

**CAN YOUR
COMPANY
ENFORCE ITS
INTELLECTUAL
PROPERTY
RIGHTS IN**

CHINA

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There is a widespread belief among business executives that the answer is “no”—you can’t enforce your intellectual property rights in China. Indeed, in the past that answer could have been substantially correct. However, recent changes in Chinese law and substantial progress in enforcement procedures now make the answer a qualified “yes.” China now has active judicial and administrative systems. For example, in 2004, the Chinese court system handled over 8,000 intellectual property (IP) civil cases and 385 IP criminal cases. In June 2005, Chinese officials announced that they had arrested 2,600 individuals for product piracy as part of the “Mountain Eagle” operation that began in September 2004.¹ This operation alone resolved more than 1,000 cases of IP infringement valued at more than 100 mil-

lion dollars. On the administrative side, the administrative enforcement system handled over 5,000 cases of patent infringement in 2004, as well as roughly 40,000 trademark infringement and counterfeit cases, including 5,400 cases involving foreign companies. China also offers the option of registering your IP rights with the Customs Office, which can enforce those rights at the point of export.

Thus enforcement of your IP rights in China is possible, although currently only approximately 10 percent of IP-related cases are brought by foreign firms each year. However, the enforcement system is different from that in the United States, and effective enforcement requires a thorough understanding of how the system works. In this article we will try to give you an overview of that procedure from an insider’s point of view.



In Brief

- In the past, it was next to impossible to enforce IP rights in China. But recent changes in Chinese law and major progress in enforcement procedures now make enforcement there a potentially useful option for stopping counterfeit goods at the source.
- The Chinese enforcement system is different from that in the United States, and effective enforcement requires a thorough understanding of how the system works and the steps necessary to effectively utilize the enforcement options available.
- The authors share their insider’s point of view of the most useful strategies and procedures for IP enforcement in China.

A Choice of Procedures

There are two distinct civil procedures for enforcing patent rights in China: the administrative and the judicial. In addition, there is a Customs Office registration procedure that can protect your IP rights in goods being exported from China. Each has certain advantages and disadvantages, and you should consider each before attempting IP enforcement in China. (Although this paper focuses on patent enforcement, the same basic procedure applies to copyright and trademark enforcement.) (For some examples of recent cases in China, see “Successful Cases,” on p. 56, and “Portrait of a Successful IP Defense” on p. 65.)

The primary advantage of an administrative procedure is its low cost, simple procedure, and relatively quick decision time, as well as the power of the administrative authority to terminate infringement, destroy infringing products, and even destroy the equipment used to make the infringing products.

The administrative procedure does have several disadvantages. The plaintiff cannot receive a damage award. In addition, the administrative realm lacks the specialized expertise in IP now being developed by the Chinese court system. Finally, the risk of local favoritism by the administrative authority—especially in less developed areas—may be greater than would normally be found in the civil court system.

Practice Tip: Administrative and civil actions. Despite the disadvantages of the administrative procedure, it does have one very significant advantage over the civil action. An administrative action does not foreclose a later civil action—but the reverse is not true. Of course, whether to proceed with both remedies will depend on the costs, the extent of the infringement, and the advice of your Chinese advisor. (For a quick summary of the choice between judicial and administrative procedures, see “A Checklist for Successful IP Enforcement in China,” on p. 66.)

Judicial Procedure

Patent litigation in China is generally much less expensive than in the United States. A typical US patent litigation can easily cost more than \$2 million in legal fees and costs.² That amount stems from attorneys’ fees (which can be over US\$500 per hour for an experienced litigator), the extensive discovery, and the length of trial. By comparison, the Chinese legal system offers some significant advantages in terms of time and cost:



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JUDGE YONGSHUN CHENG was among the first judges to hear IP cases in China, and he has since presided over many influential IP cases. He was named one of the 50 most important figures in IP law by *Managing Intellectual Property* (July/August 2003). Judge Cheng retired from the bench in March 2005.



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- experienced Chinese patent attorneys charge substantially less than US\$500 per hour,
- there is no discovery, per se, and
- a trial generally takes only a few hours.

In the authors’ experience, the average cost for a patent litigation in China will be approximately one-tenth the cost for a patent litigation in the United States, typically ranging from US\$80,000–100,000.

Practice Tip: Litigation costs. As with US litigation, no Chinese lawyer can guarantee that each case will be successful. Success will depend on the strength of your particular case. But as the total cost in China is roughly equal to one or two months of litigation costs in the United States, proceeding in China can be an effective use of your litigation budget. Therefore, if the infringing activities are centered in China and one understands the Chinese system, it may make good business sense to pursue an infringer in the Chinese court system rather than in the US system.

Investigate before you file

A prefilng investigation to support the complaint is critical, given these two facts about Chinese procedure:

- the parties have no right to discovery, and
- the initial complaint plays a more important role in Chinese litigation than it does in the United States. (See “What to file?” section at p. 57.)

This prefilng investigation is typically accomplished by using a local agent or hiring a private investigator through a local Chinese law firm. Evidence to support the complaint can include material such as product samples, technical specifications, product brochures, product manuals, news articles, product photos, published papers, patents filed by the alleged infringer, and affidavits from a technical expert who has examined the infringing products.³ As noted by Judge Cheng in his book on patent litigation, supporting evidence must be obtained legally.⁴ If the evidence is obtained illegally, the evidence cannot be used to prove infringement and may subject the patentee to criminal penalties.

Practice Tip: Collect evidence. One common mistake of US patentees is to alert an infringer by sending warning letters before the infringement investigation and evidence collection are completed. An alerted infringer may try to impede the patentee’s investigation.⁵ A good rule is to make

sure you have collected enough evidence to go to trial even before the complaint is filed or the alleged infringer alerted. Chinese counsel are familiar with the necessary steps. In general, obtaining infringement evidence in China can be difficult, and thus close cooperation with Chinese counsel or investigators is important.

When to file? The statute of limitations

Article 62 of the Patent Law of the People's Republic of China/2001 requires that a patent infringement suit be filed within two years from the time the patentee, or an interested party, knew or should have known of the infringing activities.

