

China & Hong Kong

IP law continues to evolve in China and Hong Kong

This chapter looks at the major IP developments in China and Hong Kong over the past year.

China

The IP environment in China continues to evolve rapidly. Many new laws and judicial interpretations concerning different aspects of IP rights have been promulgated and a number of court cases have also made headlines. Some of these major IP-related developments are highlighted below.

WTO complaints and the Special 301 Report

The high-profile World Trade Organisation (WTO) complaints brought by the United States in 2007 against China's protection and enforcement of IP rights finally came to a conclusion. The WTO's dispute settlement body found that China had violated the relevant rules by denying copyright protection to works not cleared by Chinese censorship authorities for legitimate sale and by allowing the improper disposal of counterfeit goods seized by Chinese Customs. However, a challenge on the thresholds for bringing criminal prosecutions against IP violations in China was dismissed due to insufficient information provided by the United States. The panel report was issued in January and adopted in March 2009.

China remained on the priority watch list for the Office of the US Trade Representative's 2009 Special 301 Report. The report highlighted concerns that Chinese officials are urging more lenient enforcement of IP laws as a result of the financial crisis and the need to maintain jobs. It also focused on internet piracy in China.

Filing statistics

In the first six months of 2009, the State Intellectual Property Office received 426,000 patent applications, a 23.1 per cent increase over the same period in 2008. However, foreign filings decreased by 7.3 per cent. During the same period, 252,000 patents were granted, 39,000 of which were overseas filings. The number of invention and design patents granted increased by 58

per cent and 34 per cent respectively, compared to the same period last year.

The number of new trademark applications filed in China came close to 70,000 in 2008, slightly fewer than the year before, and the Chinese Trademark Office remains the busiest trademark registry in the world. The office reportedly has close to 2 million pending applications and has announced plans to clear this backlog by 2010.

Well-known trademarks

China published a further list of well-known marks in 2009. Fewer than two dozen foreign marks made the list – they include Google, Shiseido, Bausch & Lomb (in Chinese) and Cadbury (in Chinese). Of the 390 new well-known marks, 277 were recognised in enforcement proceedings whereas 22 and 91 were recognised in opposition and review proceedings, respectively. To date, there are 1,924 well-known trademarks in China.

The regime concerning the recognition of well-known trademarks is becoming clearer. An interpretation issued by the Supreme People's Court, which came into effect in May 2009, provides that Chinese courts will determine the well-known status of a trademark only if such recognition is necessary. In domain name cases, where the domain name registered and used is identical or similar to another's registered trademark, thereby causing confusion, no such recognition will be necessary. The interpretation also confirms that a trademark is 'well known' if it is widely known by the relevant public in China. In other words, a mark's foreign reputation will be given little weight in determining whether it is well known in China. Foreign brand owners entering the Chinese market should therefore try to secure trademark registrations as early as possible and must not rely on their mark's foreign fame. The State Administration for Industry and Commerce also issued new rules in April 2009 setting out procedures and requirements for recognising well-known marks in infringement, opposition and invalidation proceedings.

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New legislation and directives

Enforcement

In March 2009, the Supreme People’s Court issued an opinion detailing its plans to implement certain reforms first identified in the 2008 National IP Strategy. The opinion focuses on judicial enforcement of IP rights and includes the following key features:

- raising compensation awards or fines to deter serious infringement;
- establishing a precedent system for IP cases to increase the predictability and uniformity of court decisions;
- encouraging the grant of preliminary injunctions in cases involving wilful trademark infringements and copyright piracy;
- dealing more aggressively with new types of unfair competition and passing off, such as those involving trade names and company names; and
- proposing plans to establish specialist IP courts.

In April, the court issued an opinion to guide Chinese courts in handling challenges brought on by the global financial crisis when trying IP cases.

