

China & Hong Kong

Recent developments in intellectual property

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

China

The IP environment in China has continued to evolve at much the same pace as the country's economic growth. Welcome developments have been seen on both the IP protection and enforcement fronts. This chapter highlights some of the major IP-related developments in the past 12 months.

Consolidation of authorities

In March 2008 the Chinese IP agencies underwent a restructuring, with more than 20 coordinating bodies being eliminated. An inter-agency IP Rights Working Group was disbanded and most of its responsibilities were transferred to the State Intellectual Property Office (SIPO). While SIPO has taken on a greater role in IP oversight, trademarks remain under the jurisdiction of the State Administration for Industry and Commerce (SAIC).

National IP Strategy

In June 2008 the State Council, China's cabinet, released the long-awaited National IP Strategy. It complements the IP Protection Action Plan released in March 2008 and sets out detailed IP-related policies, directives and initiatives for the next five years, with a particular focus on the promotion of Chinese intellectual property. While many commended the strategy as a milestone in Chinese IP development, a number of foreign IP rights owners considered the strategy to be too general and their concerns, especially those relating to enforcement, have not been satisfactorily addressed.

WTO complaints and Special 301 Report

In October 2008 the World Trade Organisation (WTO) issued a confidential interim ruling in one of the high-profile complaints brought by the United States against

China in 2007. Unofficial reports suggest that the WTO panel sided with the United States on two issues:

- improper disposal of some of the counterfeit and pirated materials seized; and
- a lack of copyright protection for works that have not been approved for sale by Chinese censorship authorities.

However, the WTO panel cleared the thresholds for bringing criminal prosecution against IP violations in China. Both parties may challenge this ruling and a final decision is not expected soon.

Unsurprisingly, China remained a top-priority country in the Office of the US Trade Representative's 2008 Special 301 Report. While the report criticised the failure of China's criminal system to protect against wilful counterfeiting and piracy effectively, it did praise China's efforts in tackling software piracy.

Filing statistics

The number of foreign applications for patents and trademarks in China has continued to increase rapidly over the past year.

In the first six months of 2008, 191,530 patents were approved in China – a 14 per cent increase on 2007. Domestic and foreign applicants accounted for 163,827 and 27,703 of those patents, respectively. Of particular note was that the number of invention patents granted jumped by 30 per cent compared to the same period last year.

In 2007 almost 71,000 new trademark applications were filed in China, making the Chinese Trademark Office (CTO) the busiest trademark registry in the world – a position that it has held for the past few years. However, this level of activity has created a significant backlog. It now takes at least three years for an application to be published, more than double the time required in 2001, and opposition proceedings may take

five years to complete. In response, the CTO has started to recruit more examiners and pledged to cut the processing time of a new trademark application down to nine months in the coming years.

The number of '.cn' domain name registrations reached 12.6 million in September 2008 and is increasing at an annual rate of 93.5 per cent.

New legislation and directives

Patents

One legislative development that has attracted major international attention is the third revision to the Patent Law. This has just completed its first reading in the National People's Congress, China's highest legislature, and was published in August 2008 for a further round of public consultation. Key proposed amendments include:

- higher penalties;
- more demanding application standards;
- fewer filing formalities; and
- a secrecy examination before filing foreign applications.

A number of the controversial provisions found in previous drafts have been left out and the remaining provisions primarily codify various existing practices, such as those relating to co-ownership, double patenting and various technical defences.

Trademarks

The third revision to the Trademark Law remains on the 2008 legislative agenda and is still underway. The latest draft was circulated in August 2007 and revisions are not expected to be passed until 2009.

In March 2008 the Supreme People's Court issued an interpretation concerning civil cases involving conflicting IP rights. It provides that owners of prior rights including copyrights, design patent rights and rights in a company name can pursue the proprietor of an infringing registered trademark by civil action. However, if the conflict involves two registered trademarks, a parallel cancellation action in the Trademark Review and Adjudication Board (TRAB) may also be necessary. In addition to providing useful guidance to the courts for resolving such disputes, this interpretation is expected to serve as persuasive legal authority to local branches of the SAIC in handling unfair competition cases.