Practice Tip: Monitoring activity in China. This two-year statute of limitations means that you must carefully monitor activity in China, as widespread infringement, even if only in China, may be sufficient for a court to conclude that you are barred by the statute because you should have known about the infringement.⁶ But if infringement still exists after the two-year limitations period has expired and the patent is still enforceable, the court may still decide in favor of the plaintiff, granting a damage award calculated on the two years before the filing of the complaint.⁷

Who can file? The parties

Under Article 57 of the Patent Law of the People's Republic of China/2001, either the patentee or any interested party may file an action for patent infringement. An interested party may be an assignee, an exclusive licensee, or a nonexclusive licensee that has the right to sue pursuant to a licensee agreement. The defendant is the direct or contributory infringer, and can be a foreign company residing in China.⁸

Practice Tip: Know foreign party rights. It should be noted that foreign nationals and foreign enterprises have the same rights and obligations in civil litigation as do the citizens, legal persons, and other organizations of the People's Republic of China, which rights are codified in the Chinese Law of Civil Procedure.⁹ Foreigners are also assisted with court-supplied translators and have longer periods to respond to deadlines set by the court than do Chinese parties.

What must you prove? Plaintiff's burden

As plaintiff, you must prove

- ownership of the patent,
- scope of patent protection,
- infringement,

Successful Cases

Sybase

Sybase provides one example of successful IP enforcement in the Chinese judicial system. Sybase brought claims, including copyright infringement and unfair competition, against International Software Development (Shenzhen) Co., Ltd., in Beijing's First Intermediate People's Court. In a July 2003 decision, the court found for the plaintiff, ordered an immediate stop to the infringement, awarded damages of RMB¥ 200,000,* and ordered the defendant to make a public apology to Sybase.

Cisco

Cisco was also successful in a recent administrative action in Shenzhen city, where individuals were producing counterfeit computer modules bearing the Cisco trademark. In this action, the economic crime investigation squad seized 1,708 counterfeit modules bearing the words "Cisco Systems," 80,000 counterfeit labels, and 10,000 counterfeit boxes. Four suspects were arrested and tried in 2005. Two of the individuals were each sentenced to 4 ½-year prison terms and fined RMB¥ 50,000. The remaining two individuals each received one year in prison and fines of RMB¥5,000.

Administrative Enforcement

Recent years offer several examples of successful administrative enforcement. For example, the Xicheng branch of the Beijing Administration for Industry and Commerce (BAIC) sealed two warehouses in March 2005 used for storing counterfeit NIKE and Adidas sportswear, seizing and destroying over 10,000 pieces. Similarly, the Fentai branch of the BAIC closed down two additional warehouses, seizing and destroying more than 5,000 pairs of counterfeit athletic shoes. In Guangzhou in January 2005, the Municipal Police, acting on an administrative decision, seized and destroyed counterfeit Nokia, Panasonic, and Motorola cell phone batteries and accessories with a market value of over RMB¥ 3 Million, and arrested and jailed two counterfeit manufacturers. By the end of March 2005, BAIC had handled 499 trademark infringement cases with a market value in excess of RMB¥30 Million and imposed fines of over RMB¥2 Million on the infringers.

*Editor's note: The renminbi (RMB¥) is the official currency of China. The base unit of the RMB¥ is the yuan. The word "yuan" is the usual translation for the word "dollar," and the abbreviation RMB¥ is sometimes written as CNS\$.

- and that the defendant, without authorization, made, used, offered to sell, sold, or imported the infringing product; or used the patented process; or used, offered to sell, sold, or imported the product made by the patented process.¹⁰

Note that plaintiffs have no right to claim willful infringement or treble damages, and similarly defendants cannot claim inequitable conduct.¹¹

After the plaintiff presents a *prima facie* case with supporting evidence, the burden shifts to the defendant to prove that the plaintiff's supporting evidence is not correct or is nullified by appropriate legal principles.¹²

Generally, as in US practice, a party is required to set forth the facts and legal principles supporting its claim or counterclaim. The court, by law, must determine whether each party has met its burden in accordance with the principles of fairness, honesty, and credibility, with specific provisions regarding the evidence stipulated by other laws and regulations. China codified its rules of evidence and the burden of proof in *Provisions Regarding Civil Rules of Evidence*, issued by the Supreme People's Court on December 21, 2001.

Practice Tip: A method patent difference. Note that for method patents, the burden of proof analysis varies from US procedure. In the United States, the plaintiff has the burden to prove that the defendant used the patented method. But in China, if the method involves the manufacture of a *new*¹⁵ product, the plaintiff must only prove that the defendant made the same product as plaintiff. The defendant has the burden of proving that he used a different method.¹⁴

Where to file? Jurisdiction, venue, and specialized courts

In product infringement cases, suit can be brought where the infringing product is made, or if that is unclear, where the accused infringer is located. Multiple infringers making the same product can be sued in different locations.¹⁵

There are a number of courts at different levels that can potentially have subject-matter jurisdiction over IP cases. The Chinese court system includes four levels: the Basic People's Court, the Intermediate Court, the High Court, and the Supreme People's Court.¹⁶

- Copyright and trademark jurisdiction may be vested in one or two Basic People's Courts of some major municipalities designated by the High Court, with approval from the Supreme People's Court.¹⁷
- Subject-matter jurisdiction for patent, copyright, trademark, and unfair competition cases is normally vested in the Intermediate Courts.¹⁸
- China also established special Intellectual Property courts in July 1993 as an adjunct to the Intermediate Court.¹⁹ The first two IP courts were in Beijing, and now also exist in Shanghai and Tianjin, as well as in provincial capital

cities such as Guangzhou and Chongqing.²⁰ The judges in these special IP courts have training and experience in IP matters and are generally familiar with handling matters involving foreign as well as domestic litigants.

- Subject-matter jurisdiction for patent cases can also be vested in the High Courts.