Border protection

Increased flexibility and safeguards are built into the new Implementing Measures on the Regulation of Customs Protection of Intellectual Property, which came into effect in July 2009. In particular, the measures introduce the following:

- Chinese Customs can now demand that the consignor or consignee of the suspected infringing goods produce evidence showing authorised use of the relevant IP rights before detaining the goods and informing the relevant IP owner;

- If the IP owner and the consignor or consignee reach a settlement on the detained goods before a penalty decision is issued, Chinese Customs can stop the investigation and release the goods, unless criminal charges are to be brought; and
- Chinese Customs must first consult the relevant IP owner before disposing of any detained goods by auction.

Patents

The third revision to the Patent Law came into force in October 2009. Overall, the new law enables better protection, exploitation and enforcement of patent rights in China. The key changes include the following:

- introducing an absolute novelty standard – public use outside of China is now relevant in determining novelty;
- removing the mandatory China-first filing requirement – filing of foreign patent applications for inventions created in China will be subject to a new administrative security examination;
- raising the standard for design patents – product labels for mere visual recognition will no longer be patentable;
- defining co-owners’ rights – in the absence of any agreement, all co-owners must consent to the exploitation of patents, except that a co-owner can use and, subject to sharing any licence fees, grant non-exclusive licences without the consent of other co-owners;
- improving civil and administrative remedies – penalties for patent counterfeiting have been increased and statutory damages for infringement have been raised to \$150,000;
- introducing a prior art defence – Chinese courts

can now rule on non-infringement in patent infringement suits based on a defendant's evidence of use of existing technology/design without a full challenge of the validity of the subject patent through a parallel proceeding;

- codifying Bolar-type exemptions – using, producing and importing patented pharmaceuticals or medical devices solely for the purpose of obtaining market approval are now exempted from patent infringement;
- requiring the disclosure of genetic resources – when filing for inventions relating to genetic resources, applicants must disclose the sources of such materials; and
- refining the compulsory licence regime – the process for granting compulsory licences to make and export pharmaceuticals to lesser-developed countries and other qualifying destinations has been liberalised.

While most will welcome these changes, patent owners have been advised to re-evaluate their filing and enforcement strategies in China in view of the more stringent prosecution standards and new exemptions and defences to infringement available under the law.

The Supreme People's Court also issued an interpretation in June 2009 concerning the trial of patent infringement cases subject to the revised Patent Law.

Copyright

The online copyright registration and information system administered by the China Copyright Protection Centre became operational in March 2009. It is hoped that copyright registration in China should become more efficient as a result.

Enforcement actions against copyright infringement are also expected to become easier. New measures introduced by the National Copyright Administration, which came into effect in June 2009, have brought in the following changes:

- additional remedies for administrative actions (eg, confiscation of equipment installing or storing infringing work);
- significantly lower thresholds necessary to trigger penalties for 'serious infringement' – the new thresholds are an illegal profit of Rmb2,500 (\$365), illegal turnover of Rmb15,000 (\$2,180) or 250 pieces of infringing work; and
- the abolition of the much abused differential thresholds, which applied to individual and non-individual infringers.

Trademarks

The third revision to the Trademark Law remains on the 2009 legislative agenda and is still underway. The latest draft was released for comments in June 2009. Some of the proposed revisions, such as the introduction of multi-class applications, are expected to have a significant impact on brand protection strategies in China and must be watched carefully.

In August 2009, the Chinese Trademark Office introduced a number of new requirements for recording trademark assignments. Apart from additional documentary requirements and Chinese translations for all documents in foreign languages, the back-to-back assignment of recordal applications must now be processed in stages. This new practice will likely prolong the timeframe for recordation and therefore delay the effective date of transfer. This should be taken into consideration in structuring commercial arrangements involving assignment of trademark rights.

Unfair competition

To curb objectionable business practices that disrupt market order so as to safeguard the interests of investors and business operators, the State Administration for Industry and Commerce put forward some extensive revisions to the 16-year old Anti-unfair Competition Law in December 2008. Notable proposals relate to the protection of goodwill and unregistered trademarks, as well as the regulation of abuses of 'advantageous position'. These draft changes are currently under review by the State Council.

