



# Asia Alert

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## Recent Progress in the Protection of Intellectual Property Rights in the People's Republic of China

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The strength of a country's intellectual property rights ("IPR") regime is often a key factor in the transformation from a manufacturing-based economy reliant on foreign trade and foreign technologies to an innovative and world-leading economy able to diversify in multiple sectors and adapt to changing marketplace demands. Countries that do not meet "international norms" on IPR protection are often disadvantaged in the global market for innovation, as multinational corporations favor doing business in jurisdictions that maximize their proprietary rights and protections.

In recent years, the PRC has taken concrete steps along the path towards recognition of the benefits of a strong IPR regime. In particular, increasing transparency along with administrative and judicial enforcement of the PRC's IPR laws and regulations has been a focus of the PRC government and both have shown encouraging signs in recent months. On the other hand, the development of incentives to spur domestic IPR development and allow businesses to experience for themselves the benefits of a strong IPR regime has been relatively more difficult to achieve. This Asia Alert discusses the recent progress in the PRC on each of these fronts.

### **Increasing Awareness and Strengthening the IPR Regime**

Critics of the PRC's IPR regime have long pointed to the lack of transparency in the IPR rulemaking process, weak enforcement efforts and under-publication of relevant cases. Convincing domestic businesses of the economic benefits of a strong IPR regime also requires a heightened awareness of the benefits of utilizing the protections offered under law. The PRC government has responded by increasing transparency and improving public awareness.

Notably, in mid-2009, the PRC government took an important step forward by developing a comprehensive web portal, the China Intellectual Property Rights Protection Website ("IPR in China Website", [www.chinaipr.gov.cn](http://www.chinaipr.gov.cn)), sponsored by the Ministry of Commerce ("MOFCOM"). The Chinese version of the website is used by MOFCOM "to help domestic enterprises comply with the international IPR rules and safeguard their legitimate rights and interests" while the English version provides information about government directives, recent IPR cases, remedial programs, frequently asked questions and guides for various types of IP applications with links to related organizations such as the State Intellectual Property Office of the PRC ("SIPO") and the Customs Office. Given that the concept of IPR

protection was mostly unknown to the Chinese population prior to 1985, a single comprehensive website for news and information is a welcome change and significant step forward in raising public awareness of the PRC's IPR regime.

Other domestic awareness-raising initiatives undertaken by the PRC government include a number of policy campaigns that form part of the 2009 National IPR Strategy, as well as conferences, seminars and other awareness-raising efforts. These campaigns and other efforts have been developed through the PRC government's own initiative as well as in cooperation with international trade organizations and multinational corporations.

The PRC government has also increased cooperation with the global community. One important step has been to join the "Five IP Offices" project. SIPO has joined with the European Patent Office, the Japan Patent Office, the Korean Intellectual Property Office, and the United States Patent and Trademark Office to launch a new website in August 2008, [www.fiveipoffices.org](http://www.fiveipoffices.org), that provides information on efforts to streamline patent protection procedures among all five offices. The primary contribution of the project is to enhance the efficiency of the Patent Cooperation Treaty ("PCT"), which provides for a unified procedures within each PCT treaty state.

### Administrative and Judicial Enforcement

The mere existence of a legal and regulatory framework is ineffective without a commitment to enforcement. A key feature of IPR

enforcement in the PRC is the bifurcation between administrative and judicial enforcement.

Administrative enforcement is undertaken by a variety of administrative agencies, including SIPO, the State Administration of Industries and Commerce, the National Copyright Administration, the Trademark Office and China Customs. Various ministries, such as the Ministry of Agriculture and of Technology, have also established their own IP protection branches. Administrative enforcement is commonly used in trademark and copyright matters, and it is these administrative agencies that undertake raids and seizures, impose penalties and issue injunctions to stop production. Recent examples include a 2008 case in which a counterfeiting business in Guangzhou misusing the "SONY" brand was raided with the evidence used to secure a criminal conviction of three years for the perpetrators and penalties of RMB 20,000. Administrative agencies cannot, however, award compensation for IPR infringement and their enforcement activities are often not publicized, meaning that their actions cannot be used to raise awareness on a national scale of the importance of IPR protection.

Judicial enforcement through the courts includes compensation and damage awards and, as they are more high-profile, have generally been more successful in raising awareness. Recently, there have been indications that local biases against foreign or non-local companies are subsiding. The number of foreign or multi-regional Chinese companies prevailing in IPR litigation is increasing or increasingly being

reported. For example, recently RealPlayer won a RMB200,000 award against Beijing Baofeng Company for copyright infringement; Strix, the world's largest electric kettle manufacturer, was awarded a total of RMB9.1 million in damages for patent infringement against two Chinese companies; and Volkswagen won a trademark infringement case and was awarded an injunction against the production and distribution of the infringing products as well as compensation in the amount of RMB1.6 million.