Practice Tip: Choose your forum carefully. It is very important that you choose the right forum; experience in patent law and dealing with foreign entities may vary widely from forum to forum, with the specialized IP courts in major cities, such as Beijing, Shanghai, or Guangzhou, usually being preferable.²¹

What to file? The complaint's contents

The complaint and the supporting evidence may be all the evidence you are permitted to present to the court, although you may be able to add additional details at the hearing or trial. There is no discovery, per se, in China. Furthermore, in contrast to US practice, a Chinese court does not have to accept a complaint and can dismiss it on its own initiative without requiring a request from a party to dismiss.²²

Practice Tip: File a complete but realistic complaint. The Chinese court's ability to dismiss a complaint sua sponte and the lack of a US-style discovery procedure make it imperative that your complaint be as complete as possible. Your pre-filing investigation must therefore be as thorough as possible, and should account for a substantial portion of the litigation budget. (See "Investigate before you file," section on p. 54.) And remember that in China, filing fees for the complaint depend on the amount of damages being claimed. If no or very low damages are requested, filing fees are generally less than RMB¥50. But higher damages mean higher filing fees. (For more details on the complaint and filing fees, see "Complaining in Chinese," on p. 58.)

Requesting a preliminary injunction

The Patent Law of the People's Republic of China provides for an injunctive proceeding similar to that in the US court system. Specifically, Article 61 states that

where any patentee or interested party has evidence that another person is infringing or will soon infringe his patent right and that if such infringing act is not checked or prevented from occurring, it is likely to cause irreparable harm, he may, before any legal proceedings are instituted, request the People's Court to adopt measures for ordering the suspension of relevant acts and the preservation of property.

The procedure resembles a combination of the US temporary restraining order and preliminary injunction. The plaintiff must

- clearly show that there is direct infringement,
- show that the plaintiff is suffering or will suffer irreparable harm, and

- post a security bond, in an amount dependent on the sales and value of the products at issue, the products to be enjoined, and foreseeable losses suffered by the respondent (including reasonable costs such as salaries).²³

The Supreme People's Court's Judicial Interpretation requires that the court decide a petition for a preliminary injunction within 48 hours of accepting the complaint. The court can order the immediate cessation of infringing activity. Although the procedure is *ex parte*, the respondent may seek review within 10 days of the preliminary injunction order. The request for review does not stay enforcement of the order.²⁴ If the moving party prevails, the preliminary injunction remains in force until the trial. The court can make the injunction permanent after the trial is completed as well as award damages.

Practice Tip: Consider preliminary injunctions and evidence preservation. As this procedure is relatively new in China, many courts still hesitate to impose preliminary injunctions, but they do occur. This is not that different

than in the United States, where it is also difficult to obtain a preliminary injunction in a patent case. The combination of a petition for a preliminary injunction and for evidence preservation (see "What to do for discovery," section on p. 60) can be an effective way to stop infringement promptly. (For examples of cases involving preliminary injunction requests—both successful and unsuccessful—see "Preliminary Injunctions," on p. 60.)

How to respond? Service of process, answer, and defenses

A plaintiff does not have to serve the complaint on the defendant. Within seven days of the case being filed, the court will decide whether to accept the case. If the case is accepted, the court will send a copy of the complaint to the defendant within 5 days. The defendant then has 15 days to file a written answer; this period is fixed and cannot be extended by agreement of the parties. Defendants are encouraged to file an answer, but are not required to do so. If the

Complaining in Chinese

In general, to start a civil action in China, you must meet the following conditions:

- the plaintiff must be a citizen, legal person, or other organization with a direct interest in the matter;
- there must be a specific plaintiff(s) and defendant(s);
- the complaint must contain specific claims, supporting facts and reasons for the litigation; and
- the case must be under the jurisdiction of the court in which it is filed.

The complaint, as filed, must include at least the following information:

- the name, sex, age, nationality, occupation, and address of the legal representatives and the names and addresses of the principals or corporate officers;
- plaintiff's claims and the facts and reasons supporting those claims; and
- the actual supporting evidence, and its source, as well as the names and addresses of any witnesses.

An IP complaint should also be accompanied by the following documents:

- a copy of the business license or certificate of incorporation of the plaintiff, certified by a Chinese notary public or Chinese embassy or consulate;
- a signed power of attorney or written agreement that the party can be represented by a person other than an attorney;

- a certification of the legal representative of the plaintiff;
 - the complaint;
 - sufficient evidence to support the prima facie case of the plaintiff; and
 - the issued patent or trademark registration certificates of the IP rights that are allegedly infringed or in dispute.
- And of course, the plaintiff must submit a filing fee for the complaint. Court fees are calculated according to the following schedule¹:

DAMAGE CLAIMED	COURT FEES
Less than RMB¥1,000	RMB¥50
RMB¥1,000– RMB¥50,000	4% (of claimed damages) + RMB¥10
RMB¥50,000– RMB¥100,000	3% + RMB¥510
RMB¥100,000– RMB¥ 200,000	2% + RMB¥1,510
RMB¥200,000– RMB¥500,000	1.5% + RMB¥2,510
RMB¥500,000–RMB¥1,000,000	1% + RMB¥5,010
More than 1,000,000 RMB¥	0.5%+ RMB¥10,010

(The exchange rate is approximately 8RMB¥ to the dollar)

NOTES

- Catherine Sun, "Intellectual Property for Foreign Business," *Lexis Nexis Hong Kong, Chinese Law of Civil Procedure* (May 2004) at § 11.02 [1]

defendant files an answer, the court will send a copy to the plaintiff within five days of receipt.²⁵

Practice Tip: Know the defenses. Even if the defendant does not answer, the case continues to trial. Although failure to file an answer does not result in all allegations in the complaint being presumed proven, the defendant would still be at a substantial disadvantage. A defendant in China has the same defenses as in the United States, including noninfringement, license, patent misuse, statute of limitations, and invalidity (with the limitations described below). Plaintiffs have no right to claim willful infringement or treble damages, and defendants cannot claim inequitable conduct.²⁶ Finally, although this article is written mostly from the standpoint of a plaintiff in the Chinese system,

Preliminary Injunction's and Evidence Preservation Requests

A preliminary injunction request is not often granted by either a Chinese or US court. But it can happen; and as the following examples show, it's far more likely to happen if procedural requirements are scrupulously followed.

