in the original author unless it falls within one of these exceptions:

- Drawings of engineering designs, drawings of product designs, maps, computer software, etc., created mainly
by using the material and technical resources of a legal person or other organization and the responsibility for which is borne by the legal person or other organization; or

- Works for hire whose copyright vests in a legal person or other organization by law or administrative regulation, or in the employer by contract.

According to the Software Regulations, if software is developed at the clear instructions of the employer, or is a predictable or natural result of work which it is the employee’s duty to perform, the employer owns the copyright of the software.

Under the above exceptions, only the right of attribution vests in the author, and all other rights vest in the legal person or organization.

The Copyright Law also recognizes the concept of “commissioned works”. Ownership of the copyright in a commissioned work should be governed by the contract between the commissioner and the commissioned party. If the contract does not expressly provide for ownership or if no contract has been concluded, copyright vests in the commissioned party.

The Copyright Implementing Regulations also clarify the rights of co-authors. Where a jointly created work cannot be used by dividing it and the co-authors cannot reach agreement on terms for their separate uses of the work, the Regulations permit each co-author to exercise his rights freely, absent “proper cause” from the other co-author(s). This suggests, however, that a co-author may not grant an exclusive license to a third party without the consent of the other co-authors.
Licensing and Assignment

The Copyright Law provides that anyone wishing to use the work of another must (subject to certain exceptions) enter into a license contract with the copyright owner. Both the Copyright Law and the Software Regulations remove the previous restriction limiting copyright licenses to 10 years. A copyright owner may thus license all economic rights and receive remuneration for granting the license.

The Copyright Implementing Regulations require exclusive license agreements to be in writing, and provide for voluntary recordal of licenses, as well as assignments. If the exclusive license is silent or unclear, the exclusive licensee is deemed to have the power to exercise his rights to the exclusion of all other persons, including the copyright owner. Further, the Regulations indicate that, unless otherwise agreed, exclusive licensees must obtain the copyright owner’s consent to sublicense the copyright to third parties.

A license contract must contain the following main terms:

- The rights being licensed;
- An indication whether the license is exclusive or non-exclusive;
- The geographic scope and term of the license;
- The amount and method of remuneration;
- Liability for breach of contract; and
- Other matters that the parties consider necessary to be agreed upon.

The copyright owner can also assign economic rights. This too requires a written contract with these main terms:
• The title of the work;
• The rights being assigned and their geographic scope;
• The assignment price;
• The date and method of payment of the assignment price;
• Liability for breach of contract; and
• Other matters which the parties consider necessary to be agreed upon.

In the case of co-authored works, the Copyright Implementing Regulations seem to require all co-authors to agree to one of them assigning his rights to another party. Consent from all co-authors is clearly required for assignment of the entire copyright of the work to another party. The Regulations also require a co-author to account for any gains obtained through his separate use of the work and share them with the other co-authors.

**Limitation of Rights**

The Copyright Law lists a number of fair use exceptions under which a work may be used without the permission of, and without payment of remuneration to, the copyright owner. In such cases, the name of the author must be indicated and the copyright owner’s other rights under the Copyright Law may not be prejudiced. Some of the more common fair use exceptions include:

• Use of a published work for private individual study, research or enjoyment;
• Incidental showing or quotation of a published work for the purpose of reporting current events;
• Printing or broadcast of an already-published article on a current political, economic or religious topic, except where the author has declared that the printing or broadcast of such an article is not permitted;

• Translation or reproduction of published works in small quantities for classroom teaching or scientific research, provided that the reproductions are for use by teachers or researchers and are not published and distributed;

• Reasonable use of a published work by a state entity, where such use is for the purpose of carrying out official duties;

• Reproduction by a library, archive, museum, art gallery, etc., of a work in its collection, where reproduction is for the purpose of exhibiting or preserving an edition of such work;

• Free performances of a published work, where no charge is collected from the public and no remuneration is paid to the performers for the performance;

• Transformation of a published work into Braille and publication of the work as transformed; and

• In the case of software, use for the purpose of “study and research on design ideas and theory of the software through installing, displaying, transmitting or storing the software or any other means of use”.

The Copyright Law also specifies that the use of extracts from a published work for the compilation of textbooks in implementation of the PRC’s state education policy does not require the author’s authorization, unless the author has declared that such use is not permitted. This exception also applies to compilations of published short written works,
musical works, single works of fine art and/or photographic works. Where such use is made, remuneration must be paid “in accordance with regulations”, the name of the author and title of the work must be indicated, and other rights enjoyed by the copyright owner must not be infringed.

**Voluntary Registration of Copyright**

Copyright registration is available under the 1995 *Trial Measures for the Voluntary Registration of Works* ("**Trial Measures**"). Registration is not a precondition to copyright enforcement, but may be helpful evidence of ownership in enforcement actions. The Trial Measures apply to audio and video products, but not computer software, which is covered by the 2002 *Measures for the Registration of Copyright in Computer Software*.

Provincial-level copyright bureaus are responsible for registration within their own territorial jurisdictions. The NCA in Beijing handles registration of copyrights involving foreign parties and those from Hong Kong, Macau and Taiwan.

Applicants for registration may be authors, other individuals or legal persons holding copyrights, owners of exclusive rights or their agents. Applicants must submit an application form and fee, proof of identification, evidence of copyright ownership (such as duplicates of cover pages, copies or photos of original manuscripts or models) and other relevant evidence, such as copies of contracts for entrustment of exclusive rights. Applicants must also deposit 30 consecutive pages in each of the beginning and end portions of the source code and any documentation of the software program. Where appropriate, applicants may apply to make “exceptional deposits” with confidential sections of the source code covered or replaced by pages of the object code. Applicants may also request that the
deposits be sealed to ensure confidentiality when submitting the applications. Registration authorities must decide on an application within 60 days of its submission.

The Software Regulations permit registration to provide *prima facie* evidence of ownership and validity of software, but registration is no longer a condition for effective enforcement and assignment of rights (as it was before the 2001 Amendment).

**Infringement of Rights**

The Copyright Law lists various acts that will infringe copyright. These include:

- Publication of a work without permission from the owner of the copyright;
- Publication of a joint work without permission from the other co-authors as a work created solely by oneself;
- Putting one’s name to another’s work in pursuit of fame or profit where one has not participated in the creation of the work;
- Distortion and mutilation of a work;
- Plagiarizing another’s work;
- Unless the Copyright Law provides otherwise, use of a work in ways such as exhibiting, cinematizing or methods similar to cinematizing, or through adapting, translating, annotating, etc., without permission from the copyright owner;
- Use of another’s work without paying remuneration when remuneration should be paid;
• Unless the Copyright Law provides otherwise, rental of a cinematographic work, a work created using a method similar to that used for the filming cinematographic works, a piece of computer software or sound recording or video recording without the permission of the copyright owner or the owner of neighboring rights;

• Use, without the permission of the publisher, of the format design of a book or periodical;

• Broadcast of a performer’s live performance or open transmission of his live performance, or recording of his performance without his permission; or

• Other infringements of copyright or neighboring rights.

The Copyright Law also contains a number of new types of infringement added in an attempt to keep pace with technological changes. These include:

• Reproduction, distribution, performance, projection, broadcast or compilation of the work of a copyright owner or transmission of it to the public via an information network without permission from the copyright owner unless otherwise provided in the Copyright Law;

• Publication of a book to which another person has the exclusive right of publication;

• Reproduction or distribution of a sound or video recording of a performance, or the transmission of it to the public via an information network without permission from the performer unless otherwise provided in the Copyright Law;

• Reproduction or distribution of a sound or video recording, or the transmission of it to the public via an information network
network without permission from the producer unless otherwise provided in the Copyright Law;

- Broadcast or reproduction of a radio or television broadcast without permission unless otherwise provided in the Copyright Law;

- Intentional circumvention or breaking of technical measures taken by a copyright owner or owner of neighboring rights to protect his copyright or neighboring rights in a work, sound recording, video recording, etc. without the permission of the owner of the copyright or neighboring rights unless otherwise provided in other laws or administrative regulations;

- Intentional removal or modification of the electronic rights control information contained in a work, sound recording, video recording, etc., without the permission of the owner of the copyright or neighboring rights unless otherwise provided in other laws or administrative regulations;

- Production or sale of a work on which another’s signature is passed off;

- In the case of software, unauthorized distribution or rental of software without evidence that the software was obtained from a “lawful source”; and

- In the case of software, willful evasion or destruction of technical measures employed by a copyright owner to protect his copyright.

In spite of these advancements, the Software Regulations still significantly limit copyright owners’ ability to pursue end-user pirates, i.e., parties that use, but do not themselves technically reproduce, copies of software for the purpose of trade or
business. A party that possesses infringing software is not liable to pay compensation unless the party knows, or has reason to know, that the software is infringing. However, the holder may be ordered to immediately stop using the software and destroy any infringing copies.