In October 2007 the TRAB clarified the weight of a letter of consent in the trademark application process in China. Such a letter may be used to overcome a citation if the trademarks and goods concerned are only

moderately similar and coexistence of the marks would not cause confusion among the relevant public.

Anti-monopoly Law

After nearly 13 years of drafting, the National People's Congress finally promulgated the first Anti-monopoly Law, which came into force on August 1 2008. This law specifically provides that it will not override the monopolies created by the IP system unless a business operator abuses its IP rights to eliminate or restrict competition. It is still too early to tell what, if any, potential impact this new law may have on the Chinese operations of major IP owners in practice. Hopefully the issuance of further implementation regulations and guidelines will help to clarify how 'abusing IP rights', 'eliminating or restricting competition' and other anti-monopoly concepts may be interpreted and applied by the Chinese enforcement authorities.

Consumer health and safety

The Supreme People's Court and the Supreme People's Procuratorate of China issued a draft judicial interpretation in November 2007 that seeks to clarify the applicable thresholds for bringing criminal prosecutions in cases involving inferior or counterfeit pharmaceutical products. This should facilitate China's ongoing campaign against the manufacture and distribution of such products.

Innovation industry

In order to boost innovation in the country, China revised the Scientific and Technological Progress Law in July 2008. Most notably, researchers involved in government-sponsored projects will now own the intellectual property that they create unless it concerns national security, national interests or major public interests.

In another attempt to encourage innovation, a new tax law which came into force in January 2008 stipulates that high-technology enterprises that own core IP rights and satisfy certain criteria can enjoy a reduced tax rate of 15 per cent. Guidelines have since been issued by state and local authorities tasked with the recognition of high-technology enterprises, and many local and foreign companies operating in China are now trying to take advantage of this new tax regime.

Notable cases

The Chinese judiciary has continued to deliver both good results and surprises to foreign owners of IP rights, as illustrated by several cases which made international headlines.

Patents

Since September 2007 IP owners around the world have had to reassess their exposure in China following the Chint Group's victory in a patent infringement lawsuit in Western China. The court ordered French electrical company Schneider Electric to pay the Chinese patentee Rmb330 million (\$45 million) in damages. The quantum of damages aside, this case is noteworthy because the subject of enforcement was a utility model patent – a kind of 'petty' patent with relatively low patentability requirements and a shorter term. Such Chinese patents are often dismissed by foreign IP owners as having little or no value. The decision was appealed to the Zhejiang High Court in October 2007 and is now pending.

In addition, the Viagra saga has not yet come to an end. After the Beijing High People's Court upheld a lower court's decision to overturn its earlier invalidation of Pfizer's patent for the drug, the Patent Re-examination Board (PRB) held an oral hearing in July 2008 to consider other grounds for invalidation. A PRB decision is not expected soon and, irrespective of the outcome, further appeals to the courts are likely.

Trademarks

In general, unregistered trademarks enjoy no protection under the Trademark Law, unless they are well known. A very small number of foreign trademarks have attained that standing. In 2008 a total of 228 marks were recognised as well known and only 18 of those were foreign marks, including Dell (in Chinese) and Nokia. In enforcement actions, 136 recognitions were made, whereas 33 and 59 marks were recognised as well known in opposition and review proceedings, respectively.

In December 2007 the Beijing Intermediate People's Court recognised the Chinese phonetic equivalent of SOTHEBY'S (ie, SU FU BI) in simplified Chinese characters as an unregistered well-known service mark in China and ordered a company in Sichuan called Sufubi to stop using that mark or any similar marks in its auction business. The court found that SU FU BI had become a well-known mark through long-term use and promotion since 1988. However, Sotheby's claim for compensation, other than reasonable litigation expenses, was denied because it does not yet provide commercial auction services in China. The Beijing High People's Court, affirmed the lower court's decision in August 2008.