In the first case, Eli Lilly petitioned the Second Intermediate People's Court of Shanghai for an injunction and for evidence preservation against Haosen Pharmaceuticals, on the grounds that Haosen had completed all preparations for the alleged infringement of two patents owned by Eli Lilly. After Eli Lilly posted the required bond of US \$100,000, the court granted both petitions. At the subsequent trial, Haosen refused to disclose its manufacturing method, claiming it was a trade secret. The court then submitted the method to an outside expert, who decided that there was no infringement; the court adopted the expert's decision, and ruled for Haosen. Eli Lilly appealed, arguing that the lower court had violated the appropriate rules of evidence because Eli Lilly's counsel had no opportunity to cross-examine the expert. The Supreme People's Court agreed, and reversed and remanded for a new trial.

In the second case, A.O. Smith's Chinese licensee petitioned the Second Intermediate People's Court of Shanghai for a preliminary injunction against Shanghai Hexing Trade Co. for trademark infringement. The court denied the petition, because the licensee failed to provide a translated and certified Chinese version of the trademark license from the US licensor. The petitioner corrected the problem and refiled the petition. But this second petition also had to be withdrawn, because the licensee did not provide sufficient information to the court to locate the respondent's plant or the infringing products.

it's worth keeping in mind that foreign companies can also be defendants in Chinese IP cases. (For one example, see "Story of a Non-Chinese Defendant," on p. 61.)

A note on patent invalidity as a counterclaim

A counterclaim for patent invalidity is the typical response by the accused infringer to the filing of an administrative procedure or a civil patent infringement action. But it is important to note that patent trials in China do not address the issue of validity during the trial. Validity issues are considered solely by the Patent Reexamination Board (PRB), which is part of the Chinese Patent office. Thus a defendant who wishes to challenge the validity of an asserted patent refers the matter to the PRB.

A referral to the PRB is the equivalent to filing a request for reexamination in the US Patent Office. The procedure is governed by Rule 65 of the Implementing Regulations of the Patent Law of the People's Republic of China.²⁷ Filing of an invalidity proceeding will not stay any civil action or administrative proceeding involving an "invention" patent (equivalent to a US utility patent), but may stay a proceeding involving a utility model patent. A stay can cause unwanted delay in obtaining relief from infringement, as the PRB has a heavy workload and a decision by the PRB can take months. If the PRB finds the patent invalid, the case is generally over. If the PRB finds the patent valid, the case will resume in the forum in which it was filed. However, whether the decision finds the patent valid or invalid, it can be appealed by either party to the First Intermediate People's Court, naming the PRB as a defendant.²⁸

What to do for discovery? Post-filing investigations and evidence preservation

Chinese practice regarding the discovery of facts in litigation is significantly different from US practice, particularly in these respects:

- The court's control of discovery practice extends to the pretrial period. Any discovery conducted after filing the complaint and before trial is conducted by the court pursuant to Articles 64–74 of the Chinese Law of Civil Procedure.
- The parties' discovery requests are not granted as a matter of right but only at the discretion of the court.²⁹
- The court can make its own discovery requests, though in practice it is rare for a court to seek evidence on its own initiative.
- The court can require witnesses to testify at trial and can retain its own expert witnesses if it deems necessary.

Any evidence gathered by the court is provided to both parties. Normally the court allows 30 days to exchange evidence requested by the court. Original documents are preferred, but copies are permissible; any documents not in

Chinese must be translated for the court.³⁰

Practice Tip: Be aware of the court's discretion. As noted above, discovery is mostly in the discretion of the court. This is a strong argument for gathering all of the necessary evidence as part of the pre-filing investigation. (See "Investigate before you file," section on p. 54.) The discretionary nature of discovery practice is also a strong argument for having local counsel. Just as in the United States, much will depend on the judge assigned to your case; an on-the-ground knowledge of the judge and the practices of that particular court can be invaluable. Your local Chinese lawyer should be familiar with the judge assigned to your case and able to advise you on the likelihood of discovery requests being granted.

Evidence preservation

In addition to petitioning the court to grant discovery requests, parties can also ask the court to preserve evidence. Parties frequently request evidence preservation from the court if they fear that evidence is likely to be lost, destroyed, or hard to obtain in the future. If the court grants the request, it will order the affected party to preserve any evidence identified by the court for use by the court or the other party.³¹ According to Article 74 of the Chinese Law of Civil Procedure, the court may also take the initiative in attaching evidence. Note that a petition for evidence attachment may be filed before the complaint if a preliminary injunction is requested at the same time.

Damages and recovery

As a plaintiff in China, it is not wise to make large and perhaps unsupportable damage claims, as does happen in the US court system. As noted above, filing fees escalate rapidly with increases in damage claims. (See "Complaining in Chinese," on p. 58.)

There are four methods of measuring damages in China:

- 1) monetary loss to the patent owner,
- 2) monetary profits to the infringer as a result of the infringement,
- 3) up to three times a reasonable royalty, or
- 4) statutory damages of RMB¥5,000 to RMB¥500,000 (US\$600 to US\$60,000).

The level of damages is often decided by the first and last of these methods. The other methods pose difficulties; as there is no discovery per se in China it is difficult to prove damages, and in general Chinese judges have difficulty in deciding what is a reasonable royalty.³²

Practice Tip: Recognize success in Chinese litigation.

Damage awards have typically been modest. Although this is starting to change, winning a patent litigation in China may not mean recovering substantial damages, but rather stopping the infringement at its source. Stopping infringement completely

has the greatest chance of success when the defendant is an established Chinese company with a recognized name and reputation to uphold. Smaller companies without established offices are the most difficult to stop completely, especially in trademark and copyright cases. But following the checklist we offer will substantially increase your chances of success. (See "A Checklist for Successful IP Enforcement in China," on p. 66.)

At trial

Trial procedure is conducted in accordance with Articles 124–127 of the Chinese Law of Civil Procedure. A trial is essentially a bench trial conducted in one or sometimes two hearings. Patent cases are always tried by a panel of three judges, with a majority verdict. A trial will typically take no more than several hours and proceeds as described below.

- The parties or their lawyers make opening statements.
- The court then informs the witnesses of their rights and obligations, takes testimony from the witnesses and reads aloud any witness statements. Cross-examination is permitted with the court's permission.
- Any documentary evidence is displayed, including physical evidence and/or audiovisual evidence.
- Any statements from expert witnesses are read into the record.
- New evidence is usually not acceptable after the evidence exchange period, except with the consent of the court.