Liability for the above infringements may be pursued through the People’s Courts or, in cases that “prejudice the public interest”, via administrative channels, i.e., the NCA or local copyright bureaus. Where a criminal offense has been committed, criminal liability can also be pursued (see below).

The Copyright Law does not expressly prohibit the manufacture of or trade in circumvention devices or components. Lobbying efforts have been directed at defining “technological measures” in the revised Implementing Regulations to include both “copy control” and “access controls”. The Criminal Code has not yet been revised to provide criminal penalties for circumvention violations, and there do not appear to be plans for such amendments in the near future.

**Online Infringements**

The 2005 Internet Copyright Measures facilitated more efficient administrative enforcement against copyright infringement on the Internet by imposing liability on Internet information service providers and providing for administrative penalties. The SPP and SPC also recently introduced a judicial interpretation which explicitly criminalizes online infringements (subject to the Criminal Code’s requirement that infringements be for profit). Civil enforcement against online infringements is governed by the Network Dissemination Regulations and the SPC’s *Interpretations of Several Issues Concerning the Laws Applicable to the Hearing of Copyright Disputes Involving Computer Networks*
(the “Interpretations”), effective on 21 December 2000 and subsequently revised on 7 January 2004.

The 2001 Amendment provided a “right of communication through information networks” in Article 10(12), as well as similar rights over sound recordings and audiovisual recordings. The concept of “right of communication through information networks” comes from the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. According to the 2001 Amendment and corresponding provisions in the Copyright Implementing Regulations and the Network Dissemination Regulations, any unauthorized conduct of making a work (or sound or audio-video recording) available online is copyright infringement.

The Network Dissemination Regulations introduced a “safe harbor” mechanism based on the “notice and take-down mechanism”, which is basically a transplantation of provisions of the United States Digital Millennium Copyright Act. The Interpretations initially provided that there would be no infringement if a website republished or excerpted a work that had been previously published in a newspaper or periodical or on the Internet. This provision was explicitly deleted from the Interpretations several months after the Network Dissemination Regulations came into effect. According to the Interpretations, network service providers that “incite, participate or assist” in copyright infringement will be jointly liable for infringement. The later-enacted Network Dissemination Regulations provide network service providers with a more detailed outline of their obligations under the Copyright Law by examining liability under several scenarios common in the network environment, such as linking, searching, caching, and removal of infringing end-user content. While the Interpretations imposed obligations on network service providers to take action against network
subscribers that infringe a third party’s copyright, the Network Dissemination Regulations further defined those obligations, providing much-needed administrative details, such as the proper form of notice. Both regulations impose joint liability on network service providers that fail to respond to proper take-down notices. The Interpretations provide that damages may be awarded by calculating the direct financial losses incurred by the injured party due to the infringement and lost anticipated benefits, or by calculating the benefits gained by the infringer. If losses cannot be determined, the People’s Court may award statutory damages of up to RMB500,000 under the Copyright Law.

Both the Interpretations and the Network Dissemination Regulations make network service providers liable if they knowingly upload, distribute or supply circumvention methods, devices or materials. The Network Dissemination Regulations provide that violators may be fined up to RMB100,000 by the local copyright administration where there is harm to the public interest.

Currently, more than 60 percent of copyright litigation are disputes over the infringement of the right of communication through information networks. To cope with these cases, some provincial level high courts have introduced codified guidelines for online copyright disputes. The Beijing Higher People’s Court’s 2010 Guidelines on Several Issues Concerning the Trial of Cases Involving Copyright Disputes over Network (”Beijing Guidelines”) is the most noteworthy of these.

The Beijing Guidelines clarify that (1) if a network service provider (”NSP”) actually uploaded or published infringing materials, it will be primarily liable for copyright infringement; and (2) if a NSP knew or should have known that its service was being used by a third party to conduct infringing acts, then it will
be jointly liable. The Guidelines also indicate that NSPs need not actively censor or supervise their users’ conduct (whether they are infringing). Filtering contents provided by their subscribers is also not a duty of NSPs.

Currently, the SPC is drafting a new judicial interpretation focusing on civil liability for online copyright infringement, which is expected to significantly amend the current Interpretations in terms of NSPs’ secondary liability.

**Enforcement of Copyright**

**Administrative Enforcement**

NCA and local copyright bureaus are authorized under the Copyright Law to exercise a wide range of enforcement powers. These include orders to cease infringing acts, confiscation of unlawful income, confiscation and destruction of infringing reproductions, and the imposition of fines. In serious cases, they can also confiscate the materials, tools, equipment, etc., used for the manufacture of the infringing reproductions.

The Copyright Implementing Regulations permit administrative enforcement authorities to impose fines of up to three times the amount of an infringer’s illegal turnover if it is determined that the infringement has caused “harm to social and public interests”. Fines of up to RMB100,000 may be imposed where it is difficult to determine the amount of illegal turnover. Prior regulations only permitted maximum fines of five times the “total sales price” of infringing products, a term which local enforcers often regarded as ambiguous and impractical and which appeared to cover only products proved to have been sold (not seized products).
NCA and local copyright bureaus are not authorized to award compensation.

Before 2001, foreign parties seeking to enforce copyrights administratively had to file complaints via NCA, i.e., at central government level. The Copyright Implementing Regulations now explicitly permit them to seek relief directly from local copyright bureaus in cases where “harm is done to the social and public interests”, a vague term that has not been defined.

Owing to a chronic lack of personnel, NCA has encouraged complainants to pursue civil actions wherever possible and have informally suggested they will only accept cases that may have a serious impact nationwide.

The Measures on Implementation of Administrative Penalties for Copyright Infringement (“Administrative Penalties Measures”), issued on 24 July 2003, provide for standardized administrative penalties by copyright administration departments, and give administrative authorities the power to take emergency measures to stop infringing acts, and to provisionally register and preserve infringing reproductions and materials, tools and equipment used to make infringing reproductions, even before the complainant has formally filed a case. In “serious cases”, administrative authorities may confiscate tools and equipment used mainly for the manufacture of infringing reproductions. A “serious” case is one where:

- Illegal income (i.e., profit) derived by an individual exceeds RMB5,000, or illegal income derived by an organization exceeds RMB30,000;
- Illegal turnover of individual operations exceeds RMB30,000 or illegal turnover of organizational operations exceeds RMB100,000;
• The number of infringing copies (pieces or boxes) handled by the infringer exceeds, for an individual, 2,000 copies or for an organization, 5,000 copies;

• The infringing individuals or organizations have previously been investigated for legal liability for copyright infringement; or

• The illegal acts result in significant effects or cause serious consequences.

The Administrative Penalties Measures also specifically provide against double fines. This means that if another administrative department has already fined an infringing party for an illegal act, then administrative enforcement authorities should not impose further fines for the same act. However, other administrative penalties may still be imposed where appropriate.

In some provinces such as Zhejiang and Guangdong, the local copyright bureaus have been incorporated into a new administrative agency, namely the Bureau of Culture, Radio, TV, Film, Press and Publication. Under the new agency, it appears that administrative enforcement in these provinces has been enhanced.

**Administrative Enforcement in Software Disputes**

The Software Regulations permit rights holders to file complaints with either administrative enforcement authorities or civil courts. As under the Copyright Law, the Software Regulations grant administrative authorities the power to order the cessation of infringing acts, to confiscate infringers’ illegal income, to confiscate or destroy infringing products, and to impose fines. In “serious cases”, administrative authorities may
also confiscate materials, tools and facilities primarily used for the production of infringing copies.

Administrative enforcement power is now available in cases involving the unauthorized “publication” of works (i.e., their first disclosure to the public) or their “revision, translation or annotation”. In cases involving replicators or distributors of illegal software, administrative enforcement powers are limited to cases where the infringements might harm the public interest, but how the public interest will be determined is not defined, so further clarification from the NCA and local copyright bureaus will be required.

The Software Regulations suggest that the administrative authorities should accept complaints which involve:

- Public rental or dissemination of software via information networks (e.g., the Internet);
- Circumvention or sabotage of technological measures used by software copyright owners; and
- Removal or alteration of electronic rights management information incorporated into works to facilitate copyright protection.

A maximum fine of RMB100 may be imposed for each infringing item. Alternatively, a fine of five times “the value of the goods” may be imposed in cases involving the unauthorized copying of all or part of software, or the unauthorized distribution, rental or transmission of software via information networks (e.g., the Internet). “The value of the goods” is not defined and there is no indication whether it refers to the rights owner’s prices or the infringer’s prices, or whether average retail or wholesale values are to be used. A fine of up to RMB50,000 may be imposed for willful evasion or destruction of anti-circumvention measures.
Court Actions

Litigation in the People’s Courts has become increasingly popular since the introduction in 2002 of preliminary injunctions and statutory damages in infringement cases.

Preliminary Injunctions

Under the Copyright Law and Software Regulations, copyright owners or owners of neighboring rights can apply to the People’s Courts for a preliminary injunction against an act of infringement and for a property preservation order. Where such an application is made, the applicant must provide evidence showing that:

• Another person is carrying out or is about to carry out an act of infringement; and
• Failure to immediately halt the act would cause damage to the applicant’s lawful rights and interests that would be difficult to remedy.

