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China & Hong Kong
China and Hong Kong step up IP protection

China

Many new laws, regulations and judical interpretations have been released in the two years since the National IP Strategy was promulgated. The judicial and administrative authorities have also been vigorous in helping both foreign and local IP owners to enforce their rights. In addition, IP filings in all fields have significantly increased, despite the global financial crisis.

Special 301 Report

China remained on the Priority Watch List in the 2010 Special 301 Report published by the Office of the US Trade Representative. Piracy and counterfeiting problems aside, the report identified concerns about China's implementation of an indigenous innovation policy that may prejudice IP owners in the United States.

Filing statistics

Patents

In the first six months of 2010, the State Intellectual Property Office (SIPO) received 467,000 patent applications, almost a 10% increase over the same period in 2009. Foreign filings, which accounted for 12% of the total number of patent applications received, increased by a similar rate. The number of patents granted soared by 43% to 359,000 during the same period; 35,000 of these were overseas filings.

Trademarks

Over 830,000 new trademark applications were filed in China in 2009, 19% more than the previous historical high of 766,300 in 2006. The Chinese Trademark Office remains the busiest trademark registry in the world, examining more than 1.4 million applications in 2009.

Domain names

The number of web users in China has jumped by 29% since 2008, reaching 384 million by the end of 2009. The China Internet Network Information Centre recorded more than 16 million domain name registrations in 2009, 80% of which were for the country-code top-level domain '.cn'. This domain was internationalised in June 2010, allowing web users with '.cn' names to navigate the Internet anywhere in the world.

New legislation and directives

Trademarks

To improve the quality of trials in trademark cases, the Supreme People's Court (SPC) issued an opinion in April 2010 setting out guidelines on the granting and confirmation of trademark rights. Among other things, the opinion:

- confirms that the relevant public's general understanding of a foreign language mark's meaning is relevant in determining distinctiveness;
- extends the meaning of 'pre-emptive registration' to include filings made by an agent or representative prior to its appointment, or by a co-perpetrator of such parties;
- clarifies the criteria for assessing the registrability of place names and for determining the similarity of marks, and goods and services; and
- elaborates on the meaning of terms such as 'other undesirable influence'.

In July 2010 new formality requirements for various prosecution matters came into force. In particular, all filings must now be accompanied by an original power of attorney, meaning that foreign applicants should avoid giving last-minute filing instructions to their trademark agents in China.

The Chinese trademark authorities have pledged to clear their respective backlogs within three years by shortening the timeframe for examining trademark applications to 10 months, and for determining opposition and review cases to 20 months.

Patents

The New Implementing Regulations of the Chinese Patent Law came into force in February 2010. These

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provide details essential to the proper interpretation and implementation of the Patent Law, which was last revised in October 2009. Some key provisions:

- clarify the term ‘invention or utility model completed in China’ to mean inventions or utility models with “the substantive content of the technical solutions being completed in China” for inventions or utility models completed in China that can be made the subject of foreign patent applications once the administrative security examination is passed;
- define ‘failure to fully exploit a patent’, a new ground for requesting and granting a compulsory licence, as “the manner or scale of the exploitation of the patents by the patentee or its licensee not being able to meet the local demand for the patented product or process”;
- clarify ‘patent passing off’ to include:
  - falsely marking non-patented products;
  - selling falsely marked products;
  - representing non-patented technology or designs as patented, representing patent applications as granted or using, without authorisation, another person’s patent number;
  - falsifying patent certificates or other patent documents; and
  - other acts that would mislead the public into believing that a non-patented technology or design is patented; and
- set out a minimum reward and remuneration payable to employee-inventors where there is no agreement or any internal policies as to such rewards and remuneration.

In August 2010 the SIPO published a proposal to revise the Measures for the Administrative Enforcement of Patents, first promulgated in 2001.