Story of a Non-Chinese Defendant

This article mostly examines Chinese patent practice from the standpoint of a plaintiff. But it's important to remember that your company could also be a defendant in a Chinese IP case.

For example, a few years ago, Shenzhen Chuangge Science and Technology Co. Ltd. sued Compaq in the Beijing Municipal Higher People's Court for infringement of a utility model patent. Compaq immediately filed a request for invalidation with the Patent Reexamination Board (PRB) of the State Intellectual Property Office. As the suit involved a utility model patent, the court stayed the proceedings pending a decision by the PRB. After approximately 18 months, the PRB found the patent valid, and the court proceedings were resumed. After a trial, in December 2000 the trial court found no infringement by Compaq and the plaintiff appealed to the Supreme People's Court. In June 2001, the Supreme Court found that the Compaq product did not contain the inventive features of the plaintiff's patent and therefore affirmed the lower court's decision of noninfringement.

A litigant **contesting a judgment** of first instance has a **right of appeal** to the People's Court at the next higher level within 15 days of the judgment and **30 days** for a party who does **not** have **residence in China**.

- After the evidence has been presented, each party has the right to make a statement and a reply regarding the evidence, and the court will permit the parties to debate any relevant issue.

At the conclusion of oral argument, each party has the opportunity to make a closing statement.³³

The Civil Procedure Law generally requires that cases be decided within six months after they are docketed. Extensions are possible for good reason, but any extension requires permission from the Chief Judge or an appellate court.³⁴

Trials involving foreigners

Generally speaking, the resolution of cases involving foreigners takes about one year, not counting the time for an appeal. The extra six months results from

- mandatory extensions of time given to foreigners for responding to statutory deadlines (the primary cause);
- the requirement that evidence obtained abroad must be notarized and legalized; and
- delays stemming from the need to translate all documents or written testimony into Chinese.

Trial judgment

The judgment in a civil proceeding must be in writing and include the following:

- the subject matter of the case, the litigant's request, and the facts and issues in dispute;
- the facts established by the judgment, the court's reasoning, and the law applied;
- the results of the judgment and the payment of the court fees; and
- the time limit for appeal and the appellate court to which the decision can be appealed.

The written judgment must be signed by the judge and the recording clerk and sealed by the People's Court.³⁵

Trial courts and precedent

Although the courts are required to issue written decisions explaining the factual basis for the decision and the legal reasoning, China does not have any formal procedure for reporting decisions. Essentially, China's legal system follows a statutory code format and is not a common law system. Thus prior decisions are only guidelines and may or may not be followed as precedent, which may lead to in-

consistent decisions on the same patent law issue. However, as discussed above, China now has special IP courts in the major cities. A body of law essentially based on precedent is evolving that is enforced by the appellate courts. In the provinces and away from the major cities, however, the trial level courts are less likely to follow the IP court's precedent. Thus, filing in a court located in a major city may be essential to obtaining a reasoned decision.

On appeal

Appeals are possible and common. A litigant contesting a judgment of first instance has a right of appeal to the People's Court at the next higher level within 15 days of the judgment and 30 days for a party who does not have residence in China.³⁶ Appeals must be in writing and include the information set forth in Article 148 of the Law of Civil Procedure.³⁷ Generally, the information required is very similar to the information that would be required in the United States.

At the appellate level, a multi-judge bench is formed to consider the appeal, and the court decides whether a hearing is necessary. Three judges are usual, though there may be more, provided that there is still an odd number of judges. The court can affirm the original judgment, modify the judgment, or reverse and remand.³⁸ Appeals should be decided within three months of being docketed.³⁹ There is no further right of appeal; China has adopted a two-tier trial system, which means that only two court levels will hear a particular case. Thus if the trial is in the Intermediate Court, the appeal will be in the High People's Court, and that decision is final.⁴⁰

Success on appeal of course depends on the facts of a particular case and, as in the United States, depends on errors made by the lower court or administrative agency. However, for administrative procedures generally, approximately 80 percent of decisions are upheld at the appellate level, the First Intermediate People's Court. For judicial procedures brought in a First Intermediate Court and appealed to the High Court, approximately 85 percent to 90 percent of the lower court decisions are upheld on appeal. This level of success on appeal applies to both domestic and foreign parties.

Administrative procedure

A patentee may pursue its infringement claim through the court system, as described above, or may pursue an

administrative action under article 57 of the Patent Law of the People's Republic of China/2001. The State Intellectual Property Office (SIPO) is the administrative authority for local administrative agencies, and the administrative procedure is governed by the "Measures on Patent Enforcement" issued by the SIPO on December 17, 2001 (SIPO Measures). Compared to litigation, the administrative procedure is generally simpler, more flexible, and less expensive than litigation, although it also has its drawbacks.

Administrative jurisdiction & venue

Under Articles 78 and 81 of the Implementing Regulations of the Patent Law of the People's Republic of China, an administrative action may be brought with the administrative authority for patent affairs where the infringing activities are committed or where the defendant is domiciled. These articles also govern which of the various levels of administrative authorities (ranging from the county level and above) have the authority to handle your matter.

ACC Resources on . . .

Intellectual Property Law

ACC Committee:

- Information Technology Law & eCommerce Committee: contact information available at www.acca.com/networks/e-commerce.php, or contact Staff Attorney and Committees Manager Jacqueline Windley at 202.293.4103, ext. 314, or windley@acca.com.

Docket Articles:

- Melissa S. Sellers and Trace-Gene G. Durkin, "Eternal Sunshine of the Spotless IP Portfolio: Creating and Implementing an Effective Corporate Intellectual Property Program," *ACC Docket* 22, no. 10 (November/December 2004): 78–101. www.acca.com/protected/pubs/docket/nd04/eternalsunshine.pdf.
- Eric Slater and Jeanne Hamburg, "Three Crucial Questions—and Answers—for Protecting IP in a Deal," *ACC Docket* 23, no. 3 (March 2005): 86–96. www.acca.com/protected/pubs/docket/mar05/crucial.pdf.
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InfoPAKs:

- Intellectual Property Primer (2004). www.acca.com/protected/infopaks/ip/INFOPAK.PDF.
- Patents, Trademarks, Copyrights, Trade Secrets: An Introduction to Intellectual Property for In-House Counsel (2005). www.acca.com/infopaks/ip.html.