Rather than issue a separate interpretation governing applications for preliminary injunctions in copyright cases, the SPC has decreed that the Interpretation on the Law Applicable to Pre-trial Injunction of Acts of Infringement of the Exclusive Right to Use a Trademark and to the Preservation of Evidence will also apply to copyright cases.

With the objective of halting an infringement, a copyright owner or owner of neighboring rights may also apply to the People’s Courts for an order to preserve evidence where the evidence might be destroyed or become lost or difficult to obtain later. As in trademark cases, the People’s Courts must render a decision within 48 hours of receiving the application and will typically order the applicant to provide security.
**Awards of Damages and Costs and Imposition of Fines**

When copyright or neighboring rights are infringed, violators are required to pay damages based on the owner’s actual losses. Where such actual losses are difficult to calculate, damages may be based on illegal income earned by the infringer. The damages paid to the rights owner also include reasonable expenses incurred in halting the infringing act, including legal and investigation costs.

Where the rights owner’s damages or the infringer’s profits cannot be determined, the Copyright Law provides for the payment of statutory damages up to RMB500,000.

Under the Copyright Implementing Regulations, courts may fine infringers up to five times the illegal turnover, or where illegal turnover is difficult to determine, up to RMB100,000, the same amount as may be imposed by administrative authorities. However, civil courts only rarely impose fines as well as damages.

**Criminal Enforcement**

The Criminal Code sets out various criminal penalties for copyright infringement. Where the amounts of illegal income involved are “relatively large” or where other “serious circumstances” exist, prison terms of up to three years may be imposed, together with fines against individuals and enterprises engaged in the following acts of copyright infringement:

- The reproduction and distribution for profit of literary, musical, film, television, video recordings, computer software or other copyrighted works without the permission of the copyright holder;
• The publication for profit of books for which others hold exclusive publishing rights;

• The reproduction and distribution for profit of audio or video recordings produced by other parties and without the permission of the producer; or

• The production and sale of counterfeits of other parties’ famous works of fine art.

As noted above, the SPP and SPC’s 22 December 2004 Interpretation on Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Intellectual Property Infringement (the “Interpretation”) sets out numerical thresholds for copyright and other IP crimes and attempts to clarify when a copyright crime may be deemed “serious” or “exceptionally serious” and when illegal income amounts may be deemed “relatively large” or “very large” under the PRC Criminal Code. For individuals and sole proprietors engaged in the illegal reproduction or distribution of copyrighted works, a crime may be deemed committed when the value of the counterfeited works manufactured or stored exceeds RMB50,000, the illegal income generated exceeds RMB30,000, or 1,000 or more unauthorized units are reproduced (reduced to 500 by a second April 2007 interpretation).

For enterprise offenders, the thresholds are three times the above amounts.

The Interpretation also confirms that the dissemination of a work through an “information network”, such as the Internet, will be regarded as a form of “reproduction and distribution” under the Criminal Code. The April 2007 interpretation clarified that “reproduction and distribution” means reproduction and/or distribution, and “distribution” includes promotion of infringing products if the promoter itself holds infringing products.
In general, an IP crime is considered “exceptionally serious” if the amounts involved are five times any of the above threshold figures. In such cases, a prison term of three to seven years must be imposed together with a fine.

The most significant loophole left unresolved by the judicial interpretations relates to the handling of vendors of infringing works. The Criminal Code and interpretations only criminalize sales where illegal profits exceed RMB100,000 for individual offenders or RMB300,000 for enterprise offenders, but provide no standards taking into account the value of products seized. Thus, vendors of smaller amounts of infringing works may only be pursued administratively and civilly, unless action can be based on other criminal provisions (such as Article 225 of the Criminal Code which provides for imprisonment up to five years for the crime of “illegal operations”, or operating in a restricted industry without the required licenses).

The above-mentioned Joint Criminal IP Opinion, issued in January 2011, also contains provisions to clarify the conditions under which copyright infringers may be criminal prosecuted. This Opinion defines three sorts of “for profit activity”, which is one of the conditions for finding the criminal liability. The Opinion also clarified that a network service provider can be guilty as an accomplice if it is aware of a third party’s infringement. Finally, the Opinion provided numerical thresholds for prosecution and criminal liability in Internet piracy:

- The value of the illegal business exceeds RMB50,000;
- Distribution of over 500 pirated hard copies via the Internet;
- Pirated material (e.g., video clips, software or music files) gets over 50,000 actual hits; or
• Infringing material is disseminated via a membership system and gets over 1,000 registered members.

The utility of the Joint Criminal IP Opinion remains to be proved in practice.
PATENTS

Administrative Framework

State Intellectual Property Office and Patent Office

The State Intellectual Property Office ("SIPO") mainly manages patent examinations and related administrative appeal work, mostly via the Patent Office, which is a division of SIPO.

SIPO is also the focal point of lobbying efforts and bilateral or multilateral negotiations on IP rights.

Since 2008, the new Protection and Coordination Department of SIPO has been responsible for coordinating IP enforcement policies among different ministries.

SIPO is also responsible for administering its local offices – Local Patent Management Bureaus or Local Intellectual Property Offices ("IPOs"). The major functions of these local offices are to handle administrative protection of patents and to implement the national and local policies of encouraging local companies to use patents to protect their innovations.

Legislation

In April 1985, the Patent Law and its implementing regulations entered into effect, thereby incorporating into PRC legislation the features of patent laws in a number of developed and socialist countries.

The Patent Law has been amended three times since its enactment, with the latest changes taking effect on 1 October 2009. The revised implementing rules ("Implementing Rules") were published on 30 December 2009 and came into effect on 1 February 2010.
As of 1 January 1994, the PRC became a member of the Patent Cooperation Treaty (the “PCT”). Since then, foreign applicants have increasingly used PCT applications to build their patent portfolios in China.

With the continuing liberalization and expansion of the PRC economy, patent infringement has been rampant. Penalties imposed on and compensation awarded against infringers have been low and lack deterrent value. The Patent Office and the Patent Reexamination Board (“PRB”, the body which handles requests for reexamination of patent applications and requests for invalidation) also have a large backlog of cases.

The SPC has played a pivotal role in shaping the legal framework of patent law by issuing judicial opinions and advisory opinions for specific cases. The judicial opinions are binding on local courts handling patent infringement cases. In 2001, the SPC issued two judicial opinions: Several Regulations of the Supreme People’s Court on the Applicable Law for Issuing Preliminary Injunctions Against Patent Infringement and Several Regulations of the Supreme People’s Court on the Applicable Law for the Adjudication of Patent Disputes (the “2001 Opinions”), which establish a foundation for Chinese courts’ handling of patent disputes.

On 28 December 2009, the SPC issued a new judicial opinion on patent disputes entitled the Interpretation on Several Issues Related to Adjudicating Patent Infringement Disputes (the “2010 Opinion”). The 2010 Opinion was the product of years of preparation and consultation with the industry.

**New Patent Law**

The National People’s Congress of China approved amendments to the PRC Patent Law on 27 December 2008, effective on 1

The new Patent Law introduces a number of critical changes that merit the attention of patent owners, particularly:

- Inventions that are completed in the PRC need to be filed first in China or go through a security review in China before being filed overseas. Parties that fail to do so risk losing their patent rights.
- The novelty standard has been expanded to include “public use” overseas.
- Parallel importing has essentially been legalized.
- China has adopted the concept of the “Bolar Exception”, but so far without a balancing mechanism.
- The criteria for patenting designs have been tightened to combat “junk” design patents.
- Provisions on compulsory licensing have been added, mainly to codify existing Chinese rules and to ensure compliance with China’s obligations under the TRIPs Agreement.

**Obtaining Patents**

**First-to-File Principle**

The Patent Law, like the Trademark Law, adopts a first-to-file system. Accordingly, the first inventor to file an application for an invention has the right to patents awarded with respect to the invention. China is a member state to the Paris Convention, and therefore, if a patent application for an invention or utility model is first filed in another convention-member country within 12
months before the filing date in the PRC, the prior filing date will be regarded as the priority date in the PRC. In the case of design patent applications, the relevant period is six months.

First-to-File in China Rule

Under the prior Patent Law, “Chinese entities or individuals” were required to file for patents for inventions made in China but no penalties or other consequences were provided if they did not. By contrast, the new Patent Law imposes severe penalties, and eliminates ambiguities over what types of inventions are subject to the rule.

Specifically, the revised law removes the earlier law’s criterion for first filing based on the applicant’s nationality. Consequently, after 1 October 2009, inventions made by any entities or individuals inside China must be filed in the PRC, unless the application first goes through a security review.

The new Patent Law explicitly states in Article 20 that if the applicant fails to obtain approval following a security review, the corresponding patent issued in China will be deemed invalid. The definition of this “security review” and the procedures relating to it are governed by the Implementing Rules. Under the Implementing Rules, any PCT application filed through China (i.e., with China as the base country) is regarded under the new law as having a default request for security review.