There has been a growing trend in recent years toward increased damage awards. For example, the Amended Patent Law, effective October 1, 2009, doubled the previous maximum damage award in cases where actual damages cannot be proved to RMB1.0 million and the injured party is now permitted to recover reasonable expenses. Still, damage amounts awarded by PRC courts remain relatively low when compared to other jurisdictions such as the United States. Low damage awards suggest that it may remain difficult to prove damages in PRC courts as a result of the relatively limited discovery procedures provided for by the PRC's IPR laws and in civil law jurisdictions generally.

As IPR issues are often highly specialized and complex, PRC Courts are steadily increasing judicial training and establishing specialized IPR trial chambers at the higher and intermediate court levels of the larger cities and coastal areas in order to develop a focus and expertise in IPR. Courts have also been aided recently by an increasing number of opinions, implementing regulations and advisories clarifying the application of various IPR related

laws. Nevertheless, there remains a severe shortage of trained judges or IPR specialists in the PRC.

### Domestic Companies and IPR

With the gradual maturation of the PRC economy, Chinese companies have themselves begun to use the legal regime more extensively to protect their IPR assets. Most famously, the largest damages award in China to date was the USD44.3 million awarded in September 2007 by the court of first instance to Chint, a Chinese company, in a dispute with Schneider Electric, a French company. This case was eventually decided by the high court in April 2009 with the result that Schneider Electric agreed to pay USD23 million to Chint. More recently, a Wuhan environmental company prevailed against Japanese and Taiwanese co-defendants in a patent infringement case and was awarded RMB50 million, although the case did take eight years to conclude. Also recently, the Judger Group, based in Zhejiang Province, prevailed against Wal-Mart in a trademark infringement case with Wal-Mart's trademark being revoked and in another recent example, Bosch had a trademark registration application denied for being too similar to that registered previously by a Hangzhou English school.

Chinese companies have also begun to bring suit against each other. The 2008 Summer Olympics went a long way to raising domestic companies' understanding of the importance of protecting their trademarks and other intellectual property developed for the Olympics. In August 2008, CCTV.com, the Web site of China Central Television managed by CCTV Interna-

tional Networks Co. Ltd., filed suit against a Chinese Web site, xunlei.com, one of the largest internet service providers in the PRC, for the live broadcast of a portion of the Olympic torch relay without authorization. The plaintiff is seeking compensatory damages in the amount of RMB2.1 million for copyright infringement. Soon thereafter, CCTV.com sued another Chinese network company, Shijilong Information Network Co. Ltd., for broadcasting the Beijing Olympic torch relay live without authorization. CCTV.com succeeded in the Shijilong case in Oct. 2009 and was awarded RMB300,000 as compensation; however, the Xunlei case has not yet been determined.

It can be expected that if more cases go through the courts, domestic and foreign IPR holders and users will become relatively better educated about the loopholes and pitfalls in the IPR regime. For example, in the Chint v. Schneider Electric case, discussed above, Chint prevailed because it had registered a "small invention patent" or "utility model patent," which has a shorter protection period and a quicker patent filing process, while Schneider Electric, due to its inexperience in the PRC, had foregone the shorter process for the longer, more expensive patent filing in the mistaken assumption that it would be better protected.

### Reinforced Central Government Role in IP Enforcement

The PRC central government has long been committed to enforcement but has had varying success depending on the economic realities in different regions. Local governments, which may be more concerned about local

jobs and tax revenues than IPR, tend to protect local infringers, particularly if they are state-owned enterprises or large industry players. This form of local protectionism is one of the main obstacles to effective enforcement.

However, the trend in recent years is that both foreign and domestic companies are becoming increasingly able at using the IPR regime to protect themselves and to prevent local protectionism. Companies have learned, for example, that one cure for local protectionism is to call upon central agencies to assist in the enforcement process by, for example, securing a "red header letter" prior to approaching local governments. At the same time, central governmental agencies are increasingly willing to treat IPR enforcement issues in a more transparent and open manner. To this end, the State Council published the State IP Protection Outline in June 2008 with the goal of enhancing the efficiency of IPR protection and enforcement mechanisms and to discourage local protectionism. This Outline underscores the role of central government in supervising and inspecting the IPR protection and enforcement actions undertaken by local administrative agencies and highlights the role of the central government in the direct handling of significant IPR cases.

### Key Efforts for the Future

Effective IPR protection is of course essential if the PRC hopes to continue to attract high levels of foreign investment, maintain its trade relations, and foster domestic research, innovation and fair competition. The PRC approach to date has been driven primarily by external

trade pressures and may have been delayed by the perception that a weak IPR regime is supportive of domestic development because imitation allows for low-cost production, low prices and the stimulation of consumption and employment. As the PRC economy continues to develop, however, there will come a point for PRC businesses where the benefits of a strong IPR regime in the PRC will outweigh its perceived detriments. As domestic companies come to appreciate the importance of a strong IPR regime to their business and growth, the PRC's enforcement regime will become increasingly rational, predictable and consistent.

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