Annual Meeting Course Materials:

- Lynne Beresford, Nelson A. Blish, Nicholas Godici, Marybeth Peters, "Intellectual Property Year in Review," program material from course 601 at ACC's 2005 Annual Meeting. www.acca.com/am/05/cm/601.pdf.
- N. Thane Bauz, Alfred R. Cowger, Christopher W. Ekren, "Identifying and Managing IP Assets," program material from course 801 at ACC's 2005 Annual Meeting. www.acca.com/am/05/cm/801.pdf.
- David R. Boyko, Pedro DeJesus Jr., Jeffrey S. Fraum, Joanne J. Henkle, "It's a Two-way Street: Successfully Negotiating IP Agreements for Buyers and Sellers," program material from course 401 at ACC's 2005 Annual Meeting. www.acca.com/am/05/cm/401.pdf.

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- "Protecting Intellectual Property through a Best Practice Technology Escrow Program," (February 23, 2005). www.acca.com/networks/webcast

ACC Articles:

- James B. Astrachan, "A Trademark Primer." www.acca.com/protected/article/intelprop/trademarkprimer.pdf.
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Where two or more administrative authorities for patent affairs have jurisdiction over a patent dispute, any party concerned may file its request with one of them to handle or mediate the matter. If a request is filed with two or more administrative authorities for patent affairs, the authority that first accepts the request shall have jurisdiction. If two administrative authorities are disputing jurisdiction, the administrative authority for patent affairs of their common higher-level authority shall designate which body shall exercise jurisdiction.

Application for administrative relief

The application for administrative relief in China is generally similar to a claim for administrative relief in the United States, and is governed by Article 5 of the SIPO Measures.

- The one seeking relief must be the patent holder or one with an established interest in the patent, such as a licensee.
- The application must identify a specific infringer and

detail the claims being made and the facts to support those claims.

- Supporting documents should be attached to the application. You cannot ask for administrative relief if you have already filed a civil lawsuit, but any administrative decision can be reviewed by the People's Court, as explained below.

No specific fees are required for administrative actions, as the administrative authorities are not permitted to charge fees for their work. However, the administrative authority may require the parties to pay for any fees for collecting evidence and other actions necessary to allow the administrative authority to make a reasoned decision. The administrative authority will generally form a panel of three or more officials, who will not necessarily be expert in patent law or the technology at issue.

Practice Tip: Investigate before you file. No pre-hearing discovery is permitted in an administrative proceeding. A pre-filing investigation to determine infringement is therefore extremely important, just as in a judicial proceeding. (See "Investigate before you file," section on p. 54.)

Portrait of a Successful IP Defense: Glaxo v. South-West Hecheng Pharmaceutical Factory

Plaintiff, Glaxo, owned a Chinese process patent for manufacturing products including, among other things, Ondansetron. Believing that the defendant, South-West Hecheng Pharmaceutical Factory, was infringing its patent, Glaxo initially filed a complaint with the local administrative authority requesting an investigation and an administrative decision.

Glaxo subsequently withdrew the request for an administrative investigation and instituted a legal proceeding in Chongqing Municipal First Intermediate People's Court, accusing defendant of the infringement of its patent rights in China and requesting that it cease its infringement, to make a public apology, and to pay RMB¥320,000 in compensation for the economic loss.

In response to a court order, the defendant submitted its processes for the manufacture of Ondansetron and suggested that the court conduct an on-site inspection and technical appraisal, if necessary. The defendant asserted that it had not infringed Glaxo's patent, because the processes it had submitted were essentially different from the patented process. But Glaxo asserted that although the defendant had furnished a process for the drug's manufacture, it had failed to prove that the process submitted was the one it actually used. Glaxo, therefore, requested that the defendant furnish the regulatory documents

covering the examination and approval of the drug's clinical trials and production, to verify that the submitted processes were the ones in actual use.

In a second hearing, the court agreed with Glaxo's position. It concluded that under article 60(2) of the Patent Law of the People's Republic of China, the defendant must both furnish a process for the manufacture of the drug and prove that this was the process it had actually used. The court ordered the defendant to show the processes actually used, by submitting to the court the regulatory documents containing the processes examined and approved by the Ministry of Health for the manufacture of the new drug.

The defendant refused to furnish the court-ordered regulatory documents and failed to prove that the submitted processes were the ones it actually used. Accordingly, the court ruled that the defendant had failed to meet its statutory burden of proof and was required to take the following actions:

- immediately cease its manufacture and sale of Ondansetron and the related chemical compound;
- pay the plaintiff, Glaxo Group Limited, RMB¥320,000 in compensation for its economic damages;
- make a public apology to the plaintiff in the press; and
- bear the litigation fee of RMB¥15,363.

Administrative process

After the application is filed, administrative procedure is relatively simple and governed by the SIPO Measures. Within seven days after reviewing the application, the administrative authority will notify the applicant if the application is accepted. If it rejects the application, it must give reasons. The defendant must file a written answer within fifteen days of the notification. This period is fixed and cannot be extended by agreement of the parties. Defendants are encouraged to file an answer, but are not required to do so. Any response by the defending infringer will be provided to the one seeking relief.⁴¹ (Note that one common response by defendants is to file an action to challenge the patent's validity. See "A note on patent invalidity as a counterclaim," section on p. 60.)

The administrative authority can choose whether or not to schedule a hearing on the matter, and if it so chooses, it must notify the parties of the hearing date at least three days before the scheduled date. If a hearing is held, both parties have the right to oral argument. Whether or not the parties can call witnesses is up to the discretion of the administrative authority. The administrative authority has the power

to request and preserve evidence from any source, including the parties, and any third party.

No specific time limit is set for the administrative authority to reach a decision. Decisions are generally relatively prompt and depend on the complexity of the particular case.