The Implementing Rules clarify how the security review should be filed, and also specify the deadline for a filing license for overseas filings to be given. A filing license is deemed given if, within four months from the date of application, no written notice is received from SIPO that it plans to conduct security review. If SIPO issues a notice for in-depth review, the filing license is deemed given if SIPO fails to issue a written decision
within a further two months, i.e., a total of six months after the original application for security review is filed.

The forms recently issued by SIPO for use in filing applications for security review clearly suggest that SIPO will demand a full translation of the proposed specifications for the patent. Given the cost of translation and the increasing importance of China generally as a battlefield for patent disputes, the new security review requirements may well prompt patent owners to file concurrently in China together with any filing abroad.

**Scope and Term of Protection**

The Patent Law grants protection to inventions, utility models, designs, pharmaceutical products and substances obtained by means of a chemical process.

Under the Patent Law, the term of patent protection for inventions is 20 years and the term of patent protection for utility models and designs is 10 years. The Patent Office has also provided for an extension of patent term for patents for invention. For applications filed on or before 31 December 1992, and effective through 11 December 2001, the patent term may be extended 20 years from the filing date of the application on payment of the necessary annuity.

**Patent Applications**

As with trademarks, foreign applicants are required to submit patent applications in the PRC through an officially licensed patent agent.

With the PRC’s accession to the PCT, any international application in a contracting state can serve as a basis for the right of priority of a subsequent application in the contracting states of the Paris Convention.
International applications may be granted a Chinese patent only after an applicant has satisfied the relevant procedures of the PRC Patent Office. International applications filed with the Patent Office in foreign languages must be accompanied by a Chinese translation of the full application.

**Absolute Standard of Novelty**

In defining “prior art”, the previous Patent Law set different standards for publications and public use. For publications, the standard was worldwide; for public use, the standard was domestic. Thus, a publication issued anywhere in the world, irrespective of its country of origin, language, format, etc., qualified as prior art against a patent application in China. By contrast, to qualify as prior art, public use had to occur in China, and use overseas was excluded from the definition.

Articles 23 and 24 of the new Patent Law explicitly expand the definition of “prior art” to include any technologies or designs that are known to the public inside or outside China before the application date.

**Double-Patenting of Invention Patents and Utility Model Patents**

Article 9 of the new Patent Law permits applicants to apply concurrently for a utility model patent and an invention patent covering the same invention. If the invention patent is granted, the applicant will then be permitted to abandon the utility model patent.

This new provision helps to eliminate the current uncertainty over the legality of “double patenting.” In the past, parties filing for both types of patents had worried that the Patent Office might invalidate one or both patents based on a perception that the patent system was being abused.
SIPO is aware that many utility models and design patents would be deemed invalid if subjected to substantive examination. In order to address widespread concerns over so-called “junk patents”, the latest Implementing Rules empower SIPO to look more carefully at new utility models and design patent applications and to reject those that obviously lack novelty or inventiveness. The rules do not require SIPO to conduct searches, but they effectively give examiners the discretion to do so at the stage of preliminary examination. Consequently, if a SIPO examiner has reason to believe a utility model is a mere copy of existing technology, the examiner now has the power to reject the application ex officio, rather than requiring another party to file an invalidation after grant of the patent. In practice, however, it does not appear that the SIPO examiners readily exercise such discretion and overall, post-grant invalidation remains the primary option to combat junk patents.

**Reexamination**

A patent applicant whose application has been rejected by the Patent Office may request a reexamination of its application by the PRB within three months of receipt of notice of the rejection. The decision of the PRB may be appealed to a People’s Court within three months of receipt of notice of the decision.

**Administrative review**

For decisions by the Patent Office other than rejections of applications after examination, dissatisfied applicants may request administrative review pursuant to the *PRC Administrative Review Law*, or seek administrative court review by People’s Courts under the *PRC Administrative Litigation Law*. 
The *Rules of the State Intellectual Property Office on Administrative Review* (“Rules on Administrative Review”) issued on 1 September 2002 set out the circumstances under which a party may apply to SIPO for administrative review and detailed application procedures.

A party must apply to SIPO for administrative review within 60 days of knowledge of the action taken by the Patent Office. If the application is late due to *force majeure* or other special circumstances, the time limit continues to be counted as of elimination of the hindrance. Cases that have already been heard by the People’s Court are not eligible for review by SIPO. Cases already heard by SIPO cannot be taken to court within the legal review period.

The applicant must provide two copies of the application and the necessary evidence. Applicants that have already received a written reply on action taken by the Patent Office must attach the reply (or a copy), and those that have appointed agents must attach the letter of appointment. The application should contain the applicant’s name and contact address, the reasons for applying and the applicant’s signature or seal.

SIPO must make a decision on review within two months of receipt of the application. A written decision will be sent to the applicant and will enter into legal effect on the date of service, which is the date of receipt if served directly, or 15 days from delivery if served by mail.

In December 2011, SIPO issued a draft revision of the Rules on Administrative Review (“Draft Rules”) for public comment. One noteworthy revision is that the Draft Rules eliminate the statement that administrative review must be conducted in written form. This suggests that parties to a dispute will be permitted to make oral submissions and engage in cross-
examination, which would make the administrative review process more open and fair.

Invalidation

From the date a patent is granted, any party may apply to the PRB to invalidate the patent on the grounds that its grant does not comply with the Patent Law. The PRB’s decision in an invalidation application may be judicially reviewed at an administrative legal proceeding with the PRB as the defendant. The court must join the other party to the invalidation proceeding as a third party to the judicial review proceedings.

Employee Inventions

For inventions or designs created as a result of carrying out employment duties or primarily through the use of an employer’s material and technological resources, the right to apply for patents belongs to the employer. However, the right to apply for patents in relation to inventions or designs unrelated to employment belongs to the inventors or designers. The Patent Law further states that where inventions or designs are created through the use of material and technological resources of the employer, if the employer and employee have entered into a contract stipulating who owns the patent application rights and patent rights, the contract will prevail.

Awards and Remuneration for Employee Inventions

The Patent Law also includes a general provision that requires employers to give awards to employee inventors as well as reasonable remuneration based on the profits of implementing the patented inventions. Fortunately, provisions in the new Implementing Rules on awards and other remuneration for employee inventions allow a high degree of freedom to contract.
Under the Draft Rules circulated for comment, employee inventors would have enjoyed a windfall from various default benefits should the contractual provisions imposed on them be deemed “unreasonable”. However, these provisions do not appear in the new Implementing Rules, which suggests that contractual provisions in employment agreements on employee awards and remuneration for inventions will be respected.

The new rules also explicitly state that awards and compensation for employee inventions may be governed by “legally-established” company rules, clearly suggesting that separate contracts need not be executed to ensure enforceability.

In the absence of contractual provisions or company rules, employee awards and compensation are governed by the default provisions of Articles 77 and 78 of the Implementing Rules, which require employers to provide a lump sum award to an employee upon the grant of a patent, as well as a percentage of profits derived from exploitation, assignment or licensing of the patent. These provisions existed under the earlier Patent Law, but were only applicable to State-owned enterprises. They now apply to privately-owned companies as well, in the absence of contractual provisions or company rules. The amounts specified for remuneration and awards for employee inventions are:

- Awards for invention patents must be at least RMB3,000 (USD460) and paid within three months of the patent’s issuance. For utility models and design patents, the minimum award is RMB1,000 (USD150).

- The remuneration for invention patents and utility models is computed at an annual rate of at least two percent of the business profits that the employer derives from exploiting
them. For design patents, the remuneration rate is at least 0.2 percent. If the employer licenses a patent based on an employee invention to a third party, at least 10 percent of the royalties must be paid to the employee.

**Design Patents**

Design patents offer important protection for innovative designs. In some cases, copyright, trade dress rights and design patents can provide cumulative protection for designs.

Many Chinese design patents are considered “junk patents”, i.e., designs filed by local companies which incorporate designs owned by other companies, with or without minor modifications. Such patents are often obtained as a shield against future legal action by the design’s legitimate owner. In other cases, junk patents are obtained merely as a marketing tool, i.e., to make the owner appear more innovative and respectable.

Junk patents in large part result from the fact that under Chinese law, design patents are granted without substantive examination.

The new Patent Law does not introduce substantive examination for design patents. However, changes have been introduced which underscore the legislature’s desire to combat junk patents: new designs must now contain “noticeable” differences from pre-existing designs, which is generally interpreted as similar to the “inventiveness” or “non-obviousness” standard applicable to invention patents. Consequently, although junk patents will not be examined prior to grant, it should be much easier to have them invalidated.

Further, the new Patent Law makes it more difficult for pirates to copy foreign designs that have not been used in China, by
adopter the “absolute novelty standard”. Consequently, a
design patent may now be invalidated if the same or a similar
design is found to be sold or publicly displayed outside China
before the filing date. Under the old law, patents could be
obtained in China as long as a design was not disclosed in
publications worldwide and was not publicly sold/displayed/
used inside China. This new global standard for novelty should
help somewhat to deter the filing of junk patents, as well as in
invalidating them.

