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The Emperor's New Clothes: Intellectual Property Protections in China

I. INTRODUCTION

A BLOGGER RECENTLY DISCLOSED THE EXISTENCE OF FIVE FAKE APPLE STORES in Kunming, China.¹ The stores looked like authentic Apple stores.² The blogger wrote that the stores “had the classic Apple store winding staircase and weird upstairs sitting area. The employees were even wearing those blue t-shirts with the chunky Apple name tags around their necks.”³ Indeed, the blogger reported that the employees actually thought they worked for Apple.⁴

Chinese authorities ordered two of the five stores to suspend business while they were being investigated because they were not licensed to do business in Kunming.⁵ However, officials said they could do nothing about the other three stores, despite the fact that they prominently displayed Apple's signs and logos, because they

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1. *Are You Listening, Steve Jobs?*, BIRDAABROAD (July 20, 2011), <http://birdabroad.wordpress.com/2011/07/20/are-you-listening-steve-jobs/>; see also Mark Millian, *WikiLeaks Cables Detail Apple's Battle with Counterfeits in China*, CNN (Aug. 30, 2011, 2:19 AM), <http://www.cnn.com/2011/TECH/gaming.gadgets/08/29/apple.wikileaks/index.html?iref=obnetwork> (noting the existence of five fake Apple stores in China).

2. *Are you listening, Steve Jobs?*, *supra* note 1.

3. *Id.*; see also David Barboza, *In China, Apple Finds Market's Sweet Spot*, N.Y. TIMES, July 25, 2011, at B1 (describing the blog post on the fake Apple stores, including how the employees mimicked Apple employees' dress code).

4. Melanie Lee, *Fake Apple Store Even Fools Staff*, REUTERS (July 21, 2011), available at <http://news.yahoo.com/fake-apple-store-even-fools-staff-152753369.html>; see also Loretta Chao, *Fake Apple Store in China Not Authorized, Clerk Says*, WALL ST. J., July 22, 2011, at B6. Chao went on to report that a store employee said, “It doesn't make much of a difference for us whether we're authorized or not. . . . I just care that what I sell every day are authentic Apple products, and that our customers don't come back to me to complain about the quality.” *Id.*

5. See Millian, *supra* note 1.

claimed they could not find any fake Apple products for sale in those stores.⁶ Continued investigations quickly revealed the existence of at least 22 additional counterfeit Apple stores in China.⁷

According to a recent CNN article, documents released by Wikileaks indicate that Apple has been trying to combat counterfeiting in China since it entered the Chinese market in 2008, but with little assistance from the Chinese government.⁸ In March 2009, the Chinese authorities reportedly declined to investigate a factory that was manufacturing counterfeit Apple laptops because it “threatened local jobs.”⁹ Similarly, a raid on an electronics mall in the Guangdong province was called off due to fears that it might drive away shoppers.¹⁰

Apple is not alone in its struggle to protect its intellectual property in China.¹¹ Recent news stories have highlighted problems faced by well-known foreign companies including IKEA, Abercrombie & Fitch, McDonalds, KFC, and Starbucks.¹² According to the U.S. International Trade Commission, U.S. companies that conduct business in China reported losses of approximately \$48.2

6. See Rick Marshall, *Fake Apple Stores Ordered to Close*, YAHOO! NEWS (July 25, 2011), <http://news.yahoo.com/fake-apple-stores-ordered-close-130803426.html> (explaining “a spokesman of Kunming government’s business bureau told Reuters, [‘]China has taken great steps to enforce intellectual property rights and the stores weren’t selling fake products[’]”); see also Eric Mack, *Two Fake Apple Stores Closed in China*, CNET NEWS (July 25, 2011, 7:57 AM), http://news.cnet.com/8301-17938_105-20082910-1/two-fake-apple-stores-closed-in-china-report-says/ (reporting that three of five unauthorized Apple stores in Kunming remain open); Associated Press, *China Orders 2 Fake Apple Stores to Close During Probe*, SEATTLE TIMES (July 25, 2011), http://seattletimes.nwsourc.com/html/business/technology/2015728266_chinafakeapplestores26.html (noting that officials declined to close other unauthorized stores despite a prominent display of Apple logos). *But see* Kathrin Hille & Patti Waldmeir, *Apple Secures Patents on China Stores*, FIN. TIMES (Sept. 21, 2011), <http://www.ft.com/intl/cms/s/2/eb1b831c-e42e-11e0-b4e9-00144feabdc0.html#axzz1aaQzqJPr> (reporting that in May 2011, Apple was granted three design patents on distinctive elements of its store designs in China).