Any decision reached by the administrative authority must be in writing, be signed by the members of the administrative authority, and set forth the arguments advanced by both parties, as well as the grounds for the decision, including reference to the evidence that has been considered. Both parties must be given adequate notice of the decision.⁴²

Administrative remedies and damages

If the administrative authority concludes that there is an infringement, it has the following powers:

- It can immediately order that the infringement be stopped, including the manufacture, use, or sale of the infringing products.
- It can also order that all infringing goods be seized and destroyed and even order the destruction of the equipment used to make the infringing products.

A Checklist for Successful IP Enforcement in China

If you do decide to proceed with enforcement, pay careful attention to the following points:

- **Choose a competent Chinese law firm** specialized and experienced in the field of IP law, with lawyers having international experience. This could be a US firm with offices in China, or even better, a local Chinese firm with a better understanding of the Chinese system. US companies should not be reluctant to choose a Chinese firm because of concerns about a language barrier. Experienced Chinese litigators familiar with representing foreigners will be fluent in English.
- **Gather as much evidence as possible** during the pre-filing investigation to support your arguments, and make sure you provide the evidence in accordance with the formality required by the courts or the administrative authority, such as the requirements of certification, legalization, and translating the evidence originating outside China.
- In IP infringement cases, depending on the nature of the defendant, it is recommended that you **pursue administrative enforcement first**. Upon receiving the administrative decision, as IP owner you may initiate a civil proceeding to pursue damages. This has several advantages:
 - o The relatively quick decision time and low cost of the administrative proceeding (six months on average) may enable you to stop the infringement quickly and inexpensively.
 - o The evidence you gather in the pre-filing investigation for an administrative hearing can be used in the civil proceeding.
 - o If you receive an unfavorable decision at the administrative level, this generally will not affect the decision of the judges in the civil proceeding, as the two systems are completely separate. Thus if you experience local favoritism in an administrative action, you can still bring a civil action at the appropriate court in one of the major cities such as Beijing and Shanghai.

However, if the amount of damages claimed is relatively large and the defendant is an enterprise with strong economic power, we suggest you proceed directly with a civil action in a major city such as Beijing or Shanghai.

The advantage of proceeding in China is its relatively low cost and the possibility of stopping infringement at its source, rather than litigating in multiple jurisdictions around the world. Understanding the Chinese enforcement system and selection of competent Chinese counsel is the key to successful enforcement.

- It cannot award damages. An award of damages is only possible by way of a civil lawsuit.

Practice Tip: Increase your chances of administrative success. The chances of success at the administrative level will

ACC International Resources on . . .

Global IP

- Nelson A. Blish, Isabel M. Davies, and David P. Owen, "Securing Global Patent Protection," *ACC Docket* 22, no. 4 (April 2004): 42–59. www.acca.com/protected/pubs/docket/apr04/patent.pdf
- The Intellectual Property Handbook (2004/2005), a Global Counsel resource. www.acca.com/practice/global.php
- Katrina Burchell, Alexandre A. Montagu, Bret I. Parker, "Managing a Domestic & Global IP Portfolio—Strategies Beyond the Basics," program material from course 501 at ACC's 2005 Annual Meeting. www.acca.com/am/04/cm/501_part_2.pdf
- Webcasts available at www.acca.com/networks/webcast:
 - o New Product Launches in Europe—IP Protection and Pitfalls (September 22, 2005)
 - o Technology/Software Licensing—Beyond the US Frontier (February 17, 2005)

Chinese Law

- "Doing Business in China" (2005), a Global Counsel resource, accessible on ACC Online at www.acca.com/practice/global.php.
- Andrew Halper, Susan M. Ponce, Thomas L. Shillinglaw, "China Business Update," course materials from session 203, ACC Annual Meeting 2005. www.acca.com/am/05/cm/203.pdf
- Materials in English and Chinese from the March 2005 SASAC-ACC International Roundtable on Enterprise Risk Prevention, held in Beijing. www.acca.com/china/sasac/conference.php
- Kenneth Tung, Edward L. Williams, and Virginia E. Ho, "Catching the China M&A Wave: A New Era for Foreign Investment," *ACC Docket* 23 (June 2005): 46–67. www.acca.com/protected/pubs/docket/jun05/wave.pdf

For more international materials, visit the Virtual LibrarySM at www.acca.com/resources/vl.php.

greatly depend on the evidence gathered during the prehearing investigation. Although the administrative body has the right to request evidence, as a practical matter this is rare; the IP owner must make sure that all necessary evidence is presented. Again, this requires close cooperation with the Chinese law firm retained to handle the matter. You should choose a law firm with experience in gathering the necessary evidence and in preparing the documents required for the application for administrative relief.

Appeal of administrative decisions

Any party dissatisfied with the decision of the administrative authority may appeal the decision to the People's Court. Significantly, enforcement of the decision is normally not stayed during the appeal. If the infringer ignores the decision of the administrative authority, the administrative authority may apply to the People's Court to force the infringer to comply.

Practice Tip: Use your leverage. If you prevail at a hearing as a patentee, your leverage for a favorable settlement will be greatly enhanced by the fact that the administrative ruling is usually not stayed during the appeal. This lack of any stay gives the infringer a strong incentive to settle the dispute to prevent the possibility of significant damage to its business as a result of destroyed inventory and equipment.

Registering IP Rights with Chinese Customs

So far we've discussed the judicial and administrative routes open to you if you seek to enforce your IP rights in China. There's a third method that you should also be aware of: registration of your IP rights with the Chinese Customs Office.

Chinese law allows an IP owner to register its IP rights with Customs. This prior registration will permit the Customs Office to notify the applicant of any potential infringement that it finds. For trademarks, copyrights, and design patents, evidence of actual infringement must then be supplied to Customs, so that the agent can compare the registration and a photo or sample of the accused product. A Customs agent will generally not be able to determine the infringement of a product or method patent, due to an inability to compare items visually.⁴³ Under appropriate circumstances, Chinese Customs can then seize suspected infringing goods that are being exported, dispose of the infringing goods, and impose sanctions on the exporter.

Necessary documents to register IP rights with Chinese Customs include the following:

- copies of the IP owner's identification card, business license, or other corporate registration documents;
- copies of proof of IP ownership such as a trademark certificate or copyright certificate, samples of the copy-

righted work, or photos of goods or packaging legally owned by the IP owner;

- evidence or samples of the known infringing goods that are being exported and any information on the export procedure used by the infringer.