Article 11 of the Patent Law expands protection of design
patents by granting patent owners the power to prohibit “offers
to sell” infringing products. This means that vendors who offer
to sell an infringing design at a trade fair would be deemed to
infringe a design patent. In the past, offers for sale could only
be addressed through a warning and an administrative order to
refrain from promotion.

A significant change which could dramatically affect the scope
of protection for new design patents is the new Article 26
requirement for applicants to submit a brief description of their
design, which was previously optional. Article 59 indicates that
this description can be used to interpret the design, thereby
clarifying the scope of protection beyond that suggested in
diagrams and photos filed together with the application.

From 1 October 2009, SIPO can reject patent applications that
do not include the required description.

In the past, applicants for design patents had the option of
including written descriptions in their filings, but were advised
not to do so for fear of limiting the scope of protection. This fear
was based on court cases where Chinese judges referred to the
descriptions in justifying decisions in favor of the defendant.
With the latest change in the law, it is likely Chinese judges will rely even more than before on these descriptions when determining the scope of protection of a patent, and design pirates and other competitors will no doubt pay close attention to the descriptions when seeking to design around existing design patents.

Further, it is expected that the new requirement will assist in pursuing design “cherry-pickers”, i.e., competitors that copy unique elements from one or more existing designs and transplant them into a new product. This phenomenon has attracted the most attention in the automotive field.

**Design Patent – Infringement Determinations**

The 2010 Opinion contains a number of important provisions governing the determination of design patent infringement cases, and its clarifications are expected to encourage greater resort to litigation in such cases.

Infringement of design patents exists where a defendant’s design is identical or similar to the patented design used for an identical or similar product. The 2010 Opinion helps explain what constitutes a “similar” product by allowing courts to consider the utility of the product, considering various factors such as the descriptions within the design patent, the International Classification for Industry Designs, the functionality of the product and circumstances of product sales and actual use.

The 2010 Opinion also provides a set of new factors for determining whether designs are “identical or similar”. Notably, it requires the courts to make a “holistic” judgment on the overall visual effect of the designs based on the design features of the design patent and the defendant’s design.
However, no consideration should be given to design features that are dictated mainly by functionality or to features that have no impact on the overall visual effect, including the materials and internal structure.

If there is no difference in the overall visual effect, the defendant’s design and the patented design will be regarded as “identical”. Where there is no substantial difference in the overall visual effects, the courts will regard the accused design and the patented design as “similar”. The 2010 Opinion also specifies that courts should determine whether a product is identical or similar to a design patent based on the level of knowledge and cognitive ability of the “ordinary consumer”.

The SPC points to the following factors as usually having a greater impact on a design’s overall visual effect:

- the parts that are easily observed directly (relative to other parts) when the product is used in a normal way; and
- the features that distinguish a granted design patent from the prior art.

As to using an infringing device as a component, the 2010 Opinion confirms that liability may be imposed on a party that both assembles and sells a product which incorporates a component that infringes a design patent. However, liability will not be imposed if the infringing device is used purely for its functionality. In other words, if the components are installed inside a final product and add no value to the appearance, the patent owners cannot file a lawsuit against the maker or reseller of the final product. This change makes it difficult for patent owners in some industries to enforce their design patents. It is quite common in some industries to apply for design patents for components (e.g., mechanical components) that are often assembled into the interior of products. The
2010 Opinion would force the patent owner to trace back to the manufacturer of the infringing products rather than parties who make finished products incorporating patented components.

**Regulatory**

**Compulsory Licensing**

Compulsory licensing rules have long existed under China’s Patent Law, but the Chinese government has yet to officially grant a compulsory license. The new Patent Law includes numerous “house-cleaning” provisions on compulsory licensing. Most are intended to implement standards set out in the TRIPs Agreement. Others simply codify rules that appear in existing Chinese regulations. Nevertheless, the provisions as a whole signal a clear determination by the legislature to give the government stronger powers to issue compulsory licenses to deal with public health crises, including those encountered in recent years, for example, SARS and “bird flu.”

Articles 48 through 51 set out the main conditions under which SIPO may issue a compulsory license:

1. where the patent owner itself has done no or insufficient exploitation of the patent, without justification, within three years from the date of issuance and within four years from the filing date, and upon a request from an entity or individual which has the resources to exploit the patent (Article 48(1));

2. where the patent owner’s conduct in exercising its patent right is held to be a monopoly, for the purpose of eliminating or mitigating the adverse effect of the conduct on competition and upon request from an entity
or individual which has the resources to exploit the patent (Article 48(2));

(3) where a later patent reflects a major technological breakthrough that is of significant economic value but its implementation is dependent on a prior patent, and upon a request from the owner of the later patent to exploit the prior patent; in this case, SIPO may also issue a compulsory license for the later patent to the owner of the prior patent if that owner requests one (Article 51);

(4) where a state emergency or unusual condition arises or for the purpose of public interest (Article 49); and

(5) for the purpose of public health where the patent at issue is a pharmaceutical patent (Article 50).

The compulsory licenses contemplated under points (1), (2) and (3) above may be issued upon request from a party wishing to exploit the patent at issue, while those issued under points (4) and (5) may be issued on the initiative of the Chinese government itself.

A party requesting a compulsory license under points (1) or (3) must prove that it has failed to obtain a license within a reasonable time period after offering the patent owner reasonable terms and conditions (Article 54).

While most compulsory licenses are issued primarily for the domestic market, a compulsory license under points (2) and (5) will not be subject to that limitation (Articles 50 and 53).

If a compulsory license relates to semi-conductor technologies, the license must be limited to a public interest purpose or given as a remedy for anti-competitive behavior (Article 52).
The royalties under compulsory license must be reasonable or determined under relevant international treaties.

The new Implementing Rules do not change the conditions for granting compulsory licenses: they are available where “the manner or scale of exploitation by the patentee or its licensees cannot meet the domestic demand for the patented product or process.” Foreign patent owners have registered their objections to this overly-vague definition, but for the time being, SIPO and the State Council prefer to retain the status quo.

The new Implementing Rules set out a number of procedures for the grant of compulsory licenses for pharmaceuticals manufactured in China and exported to least-developed countries or countries that otherwise have insufficient manufacturing capacity.


Several provisions are noteworthy for pharmaceutical companies. The Measures for Compulsory Licensing specify the procedural rules governing the grant of a compulsory license to manufacture and import certain patented medicines for the benefit of public health. All medicines under the Drug Administration Law of the People’s Republic of China
may be subject to compulsory licensing. Another provision of note is that compulsory license applications may be based on anti-monopoly law. An applicant must provide evidence from effective judicial or administrative decisions that the patentee’s exercise of its patent rights violates anti-monopoly law.

Parallel Imports

The new Patent Law appears to formally open the door to parallel importing. It explicitly exempts a party from patent infringement for using, offering to sell, selling or importing a patented product that has previously been sold by a patentee or its licensee.

Special Exemption of Patent Infringement Liability - Bolar Exemption

Article 69(5) of the new Patent Law exempts a party from patent infringement if it manufactures, uses or imports patented pharmaceutical products or medical devices in order to obtain regulatory approval. This version of the Bolar Exemption has raised widespread concern amongst research-based pharmaceutical companies for lacking a balancing mechanism (i.e., allowing a few years’ extension of patents to compensate for time needed for approval). Whether the Chinese government will be willing to make certain adjustments in other ways will be closely watched.

Genetic Resources

The new Patent Law introduces a new provision which conditions the issuance of a patent for inventions derived from the use of genetic resources on compliance with relevant laws and administrative regulations. Applicants for such patents also
must disclose both the “direct source” and the “original source” of the genetic resources. If the applicant cannot disclose the “original source,” an explanation must be provided.

These new rules clearly reflect a desire to deter theft or other improper exploitation of Chinese genetic resources. Although an illegal acquisition or use of genetic resources would render a patent invalid, a failure to describe the direct or original sources of the genetic materials in a patent application would not constitute grounds for invalidation of a granted patent.

Enforcement

For an invention or utility model patent, the patent holder has the right to prevent any other person from making, selling, offering for sale, using or importing, without authorization, a patented product for production or business purposes. For a process patent, the exclusive right is extended to products directly obtained by implementing the patented process. For a design patent, the holder has the right to prevent any other person from making, selling, offering for sale or importing, without authorization, a product embodying the patented design for production or business purposes. The addition of “offering for sale” as an infringing act pursuant to the new Patent Law expands the protection for design patents. The 2001 Opinions define “offering for sale” as showing willingness to sell through advertisements, window displays or exhibits in trade fairs, etc.