Trade dress

The Supreme People's Court confirmed in the *Ferrero Rocher Case* in April 2008 that distinctive trade dress can and will be protected in China under the Anti-unfair Competition Law. This case was very closely watched

because the facts were representative of the situation faced by many foreign IP owners doing business in China.

Italian chocolatier Ferrero SpA had been selling chocolates under the names 'Ferrero Rocher' and 'Jin Sha' in Chinese characters in China since 1984, but did not register the Chinese-character mark in China. In 2002 Montresor Food from Suzhou acquired the Chinese-character mark JIN SHA from a third party and began using it with the English mark TRESOR DORE on its chocolates sold in packaging highly similar to that of the Ferrero Rocher/Jin Sha chocolates. The highest court in China held that Montresor should stop using the distinctive packaging design of the Ferrero Rocher/Jin Sha chocolates (ie, gold foil wrapping, brown liners and a transparent plastic box), which the court found had become famous in China before Montresor marketed its Trésor Doré/Jin Sha chocolates. However, the final result was bittersweet – Ferrero received only token compensation after a long-fought battle through three levels of courts because it was unable to produce evidence showing either its losses or Montresor's profits. It was awarded Rmb500,000 (\$73,000), the maximum statutory damages for infringement under the Trademark Law.

This decision was also significant because the highest court in China made it clear that whether a packaging design may be protected as a three-dimensional trademark under the Trademark Law or as a patented design under the Patent Law has no bearing in determining whether that packaging design is a trade dress protected under the Anti-unfair Competition Law.

Outlook

The IP landscape in China has changed for the better in recent years and the developments over the last 12 months provide further testimony of this healthy trend. The Chinese IP regime will be further refined once the amendments to the Patent Law and Trademark Law are passed in 2009.

Hong Kong

Hong Kong has made good progress in protecting intellectual property on the legislative front over the past year.

End-user piracy

Since July 2008 business operators in Hong Kong, particularly directors and partners responsible for the internal management of their organisations, can be held criminally liable for possessing infringing copies of computer programs, films, television programmes or musical (sound or visual) recordings used in their

business. Therefore, companies should implement effective mechanisms to guard against inadvertent end-user piracy in business if they have not already put such measures in place.

Shadow companies

To tackle the widespread abuse of the company name registration regime by 'shadow companies' (essentially companies formed in Hong Kong using names that are identical or confusingly similar to famous marks or trade names of others), the government proposed to empower the registrar of companies to act upon a court order to direct a defendant shadow company to change its name or to substitute the name of any non-compliant company with its registration number. Further public consultation on this issue is expected in mid-2009. Therefore, no statutory solution to this problem will be available until at least 2011.

Quasi-passing off

Amendments to the Trade Descriptions Ordinance were passed in June 2008 to combat certain dishonest business practices in Hong Kong. In particular, it will be a criminal offence for any person in the course of trade to make a false representation to any other person that a particular seller is connected with or endorsed by any individual or body. IP owners that cannot establish a claim for passing off may be able to obtain redress under this new provision when it comes into force in March 2009.

Digital copyright

The World Intellectual Property Organisation (WIPO) Internet Treaties, namely, the WIPO Copyright Treaty and the WIPO Phonograms and Performances Treaty, became effective in Hong Kong on October 1 2008.

Preliminary proposals for strengthening copyright protection in the digital environment were released for public comment in August 2008. The major proposals include:

- introducing a right of communication covering all modes of electronic transmission for copyright works, with related criminal penalties;
- requiring a court to consider the code of practice of an internet service provider in determining whether it authorised infringing activities on its platform;
- stipulating additional factors to assist a court in quantifying damages in lieu of introducing statutory damages for online copyright infringement; and
- refraining from introducing an online infringer identity disclosure mechanism that is not subject to judicial scrutiny or otherwise compromises personal data privacy.

This subject has attracted a lot of attention and will remain a closely watched IP topic in the coming year.

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