

IP RISK MANAGEMENT: IPR Protection in China (Summary)

On Wednesday, September 20, 2006, Enoch Liang, Benjamin Qiu and Stacy Yuan from the Beijing office of Lovells gave a two and a half hour presentation to the Intellectual Property Law Delegation to China of People to People International, held at the American Chamber of Commerce in Beijing. The presentation focused on the protection of intellectual property rights in China, and consisted of four main parts.

PART I: OVERVIEW OF IPR PROTECTION IN CHINA

Companies should proactively manage their IP rights in China for one simple reason: Money. While it costs money to set up an IP protection system, that money is well spent, as it could cost significantly more money down the road, for example, if it becomes necessary to recover your hi-jacked IP rights.

The IP laws in China are quite comprehensive, and consist of the *Trademark Law*, *Copyright Law*, *Patent (Patent, Utility Models, and Designs) Law*, *Anti-Unfair Competition Law* and *Product Quality Law*, as well as accompanying regulations. A rights holder can enforce its IP rights in the People's Courts or with various administrative agencies.

The process of managing IP rights in China is similar to those elsewhere in the world: (1) understand and register IP rights, and periodically conduct audits; (2) maintain the IP portfolio by continuously clearing and registering; (3) beware of hi-jacking of IP rights by monitoring relevant publications; (4) monitor partners, subcontractors and licensees; and (5) adopt effective enforcement strategies and actually taking action.

Lovells then offered two real life scenarios to apply the above principles.

The first topic of discussion focused on trademark registration strategies for China. Lovells recommends that rights holders: (1) be pre-emptive by registering more rights than actually used (as there is no intent to use system or use requirement in China); (2) consider opposition and cancellation actions and act promptly; and (3) consider buying back rogue registrations. This is especially important when choosing Chinese language trademarks; if the rights holder does not choose one, then the Chinese consumers will, and the rights holder may find that "assigned" Chinese mark hi-jacked.

Other topics of discussion included: (1) ensuring ownership of R&D results should a company decide to conduct R&D in China; (2) various wrinkles in the Chinese IP laws, such as "right to reward" an inventor of a patent; and (3) numerous examples of hi-jacking of IP rights, including trademarks, company names, domain names, designs and patents.

The final topic of discussion in this section related to enforcement of IP rights. Lovells stressed the restrictions on evidence and the necessity of using good investigators. Lovells also discussed the steps for enforcing before the administrative agencies, as well as the People's Courts, and the pros and cons of each. Though, in the past, administrative enforcement was quite common, today, the penalties imposed by administrative agencies are increasingly viewed by infringers as simply a cost of doing business. Civil actions are becoming increasingly common.

PART II: BRIEF INTRODUCTION TO PATENT LAW IN CHINA

The *Chinese Patent Law* was first promulgated in 1984, and was amended in 1992 and 2000 to comply with the requirements of WTO and TRIPs. Though China is a civil law system, the *Patent Law* is starting to borrow more and more U.S. legal doctrines.

Lovells then showed some statistics for patent filings over the last ten years or so, which should be included in the hand-outs.

administrative remedies for patent infringement. SIPO has strong government backing and continues to grow each year. Simultaneously, the Supreme People's Court, Higher People's Court and Intermediate People's Court also have jurisdiction to handle patent infringement disputes.

With respect to patent litigation, there are two features that are very different than U.S. patent litigation: (1) there is no discovery; and (2) the People's Courts cannot rule on the issue of validity.

The Chinese legal system does not have a rule of binding precedent and Chinese courts generally do not have to follow interpretations of the law made by other courts, even higher courts, in earlier cases. This is particularly so where the other court is located in a different province. However, decisions of some courts, such as the Beijing People's Higher Court, usually have persuasive authority. Another unusual feature of the Chinese system is that the Supreme People's Court and Higher People's Court, as well as deciding cases (on appeal and in some cases at first instance), also issue guidelines to lower courts over which they have authority.

In July 1993, the Supreme People's Court began to set up special panels of courts to hear the increasing number of intellectual property cases brought before the lower courts. The first Intellectual Property panel was established within the Beijing Intermediate People's Court. Since then, these panels have been established within the Intermediate and Higher People's Courts of the central municipalities of Beijing, Shanghai, Tianjin and Guanzhou as well as in some provinces such as Jiangsu, the coastal Special Economic Zones (SEZs), such as Zhuhai and Shenzhen.

Judgments of the People's Court can be enforced against defendants based anywhere in China. However, enforcing an award of damages depends on whether the defendant has sufficient assets or has taken steps to hide its assets. There is no guarantee when the time comes for enforcing any judgment for damages that the defendant will have sufficient assets to pay.

Investigations can be carried out into the financial status of the infringer. Much will depend on the type of company involved and the actions of those people in control of the company. However, if the patentee's main concern is to stop the infringements and to send a message to other infringers, possible difficulties in recovering damages should not dissuade it from taking action.

PART III: PICTURES OF RAIDS FOR COUNTERFEIT PERFUME AND VALVES

Lovells presented pictures taken during raids against manufacturers of counterfeit perfumes and counterfeit valves. Counterfeiters in China are increasingly sophisticated, often operating out of "black" unmarked factories and using "just-in-time" manufacturing techniques in order to avoid being caught with large stock of infringing products.

PART IV: CONCLUSION – WHERE ARE WE NOW?

Lovells presented many quotes from various Chinese government officials, which should be in the packets of materials. From these quotes, it is clear that protection of IP rights is becoming a priority of the Chinese government, not just to help protect foreign rights holders, but also to encourage R&D and innovation in domestic companies.