As in other countries, patent infringement occurs when aspects of a product or process fall within the scope of the claims of a patent. In the case of designs, infringement is determined by reference to the drawings or photographs and the written descriptions included in the design patent application.
The time limit for patentees to file infringement actions is two years from the date the patentee becomes aware or should have become aware of the infringing activity. The 2001 Opinions stipulate that if the patent owner commences proceedings after the two-year time limit but the infringing activities persist at the time of commencement of proceedings, the court should order an injunction to be implemented during the remaining validity period of the patent. Compensation should also be awarded for the two-year period prior to the commencement of the proceedings.

After an invention patent application is published but before the patent right is granted, the applicant may require entities exploiting the invention to pay license fees, but the period for which such license fees may be claimed is limited to two years from the time the patent owner knew or should have known about the exploitation. If, however, the patent owner knew or should have known about the exploitation before the date of grant, then the limitation period is calculated from the date of grant.

Infringement action may be brought either through the People’s Courts (by initiating civil actions) or through local Patent Management Bureaus (by filing administrative complaints). Administrative decisions may, however, be appealed to the People’s Courts. If the infringer challenges the validity of the patent in dispute, this will have to be filed with and decided by the Patent Office as parallel proceedings to an infringement action. Remedies available to patentees through administrative actions include injunctions. On the issue of compensation, the local Patent Management Bureaus may mediate between the parties upon their request. If a settlement is not reached, the parties may go to court.
Generally speaking, civil action is the primary route of patent enforcement in China, as the People’s Courts have the power to grant a full range of remedies available under the law, such as injunctions and evidence and asset preservation orders (see below). Administrative complaints are less preferred as local Patent Management Bureaus have traditionally been limited in technical expertise and resources, and tend to prefer to mediate. SIPO has under the 2010 *Measures for Administrative Enforcement of Patents* broadened the evidence collection power of the Patent Management Bureaus, but administrative enforcement is unlikely to be seen as sufficiently effective until they are empowered to enforce a cessation of infringement order (currently they must seek judicial assistance to do so), to conduct raid actions and to seize infringing goods.

As an interim measure, the patent owner may request that the court preserve evidence of infringement by way of an evidence preservation order. A party may request the court to preserve evidence if the evidence is likely to be destroyed or become difficult to obtain in the future. This order is statutorily available either before or after the commencement of proceedings, but expires after 15 days if proceedings have not been commenced.

There is no PRC equivalent of discovery in common law jurisdictions. The general rule on presentation of evidence is that the party asserting an allegation bears the burden of proof. The plaintiff in a patent infringement case therefore needs to collect sufficient evidence to discharge its burden.

However, in infringement cases relating to invention patents for production processes for new products, manufacturers of identical products must themselves furnish proof that their production processes are different from the patented process.
Patent Litigation - Claim Construction

The provisions in the 2010 Opinion on claim construction are perhaps the most helpful so far in understanding the method of claim construction in China. Prior to the 2010 Opinion, judges and litigants arguing the scope of patent protection relied upon Article 59(1) of the Patent Law, which simply states that protection is dictated by the contents of the claims, with other descriptions and drawings only considered for the purpose of interpreting the contents of the claims.

Article 2 of the 2010 Opinion now specifies that determinations of the contents of the claims be “based upon” the recitations in the patent claims, supplemented by an “understanding” of the claims that one would obtain after a review of the description and the drawings by a person ordinarily skilled in the relevant art. This provision is widely understood to request judges and litigants to focus on the claims for the purpose of determining claim construction and the scope of protection, thereby de-emphasizing accompanying descriptions and drawings.

Another key change introduced by the 2010 Opinion concerns the limitations imposed on means-plus-function claims. To date, there has been much inconsistency among courts on the scope of protection for functional claims. The 2010 Opinion attempts to clarify the scope by stating that where the technical features in the claims are defined with their functions or effects, the People’s Court may determine the content of the claims by reviewing the embodiments or equivalents that describe such functions or effects (see Article 4).

Patent Litigation - Estoppel

The 2010 Opinion allows courts to adopt prosecution estoppel or file history estoppel in ascertaining the exact scope of a patent.
Specifically, if the patent owner abandoned certain subject matters incidental to prosecution or invalidation proceedings, whether via explicit amendments or indirectly through arguments proffered, the patent will be deemed by the courts as excluding protection for the abandoned subject matters.

Notably, the 2010 Opinion clarifies the applicability of estoppel in the context of invalidation proceedings. Patent owners will consequently need to coordinate more carefully between counsel responsible for litigation and those managing invalidation proceedings.

**Defenses - Prior Art**

Article 62 of the new Patent Law codifies the prior art defense, which was previously adopted in practice by Chinese courts and sanctioned by a judicial interpretation issued by the Supreme People’s Court and local rules issued by certain local courts. Under the new Patent Law, if a defendant proves that it merely practiced the prior art, it should be exempted from patent infringement liability, regardless of whether or not the technology reads on the patent asserted by the plaintiff.

The 2010 Opinion expands on the provisions in the new Patent Law on the prior art defense by requiring that all features that fall within the scope of protection of the plaintiff’s patent be identical to or have no substantial difference from the corresponding features in the prior art. This rule should help to reduce uncertainty in the application of the prior use defense as well.

**Defense - Prior Use**

Consistent with the Patent Law, the 2010 Opinion clarifies that defendants who assert the “prior use” defense may not prevail
if they obtained the relevant technology or design through illegal means.

Under the Patent Law, the prior use defense requires that:

(a) a party has used the technology or has undertaken “necessary preparations for the manufacture of” patented products or the use of patented processes prior to the application date of the patents; and

(b) such prior use remains within the scale of the prior production.

The 2010 Opinion defines the term “necessary preparation” by specifying that if the key technical documentation for implementing the patented technology is ready, or if the key equipment has been manufactured or purchased, the prior use defense is available.

The 2010 Opinion also defines “scale of prior production”: if the party licenses others or entrusts the “necessary preparations” to others, the prior use defense does not apply. The only exception is that the successor or acquirer of the whole enterprise is entitled to the prior use defense. These provisions clearly suggest an intention by SPC drafters to avoid abuse of the prior use defense and limit its scope.

**Damages**

Under the new Patent Law, Chinese courts are required to take a multi-step approach in calculating damages.

- First, they must attempt to determine damages based on the actual losses to the patent owner.
If it is difficult to determine actual losses, damages may be determined based on the profits generated from the infringement.

Where that is not possible, the court must determine the normal royalty rate, then arrive at a calculation of damages based on a reasonable multiplier of that royalty rate.

Finally, if none of these approaches is practical, the court can impose statutory damages ranging from RMB10,000 to RMB1,000,000 (USD1,600 to USD160,000).

Regarding the second test — infringer profits — the 2010 Opinion provides that the amount must be limited to the profits gained as a result of the patent infringement itself, while profits derived from “other rights” must be excluded. Unfortunately the 2010 Opinion does not define what “other rights” includes. For this and other reasons, the 2010 Opinion’s provisions may ultimately make it harder for courts to determine damage awards based on infringer profits, thereby forcing courts to rely on other methods for determining damages.

The 2010 Opinion also attempts to unify practice in areas where local courts have taken diverging approaches over the years. In particular:

Where the defendant uses an infringing product as a component in another product, courts must consider the value of the component and its contribution to the profit margin for the finished products.

Where a defendant’s design patent is used for packaging, courts must consider the value of the packaging itself and its contribution to the profit margin of the product.
Preliminary Injunctions and Evidence Preservation

The interim measures for preliminary injunctions and evidence preservation were added to the 2001 revision of the Patent Law in order to facilitate China’s accession to the WTO.

As an interim measure, the patent owner may request a court to issue orders for preservation of property and/or evidence, which may be issued before or after commencement of proceedings. Under a preservation of property order, assets of the infringer are preserved by seizure or attachment, subject to the patent owner’s provision of security. Security will usually be in the form of a bank guarantee from a bank in the PRC.

Articles 66 and 67 of the new Patent Law set out more detailed standards for issuing preliminary injunctions and evidence preservation orders, respectively. The court normally must decide whether or not to grant preliminary injunctions or evidence preservation orders within 48 hours of accepting an application.

If a patent owner or interested party has evidence that someone is infringing or will infringe a patent and that if not stopped promptly, such infringement will cause irreparable harm to their legal rights and interests, the patent owner or the interested party may apply to the court for an injunction and an order for the preservation of property prior to the commencement of proceedings.

Security must be provided along with the application. The court decides the amount of the security and this may be increased depending on developments in the lawsuit. Once issued, an injunction is immediately executable. The court must notify the respondent promptly of the injunction. Either party may seek the court’s review of its decision. The execution of an injunction is not halted while a request for review is pending. An injunction
will be revoked if the applicant does not commence proceedings leading to a decision on the merits of the case within 15 days of executing the injunction.

If the applicant does not commence proceedings or if the application for the injunction was made in error and results in a loss to the respondent, the respondent may sue for compensation in a separate suit or in the related infringement suit. The court decides on the duration of an injunction, although the injunction should generally remain in force until the final decision in the lawsuit becomes effective. The applicant may apply for a continuance of an injunction when its term expires. The court may issue an order for the preservation of evidence at the time it issues an injunction order.