ISP liability

The new Tort Liability Law, which came into force in July 2010, contains a new notice and takedown provision relevant to the liability of internet service providers (ISPs) for IP infringement. Rights holders can send a notice to and request ISPs to remove, block or disable connections to infringing content put up by users on their network. If an ISP fails to respond in a timely manner, it will be held liable along with its infringing users in respect of any additional harm resulting from its failure to take prompt action. Where an ISP is aware of its user’s infringing acts but fails to take any steps to stop or prevent such acts, it will be held jointly liable with the user. This new provision has been welcomed by rights holders as an efficient and cost-effective way to address online IP infringement in China.

Border protection

The IP Customs Protection Regulations were revised in April 2010 to provide better IP protection at the Chinese border. The major changes:

- empower Customs to revoke the IP recordation of rights holders for failure to update their records if this seriously affects customs or lawful import-export activities;
- qualify Customs’ power to dispose of detained goods by auction. Imported goods bearing counterfeit marks can no longer be released onto the market once the marks have been removed, save in exceptional circumstances (no examples of which are given); and
- introduce a flexible mechanism to allow rights holders to withdraw their complaints at any time without the need to provide any settlement agreements.

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Domain names and online content

The dispute resolution policies for internet and wireless keywords in China were revised in August 2010. Most notably, a two-year limitation period for filing a complaint in this regard is now in effect. However, this time bar does not preclude a rights holder from initiating other legal actions, such as civil suits, to challenge a registration. The various changes to such policies will bring them more into line with those used to resolve domain name disputes.

In an effort to curb online pornographic content, in December 2009 the China Internet Network Information Centre initiated a verification process that requires domain name registrants to provide accurate information to substantiate their particulars. One significant feature is that individuals can no longer register '.cn' domain names. However, the process has been implemented rigidly and inconsistently by local registrars, creating many difficulties for foreign domain name registrants.

Trade secrets

Trade secret theft made headline news in China and abroad during the high-profile *Rio Tinto* case earlier this year. Soon after that, the State-Owned Assets Supervision and Administration Commission released its Provisional Regulations on the Protection of Trade Secrets for State-Owned Enterprises, which took effect in March 2010. While the regulations apply only to state-owned trade secrets, some provisions – such as the broad range of detailed examples included in the definition of 'protectable trade secrets' – are also relevant to the private sector and should be studied carefully.

Enforcement initiatives

The SPC expanded the jurisdiction of lower courts to hear IP cases in February 2010. The SPC is also expected to add more pilot locations where IP-related administrative, civil and criminal cases can be heard. Foreign companies should try to take advantage of these changes and prepare to enforce their rights via judicial means in China.

The thresholds for filing and prosecuting criminal IP cases have been further clarified and lowered. In May 2010 a new set of guidelines was jointly issued to local police by the Supreme People's Procuratorate and the Ministry of Public Security. Most notably:

- for cases involving the sale of goods bearing counterfeit trademarks the threshold is set at unsold goods valued at Rmb150,000 ($22,059), or sales and unsold goods worth the same where sales fall below Rmb50,000 ($7,353);
- for cases involving commercial secrets the threshold is set at illegal gains of Rmb500,000 ($73,530), losses to the trade secret holder of Rmb500,000 ($73,530) or the bankruptcy of the trade secret holder as a result of the wrongful exploitation of the trade secret; and
- standards for trademark counterfeiting and patent passing off cases are clarified and aligned with judicial interpretations setting out the relevant criminal thresholds for IP cases.

The same enforcement authorities have also introduced new rules for the supervision of filing criminal IP cases by the Chinese police.

Notable cases

More than 30,000 civil IP cases were commenced and 36,000 decided in 2009, an increase of over 25% and nearly 30% respectively on the year before. About half of these were copyright cases; patent and trademark cases accounted for about 14% and 23% respectively. Around 1,300 first-instance IP cases tried involved a foreign aspect.

The number of IP cases accepted and concluded by the SPC has also risen. Two hundred and ninety seven cases were accepted and 390 cases were concluded by the SPC in 2009, an increase of 34% and 112% respectively compared to 2008. There was also a rise in the proportion of foreign-related cases, as well as the number of unconventional cases.