Notable case law

Almost 25,000 civil IP cases were commenced in 2008, an increase of 37 per cent from the previous year. Just under half were copyright cases; patent and trademark cases accounted for about 25 per cent and 17 per cent of those proceedings, respectively. Less than 6 per cent, or around 1,400 first-instance IP cases tried in 2008, were foreign related, an increase of 65 per cent on the previous year.

Copyright

One of the most influential IP cases recognised by the Supreme People's Court in 2008 was *Porsche v Beijing TechArt*. German automotive manufacturer Dr Ing HCF Porsche AG sued Beijing TechArt for copying the uniform architectural design of its Porsche centres around the world. Both the Intermediate People's Court and the High People's Court in Beijing found that Porsche's three-dimensional corporate architectural design had a distinctive appearance and shape with aesthetic value and

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therefore constituted an original architectural work protected under Chinese Copyright Law. However, they denied protection to internal features of the building, such as functional designs and structures. Beijing TechArt was ordered to alter its building and pay Rmb150,000 (\$22,000) to Porsche as compensation.

Patents

In a closely watched case concluded in January 2009, German bus manufacturer Neoplan Bus GmbH was awarded damages of more than Rmb21 million (\$3 million) against two Chinese companies that were found guilty of infringing the patented design of its Starliner coach. The Beijing Intermediate People’s Court found a number of similarities between Neoplan’s design and the defendants’ coach, and the latter failed to prove that their product was independently designed. This is believed to be the first successful case among many similar cases brought by foreign automanufacturers.

In another high-profile patent dispute, the French electrical company Schneider Electric made a record payment of Rmb157 million (\$23 million) to settle with the Chint Group, a Chinese company that successfully sued Schneider for infringing a utility model patent and was awarded Rmb330 million (\$45 million), the largest IP infringement award made by a Chinese court. The amount of damages aside, this case was closely followed because it involves a utility model patent – a kind of ‘petty’ patent long thought to have little or no value by foreign IP owners in formulating patent strategies in China.

Outlook

IP owners in China, both foreign and domestic, are becoming more litigious. With the entry into force of

the new Patent Law and upcoming revisions to the Trademark Law, China’s IP regime is poised to enter a new era. IP owners should position themselves accordingly to take full advantage of the improved framework for exploiting their IP rights in China.

Hong Kong

Hong Kong has been actively refining its laws seeking to combat various IP violations and abuses of its company name registration system.

Copyright

Since its gazettal in the Copyright (Amendment) Ordinance 2007, the criminal offence relating to copying and distributing printed copyright works has generated much controversy. The ordinance has yet to come into force, pending passage of the accompanying safe harbour provision (ie, limits on the number of copies that can be made without incurring criminal liability). In April 2009, after almost two years of extensive consultations, the proposed safe harbour was spelt out in the Copyright (Amendment) Bill 2009:

- for newspapers, magazines and periodicals, excluding academic journals, a maximum of 500 A4-size pages embodying infringing copies of copyrighted works within any 14-day period; and
- for books and academic journals, a maximum total retail value of HK\$6,000 (\$769.2) within any 180-day period, where the retail value of a book or an article in an academic journal would be counted towards the total retail value when the user makes for distribution or distributes infringing copies of more than 25 per cent of the number of pages of the book (or academic journal), or makes for distribution or distributes infringing copies of a

complete copy of the article.

It is unclear when the ordinance will come into force. Given the formula's complexity and practical considerations, it would be difficult to determine whether copyright fell within the prescribed safe harbour. In any event, business operators should now start reviewing their copyright-related practices – to obtain licences or legitimate copies of works, and to implement policies and procedures to guide and monitor proper use of copyrighted materials.

Shadow companies

Abuse of the company name registration system in

Hong Kong has continued to plague IP owners. To tackle the problem of numerous shadow companies being formed in Hong Kong using names that are identical or confusingly similar to famous marks or names of others, the government plans to empower the registrar of companies to act upon a court order to direct a shadow company to change its name or to substitute a non-compliant company's name with the company registration number. This proposal will be included in a draft bill, alongside other amendments to the Companies Ordinance, to be tabled for public consultation at the end of 2009. Many IP owners hope that this statutory solution will help curb the proliferation of shadow companies in Hong Kong.



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