**Appeal**

In principle, a typical patent case can be appealed only once. Most foreign patent owners litigate patent cases in Intermediate Courts (often located in larger cities), and the cases conclude in Higher People’s Courts (often located in provincial capitals as well as other “directly administered” cities and Special Economic Zones).

China dramatically expanded the availability of retrial in its amended Civil Procedure Code, effective 1 April 2008. As a result, the SPC increasingly grants petitions for retrial for IP cases as a way to improve the quality of adjudication.

**Non-Infringement Declarations**

The 2010 Opinion codifies for the first time rules for handling requests by parties for declarations of non-infringement. Chinese courts have issued such declarations for years based on an advisory opinion issued by the SPC in 2002, but have
rejected most requests to do so due to the lack of a clearer legal basis. This is now expected to change.

The filing of requests for non-infringement declarations is subject to several conditions:

(a) The patent owner must have sent a warning. There is no requirement that the warning be in writing.

(b) The party who receives the warning or a party having a material interest in the matter must send a written notice to prompt the patentee to exercise the right to sue, i.e., a letter refuting the infringement.

(c) If the patentee fails to sue or fails to withdraw the warning within one month from receipt of the written notice or within two months from the date of issuance the written notice, the recipient or interested party may apply to the People’s Court for a declaratory judgment of non-infringement.

The 2010 Opinion does not contain other rules on handling non-infringement declarations, but these provisions will likely convince Chinese courts to be much more welcoming of complaints.

Given the new provisions on non-infringement declarations, patentees will now need to be mindful of a much higher risk of being subjected to litigation in unfriendly forums after sending routine warning letters.

**Passing Off**

The Patent Law provides that persons found to be passing off any unpatented product or process as a patented product or process will be ordered by the authorities to stop the passing off, correct it publicly, and pay a fine.
Under the Patent Law, for passing off a third party’s patent, local IPOs may issue rectification and publication orders, confiscate illegal income and impose fines of up to three times the illegal income, or up to RMB200,000, if there is no illegal income.

There is also criminal liability for passing off. The Criminal Code stipulates that “serious cases” of passing off a third party’s patent are punishable by fines with or without sentences of up to three years’ imprisonment.

The December 2004 SPC and SPP Interpretation on Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Intellectual Property Infringement states that criminal liability should be pursued for the following cases of passing off involving patents:

- Illegal turnover is over RMB200,000 or illegal income is over RMB100,000 (where there is passing-off of two patents, these thresholds are reduced by half);
- The economic loss directly caused to the patent owner is over RMB500,000; or
- “other serious circumstances”.

For passing off cases involving false indications that an item is patented, the IPOs may issue orders for public rectification and impose fines of up to RMB200,000.

Protection of New Plant Varieties

The 1 October 1997 Regulations of the People’s Republic of China on the Protection of New Plant Varieties (the “PVP Regulations”) set out procedures for the protection of rights in new plant varieties in the PRC.
New plant varieties are defined as plant varieties which are cultivated artificially or developed from discovered wild plants, possess novelty, distinctiveness, consistency and stability, and have appropriate names.

Novelty means the reproductive material of the variety has not been on sale prior to the application for the variety right or has not been on sale in China for more than one year with the approval of the cultivator. To possess novelty, the reproductive material may not have been on sale outside China for a period of more than six years in the case of vines, forest trees, fruit bearing trees and ornamental trees or for a period of more than four years in the case of other plant varieties.

Distinctiveness means the new variety must be clearly distinct from plant varieties that are already known.

Consistency means that, upon reproduction, the relevant characteristics or properties of the variety are consistent except for predictable variations.

Stability means the relevant characteristics or properties of the variety remain unchanged upon repeated reproduction or at the end of a particular reproduction cycle.

**Administrative Jurisdiction**

The PVP Regulations provide that the administrative departments for agriculture and forestry (the “Approval Authorities”) are jointly responsible for accepting and examining applications for new plant variety rights. These functions are currently assumed by the Ministry of Agriculture and the State Forestry Bureau, which grant new plant variety rights in accordance with their respective jurisdictions.
Scope of Protection

A unit or individual that has successfully cultivated a new plant variety and has been granted a variety right has the exclusive right of possession of the variety. Provided the other rights of the owner of a variety right are not infringed, the user of a variety right need not obtain the owner’s consent or pay use fees if:

- The variety is used to carry out cultivation or for other scientific research activities; or
- A farmer reproduces the reproductive material of the variety for personal use.

As is the case for patents, the PVP Regulations allow for compulsory licensing of variety rights.

Application Process

Chinese units or individuals that apply for a variety right may apply directly or entrust an agent to apply to the Approval Authorities. When foreigners, foreign enterprises or other foreign organizations apply for plant variety protection rights in China, the matter must be handled in accordance with any bilateral agreement or international treaty entered into between their country and China.

The Approval Authorities must accept and handle applications that conform to the requirements of the PVP Regulations, ascertain the date of filing, assign an application number, and within one month of receiving the application notify the applicant to pay the application fee.

If the Approval Authorities find the application conforms to the PVP Regulations’ provisions, they grant the variety right, issue
a certificate of plant variety rights, carry out registration and make a public announcement.

**Duration of Right**

The term of protection of a plant variety right is 20 years from the date of grant for vines, forest trees, fruit bearing trees and ornamental trees, and 15 years from the grant for other plant varieties.

The owner of the plant variety right must pay annual fees from the year the variety right is granted and must provide the reproductive material of the variety to the Approval Authorities for use in tests.

**Administrative Protection of Agrochemicals and Drugs**

Under the *Memorandum of Understanding Between the Government of the United States of America and the Government of the People’s Republic of China on the Protection of Intellectual Property of January 17, 1992* (the “MOU”), the Chinese government agreed to extend patent protection to all chemical inventions including pharmaceuticals, whether products or processes, with effect from 1 January 1993. China’s Patent Law then recognized only process patents for pharmaceuticals, but was subsequently amended to allow product patents.

Under the MOU, the Chinese government also agreed to extend administrative protection to US pharmaceuticals. By a series of bilateral and multilateral agreements, the scheme has been extended to other countries and is now applicable to pharmaceutical products owned by individuals or enterprises from the US, Japan, Switzerland and European Union countries.

The grant and enforcement of administrative protection is set out in the *Regulations on the Administrative Protection of*
Pharmaceutical Products, their Detailed Implementing Rules, and various Notices of the Office for the Administrative Protection of Pharmaceuticals ("OAPP") of the State Drug Administration ("SDA").

Administrative protection grants quasi-patent protection that is enforceable primarily through the SDA. Protection is available for active ingredients as well as specific dosage forms. Administrative protection is available in respect of pharmaceutical product inventions:

- For which exclusive rights were not available under the Patent Law prior to 1 January 1993;
- For which an exclusive right prohibiting the manufacture, use or sale by others in the country where the applicant is located was obtained between 1 January 1986 and 1 January 1993; and
- Which have not been sold in the PRC before the application for administrative protection was filed.

Administrative protection is obtained by applying to the OAPP. All application documents must be filed by the foreign rights holder of the pharmaceutical product through the sole designated official agent, China Hua Ke Pharmaceutical Intellectual Property Consultancy Centre.

These documents must be submitted in the official language of the applicant’s country and in Chinese:

- An application in the prescribed form containing details of the applicant and setting out the name, chemical formula, prescription, forms, indications, method of application, dosage and a summary of the technological preparation method for the pharmaceutical product;
• A notarized copy of the certificate of incorporation or equivalent document of the applicant;

• A notarized and legalized copy of the patent certificate issued in the applicant’s country evidencing the grant of a product patent to the applicant between 1 January 1986 and 1 January 1993;

• A notarized and legalized copy of a Maintenance Fee Status Report, a Certificate of Payment of Renewal Fee or other certificate showing that the annual patent maintenance fees have been paid for the patent;

• A notarized and legalized copy of the certificate or Authorization of Manufacture or Sale issued to the applicant for the pharmaceutical product by the relevant regulatory body in the applicant’s country;

• A notarized and legalized agreement between the applicant and a PRC enterprise/legal person granting the PRC enterprise the right to manufacture or sell the pharmaceutical product in the PRC;

• Copies of the Enterprise Legal Person Business License and the Pharmaceutical Manufacturing/Business Enterprise License of the PRC enterprise/legal person referred to above; and

• A power of attorney in favor of the official agent.

Product approval must also be requested from the Ministry of Public Health for the manufacture or sale of the pharmaceutical product in the PRC either before or after the application for administrative protection is filed.

The OAPP should normally complete examination of application documents within six months. Rejected applications may be
appealed to the Administrative Protection for Pharmaceuticals Review Commission. A decision of this body may be appealed to the People’s Courts.

Upon approval by the OAPP, administrative protection will be granted for a single term of 70 years from the date of issuance of a Certificate of Administrative Protection for the pharmaceutical product. In many instances, timing of an application will depend on when product approval is expected so as to enable the fullest possible exploitation of this single term. The OAPP approval will be gazetted in the China Pharmaceutical Journal. Annual fees must be paid to maintain administrative protection.