The criminal, administrative and customs authorities also achieved good results in IP enforcement in 2009:

- There were more than 1,600 police crackdowns involving over Rmb1.038 billion ($1.526 million) worth of goods;
- More than 50,000 raids were conducted by various administrative authorities; and
- More than 800 million items worth over Rmb700 million ($103 million) were confiscated by Customs.

Trademarks

The liability of original equipment manufacturers (OEMs) in China for trademark infringement has always been the subject of much discussion. In November 2009 the Shanghai Higher People's Court affirmed that OEMs should not be liable for trademark infringement if they take orders from foreign companies with legitimate trademark rights overseas and produce goods pursuant to such orders purely for export. This ruling is alarming brand owners because it is the first reported case where a Chinese court has specifically held that an OEM is not liable for trademark infringement. Courts in earlier cases, such as the Shenzhen Intermediate People's Court's 2002 decision in *Nike*, had generally imposed liability on OEMs, irrespective of whether the goods produced were solely for export.

If the current case is followed, it will be more difficult for brand owners to pursue OEMs that make infringing use of their registered marks in China purportedly pursuant to orders received from overseas purchasers, provided that the OEMs verify the purchaser's authority to use the relevant trademarks. Many brand owners are extremely concerned about the ruling. The SPC is said to have been asked to review this decision, so its impact remains to be seen.

Copyright

The Chinese government's determination to protect software copyright and combat internet piracy has been demonstrated most recently by the first successful criminal conviction for large-scale online software piracy in China – the *Tomato Garden* case.

The principal of the Tomato Garden website (www.tomatolei.com), which provided free downloads of a modified version of Windows XP to more than 10 million users, was sentenced to prison for three and a half years and fined Rmb1 million ($146,900). One of his accomplices received the same penalties, while the other two were given two-year prison terms and fines of Rmb100,000 ($14,690).

Outlook

The IP prosecution regime in China is striving to become more efficient and a credible framework for IP enforcement has begun to take shape. Rights holders are advised to continue developing and maintaining strong portfolios and make use of the improved system for protecting and exploiting their rights in China.

Hong Kong

Shadow companies

In July 2010 the Legislative Council passed a bill to amend the Companies Ordinance, which gives the Companies Registry more latitude in tackling shadow companies (ie, companies formed in Hong Kong using names that are identical or confusingly similar to famous marks or names of others). The Companies Registry will have the power to act upon court orders to direct a shadow company to change its name or to substitute a non-compliant company's name with the company registration number. It is hoped that these statutory measures, which will come into force in December 2010, will give rights holders more effective means of countering shadow companies in Hong Kong.

Criminalising copyright infringement

A new criminal offence against business end users in respect of copying and distributing printed copyrighted works came into force in July 2010. Business end users will not incur criminal liability if the number of copies made does not exceed certain limits:

- for newspapers, magazines and periodicals, excluding academic journals, a maximum of 500 A4 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 ($769.20) within any 180-day period. The retail value of a book or an article in an academic journal will be counted towards the total retail value when the user makes for distribution or distributes infringing copies of more than 25% 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.

Companies with operations in Hong Kong are strongly advised to review their copyright practices, obtain licences or legitimate copies of works, and implement policies and procedures to guide and monitor the proper use of copyrighted materials.

Digital copyright protection

The creative industries and many others have been lobbying the Hong Kong government to modernise digital copyright protection and to step up the fight against online copyright infringement. After three years of public consultation, proposals to strengthen copyright protection in the digital environment were released in November 2009. Key reforms proposed would:

- broaden the scope of protection to copyrighted works communicated to the public via any mode of electronic transmissions (eg, cable broadcast);
- introduce criminal punishments for those who initiate unauthorised communication of copyrighted works to the public without authorisation, irrespective of whether they are acting for profit;
- introduce a statutory regime to limit the liability of ISPs for copyright infringement, provided that they comply with certain guidelines laid down in a voluntary code of practice; and
- provide an exception to copyright infringement for temporary reproduction of copyright works by ISPs.

Amendments to the Copyright Ordinance are due to be tabled in the Legislative Council in the second half of 2010. It remains to be seen how the government will strike a balance between the diverging interests of various stakeholders.

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