If there are no known infringing goods, you can give customs officials copies of your goods to compare to those being exported. This method can also be used to prevent export of infringing goods, even before you suspect infringement.

Chinese Customs will decide whether to approve the Custom's registration and will inform the applicant within 30 working days. The registration fee is RMB¥880, which as of October 2005 exchange rates is approximately US\$99.

Under new rules enacted by the Chinese government in 2003, entitled Rules on Customs Protection of Intellectual Property Rights, IP owners who discover infringing goods can ask Chinese Customs to seize those goods even without advance registration of their IP rights. In 2004, Chinese Customs dealt with over 1,000 cases of IP infringement, with the total value of seized goods equal to approximately RMB¥ 90 Million (over US\$11 Million).

Practice Tip. Although it's also possible to register your IP rights with US Customs, that will only aid in the impor-

A Customs agent will **generally not** be able to **determine** the **infringement of a product or method patent**, due to an **inability** to compare items **visually**.

tation of infringing products. Registering with the Chinese authority can also stop the export of goods—an important tool to stop infringing goods at the source. Keep in mind that the chance of a successful customs seizure, both in China and the United States, depends to a great extent on the information supplied to Customs. For example, being able to identify the shipping agent or the carrier of the infringing goods is very important. To obtain such information you need a knowledgeable investigator, someone your Chinese law firm could help you find. Registering with Chinese Customs is easy and inexpensive, and should be one of the first options you explore when discovering the existence of infringing goods.

Defending IP Rights in China

Successful enforcement of patent rights in China is possible. A would-be plaintiff has a variety of avenues to choose from: judicial, administrative, customs-based. When considering enforcement through the Chinese legal system you should review all of your options; each has its own advantages and disadvantages, with the best avenue often being determined by an intimate knowledge of the facts of the case, the requirements of Chinese procedures, and the realities of local conditions. Thus selection of experienced patent counsel with strong local Chinese experience is extremely important. The most efficient approach is to select a US firm having experience with seasoned Chinese patent counsel, with the US firm being responsible for overall management of the litigation and the Chinese firm being responsible for implementation.

Of course no one can guarantee your success if you try to enforce your IP rights in China. But one thing is sure—if you do not try, you are guaranteed no benefit from the expanded array of IP-protective procedures that China is now putting into place. ☒

Have a comment on this article?

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Dr. Lulin Gao, Judge Yongshun Cheng, and Keith D. Nowak, “Can Your Company Enforce Its Intellectual Property Rights in China?” *ACC Docket* 24, no. 1 (January 2006): 52–70. Copyright © 2006, the Association of Corporate Counsel. All rights reserved.

NOTES

1. www.redherring.com/Article.aspx?a=12588&hed=China+Nabs+2%2c600+For+Piracy
2. “The Expanding IP Universe,” *IP Law and Business* (July 2005), available at www.ipww.com/texts/07.05/survey0705.html (registration required).
3. Wu Huhe, “An Overview of The IP Enforcement System in China,” *China Patents & Trademarks* no. 1, p. 85 (2005) (hereinafter “Wu Huhe.”)
4. Judge Yongshun Cheng, *Patent Litigation* (Patent Publication Press, 1993), at Ch.12 (hereinafter “Yongshun Cheng”) (Chinese original).
5. Catherine Sun, “Intellectual Property for Foreign Business,” *Lexis Nexis Hong Kong, Chinese Law of Civil Procedure* (May 2004) at § 11.02 [1](hereinafter “Catherine Sun”).
6. Information provided by Judge Yongshun Cheng (co-author).
7. Rule 23 of The Supreme People’s Court Interpretation Concerning Application of Law in the Trial of Patent-related Cases, issued 2001.
8. Yongshun Cheng, at Ch. 12.
9. Chinese Law of Civil Procedure, Article 5.
10. Yongshun Cheng, at Ch. 12; see also Patent Law of the People’s Republic of China/2001, Article 57.
11. Catherine Sun, § 11.06.
12. Yongshun Cheng, at Ch. 12.
13. New products are those that possess different features in structure,

components, quality, and function from the same product as existed before. Xiaoguang Cui, “Patent Litigation in China,” ABA Section of Intellectual Property Law, The 20th Annual American Intellectual Property Law Conference, April 14–16, 2005, Arlington, VA. (Hereinafter “Xiaoguang Cui.”)

14. Yongshun Cheng, at Ch. 12.
15. Yongshun Cheng, at Ch. 12. Pursuant to Article 29 of the Chinese Law of Civil Procedure: “Actions against acts of encroachment come under the jurisdiction of the People’s Court at the place where such acts are committed, or at the place where the Defendant is domiciled.” Article 29 has been interpreted by the Chinese Supreme court to apply to cases of patent infringement.
16. Wu Huhe, p. 86.
17. Yongshun Cheng.
18. Yongshun Cheng, at Ch. 12.
19. *Id.*
20. *Id.*
21. *Id.*
22. *Id.*
23. Several Provisions of The Supreme People’s Courts for the Application of Law to Pre-Trial Cessation of Infringement of Patent Rights, www.cpahkld.com/Archives/Several_Provisions.html (“Several Provisions”).
24. *Id.*
25. Chinese Law of Civil Procedure, Article 113.
26. Catherine Sun § 11.06.
27. Implementing Regulations of The Patent Law of The People’s Republic of China, Rule 65.
28. Yongshun Cheng, at Ch. 12.
29. Xiaoguang Cui at p. 96.
30. Chinese Law of Civil Procedure Article 68.
31. Xiaoguang Cui p. 7.
32. Xiaoguang Cui p. 7
33. Yongshun Cheng
34. Yongshun Cheng, at Ch. 12.
35. Chinese Law of Civil Procedure, Article 138.
36. Wu Huhe, p. 85.
37. Chinese Law of Civil Procedure, Article 148
38. Chinese Law of Civil Procedure, Article 153.
39. Chinese Law of Civil Procedure, Article 159.
40. Chinese Law of Civil Procedure, Article 147
41. Catherine Sun § 2.16 [4].
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