A party that believes that issuance of a certificate of administrative protection does not comply with the regulations may submit a written request to the OAPP for cancellation of administrative protection. The administrative protection holder may appeal a cancellation decision to court.

Complaints against infringers of administrative protection rights may be filed with the OAPP or with the People’s Court. The statute of limitations is two years from the day when the rights holder discovers or should have discovered the infringement.

**Recordal of Patent Licensing Contracts**

The *Measures for Patent Licensing Contract Recordal* ("Recordal Measures") were promulgated on 1 August 2011, abolishing the 2001 *Measures for Patent Licensing Contract Administration*. In comparison with the old law, the Recordal Measures simplify and improve the procedure for the recordal of patent licensing contracts. The amount of content from patent licensing contracts that is announced in the Patent Gazette is increased, making it easier for parties to conduct patent due diligence.
The Recordal Measures also stipulate that SIPO shall issue its decision on whether a patent licensing contract may be recorded within seven days of receiving the application, and the parties to a patent licensing contract shall apply for recordal within three months of the effective date of the contract.

Other Patent Regulations

Several other patent-related regulations were published for public consultation in 2011.

- The *Forms and Documents for Administrative Enforcement of Patents* were published on 29 August 2011 for public comment. It contains more than 100 forms and standard documents relating to patent infringement disputes, investigation of counterfeit patented products, mediation of patent disputes, enforcement at shows and exhibitions, administrative review, cross-regional administrative enforcement of patents, and administration of law enforcement agencies. These forms and documents will improve communication with administrative law enforcement agencies.

- The *Draft Measures on the Use of Patent Labels* ("Draft Measures") were published on 21 October 2011 for public comment. The Draft Measures seek to further clarify Article 17 of the Patent Law, and may open the gate to a round of false patent marking litigation in China. It was promulgated on 8 March 2012.

- The *Draft Administrative Measures on Prioritized Examination of Patent Applications* ("Draft Administrative Measures") were published on 16 December 2011 for public comment. Apart from procedural rules, the Draft Administrative
Measures specify that patent applications in the following categories are eligible for prioritized examination:

- Important applications concerning core technologies in emerging industries, such as energy saving and environmental protection, new generation IT, biology, high-end equipment manufacturing, new energy, new material and new energy vehicles;

- Important applications concerning green technology, e.g., low carbon and resource conservation;

- Important applications concerning major national science and technology projects;

- Patents which have been applied for in other countries or region and are being applied for in China for the first time; and

- Other applications that need to be prioritized for examination.
STANDARDS IN CHINA

Standardization – A Key National Strategy

In the PRC, development of home-grown standards is now a key priority for the national government. This priority is codified in the State Council’s 2006 *Outline for the National Medium to Long-term Science and Technology Development Plan (2006-2020)*, and amplified in the 11th *Five-Year Plan (2006-2010) for Standardization Development*, issued in 2006 by the Standardization Administration of China ("SAC"). These documents demonstrate the government’s commitment to expanding the use of local standards and encouraging the development of home-grown IP, to reduce reliance on foreign patented technology.

As explained below, there have been a number of developments in recent years illustrating the government’s resolve to expand the use of local standards, relying to the extent possible on non-patented technology or patented technology made available at prices lower than those prevailing in international markets.

Standardization Legislation in the PRC

Detailed provisions on the establishment and enforcement of standards are contained in the *PRC Standardization Law* ("Standardization Law") and the *PRC Standardization Law Implementing Regulations* ("Standardization Regulations"), effective on 1 April 1989 and 6 April 1990, respectively.

They designate Chinese standards as either compulsory or recommended. There are currently 24,961 national standards in China, of which 3,356 are deemed compulsory.

Compulsory standards include primarily those intended to protect public health and safety, and to safeguard property.
Chinese legislation prohibits the production, sale or importation of products that do not comply with compulsory standards.

Recommended standards are encouraged but not mandatory, and are conceptually equivalent to so-called “technical regulations” under the WTO’s Agreement on Technical Barriers to Trade.

Many of the recommended standards are intended to facilitate compatibility and interoperability among products in the information technology sector. However, not all such standards are recommended. Article 18(7) of the Standardization Regulations provides that “standards related to interoperability and compatibility” may be designated by the government as compulsory.

Otherwise, standards in China are divided into four categories:

(a) national standards, i.e., those designated by relevant government ministries;

(b) industrial standards, i.e., those designated by particular ministries responsible for a particular sector;

(c) local standards, i.e., those designated by local governments; and

(d) enterprise standards, i.e., standards adopted by individual companies.

**Patents and Standards**

Chinese law does not currently prohibit the use of patented technology in mandatory standards. However, the government has made clear its intention to do so.
The SAC drafted regulations in 2004 (the *Provisional Regulations on National Standards Involving Patents (Draft for Comments)*) which provided that compulsory standards should not, in principle, incorporate patented technology, while recommended standards may. The 2004 draft regulations also proposed that patented technology should only be incorporated into any kind of standard where necessary, and where there were not otherwise good reasons to exclude patented technology from use in a particular standard.

The 2004 draft regulations were ultimately not promulgated, largely due to concerns expressed by foreign (and some local) patent owners. However, SIPO restated the government’s intention to accelerate promulgation of draft regulations in its *Action Plan on IPR Protection 2009*, issued in April 2009. A new version of the draft was released in April 2010.

In June 2009, the SPC published draft guidelines to assist local courts in dealing with civil disputes involving patents and standards. Article 20 of the draft guidelines provides that a company implementing a standard can seek a ruling from the People’s Court in the following situations:

- Where a patentee had not disclosed a patent that was adopted into a standard, the standard can still be implemented without infringing the patent.

- The People’s Court has discretion to determine royalties for the patentee after considering (i) the patent’s novelty; (ii) the patent’s utility for the standard; and (iii) the nature and scope of the standard.

- If a patentee had disclosed and licensed its patent for use with a standard, but the terms and conditions are unreasonable, uncertain or otherwise lacking, the People’s Court has discretion to amend them.
Patent Policies in Standards-Setting Organizations

Standards are generally developed through ad hoc “standards-setting organizations” (“SSO”) that involve representatives of both government and industry, and in recent years, SSOs have played a critical role in establishing IP policies for a range of new standards.

SSOs have sometimes required individual companies participating in them to disclose relevant patents, including details of confidential patent applications, as part of the standards-setting process. Further, as part of any final consensus of an SSO, patent owners may be required to commit to licensing patented technology that is incorporated into a standard (a) on a royalty-free basis (“RF”), (b) under reasonable and non-discriminatory (“RAND”) terms, or (c) through a patent pool. This approach to IP in standards is aptly illustrated by the Audio Video Coding Standard Working Group of China (the “AVS Group”), which is currently developing new standards for the proliferation of a local version of MPEG technologies.

Patent Pools

Generally speaking, patent pools are a form of RAND that create cross-licensing agreements among all the participating patentees under uniform licensing terms. The agreement will normally include a formula for the allocation of a portion of the licensing fees generated to each of the patentees of the pool.

Patent pools are new to China, but they have already generated a substantial amount of interest and resulted in some interesting experiments. Among these is the AVS Group’s patent pool agreement, in place since 2004, under which non-participating third parties may be permitted to join the pool after an independent evaluator determines that their patents
are essential. The AVS Group patent pool has also been widely recognized in China as an attractive model for promoting the dissemination of technology at low cost, as participants are able to access pooled patents for the affordable royalty rate of just RMB1 [currently about USD0.15].

Not surprisingly, patent pools are increasingly being created as a means of popularizing new local standards to avoid reliance on foreign patented technology. The latest example is the State Administration of Radio, Film and Television’s announcement in May 2009 of the creation of the China Mobile Multimedia Broadcasting ("CMMB") Workgroup. The CMMB is planning to establish a patent pool to support the development of home-grown technology as a viable alternative to Europe’s DVB-SH standard, which provides infrastructure to deliver digital video broadcasts from satellite and terrestrial sources to handheld devices.

**Impact of China’s New Anti-Monopoly Law**

The PRC’s first Anti-Monopoly Law entered into force on 1 August 2008. The provisions dealing with horizontal and vertical agreements could be highly relevant to standards.

Article 55 explicitly prohibits the “abuse” of IP rights, including the exercise of IP rights that restricts or eliminates competition.

The authorities are currently drafting implementing guidelines to clarify the conditions which may be deemed “IP abuse” under the Anti-Monopoly Law, and the Supreme People’s Court is likewise drafting judicial guidelines to assist courts in dealing with disputes in this area, including those involving patent pools.
In the meantime, to minimize risks of violating the Anti-Monopoly Law, any unilaterally launched standards should be made available to others on fair, reasonable, and non-discriminatory (“FRAND”) terms. If membership in the standard-setting body is required, the membership subscription requirements and process should be open and non-discriminatory. Standard-setting which may possibly create a monopoly or oligopoly should be avoided.
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