7. See Michael Martina, *Chinese Authorities Find 22 Fake Apple Stores*, BBC (Aug. 12, 2011), <http://www.bbc.co.uk/news/technology-14503724> (discussing the discovery of twenty-two fake Apple stores by Chinese authorities); see also Leslie Horn, *Exclusive: Fake Apple Store Found, Photographed in Chengdu, China*, PCMAG.COM (July 27, 2011, 1:30 PM), <http://www.pcmag.com/article2/0,2817,2389232,00.asp> (reporting an additional fake Apple store located in Chengdu).

8. See Millian, *supra* note 1 (“[T]hree years after Apple moved to crack down on widespread counterfeiting and put pressure on China, progress has been slow. Gadget piracy isn’t a high priority for the Chinese government . . .”).

9. *Id.*

10. *Id.*

11. See *infra* note 12 and accompanying text.

12. See, e.g., Laurie Burkitt & Loretta Chao, *Made in China: Fake Stores - Imitators Offer Own Versions of IKEA, Dairy Queen Down to the Tiniest Details*, WALL ST. J., Aug. 3, 2011, at B1 (explaining that consumers can shop at fake IKEA, Subway, and Dairy Queen stores); Daily Mail Reporter, *First There Were the Fake Chinese Apple Stores, Now There’s a Counterfeit IKEA*, DAILY MAIL (Aug. 2, 2011), <http://www.dailymail.co.uk/news/article-2021607/First-fake-Apple-stores-China-fake-Ikea-shop-Kunming.html#> (reporting on the furniture store in Kunming, China, 11 Furniture, which is a replica of an IKEA store); Vivian Giang, *China Also Fakes These Stores: Disney, Nike, De’G, McDonald’s, Starbucks and More*, BUS. INSIDER (Aug. 1, 2011, 5:00 PM), <http://www.businessinsider.com/china-fake-stores-2011-8?op=1> (displaying images of counterfeit stores, demonstrating a resemblance to the originals); David Barboza, *Chinese Consumers Upset Over Counterfeit Furniture*, N.Y. TIMES, July 19, 2011, at B4 (describing allegations that DaVinci Furniture, a popular Italian luxury brand, reportedly sold knock-offs that were made in China).

billion in sales, royalties, or licensing fees in 2009 as a result of intellectual property infringements in China.¹³

What recourse, if any, is available to a brand owner like Apple when it believes that its intellectual property rights are being blatantly infringed in China? Have the Chinese authorities made a calculated decision that enforcement of intellectual property rights, particularly those of foreign companies, is simply too costly? Are China's intellectual property laws a mere façade, and is the world expected to look the other way? These are some of the questions addressed in this article.

II. HISTORICAL BACKGROUND

China has a culture known as shanzhai that honors the ability to make imitations.¹⁴ Imperial China did not develop indigenous intellectual property laws due largely to the character of Chinese political culture.¹⁵ Confucian principles and the lack of formal laws in Imperial China “precipitated a lack of individual rights, especially in intellectual property.”¹⁶ While Europe was developing a notion that authors and inventors had a property interest in their works that could be defended even against the state, efforts by the Chinese state to provide protection for intellectual property-type rights prior to the twentieth century were generally directed toward sustaining imperial power.¹⁷ Indeed, in the late nineteenth century, protections were awarded by the government for good copies of Western technology.¹⁸

Intellectual property rights were first recognized in China in the early twentieth century, when China's ports were opened to the West and intellectual property

13. U.S. INT'L TRADE COMM'N, CHINA: EFFECTS OF INTELLECTUAL PROPERTY INFRINGEMENT AND INDIGENOUS INNOVATION POLICIES ON THE U.S. ECONOMY, at xiv (2011), available at <http://www.usitc.gov/publications/332/pub4226.pdf>.

14. The term "shanzhai" or "Shan Zhai" originally referred to a bandit stronghold outside the control of the government, but today it refers to pirated or counterfeit products. Edward Tse, Kevin Ma & Yu Huang, *Shan Zhai A Chinese Phenomenon*, at 2 (2009), http://www.booz.com/media/uploads/Shan_Zhai_AChinese_Phenomenon.pdf; see also Nicholas Schmidle, *Inside the Knockoff-Tennis-Shoe Factory*, N.Y. TIMES, Aug. 19, 2010, at MM38 (explaining that in contemporary usage, *shanzhai* refers to “counterfeiting that you should take pride in”); William O. Hennessey, *Protection of Intellectual Property In China (30 Years and More): A Personal Reflection*, 46 HOUS. L. REV. 1257, 1262 (2009) (defining the original meaning of a shanzhai through reference to Chinese Robin Hood-type stories, describing these “righteous” thieves as being based out of a “mountain stronghold”).

15. WILLIAM P. ALFORD, *TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION 2* (Stanford University Press ed., 1st ed. 1995).

16. Raymond M. Gabriel, Comment, *The Patent Revolution: Proposed Reforms in Chinese Intellectual Property Law, Policy, and Practice are the Latest Step to Bolster Patent Protection in China*, 9 ASIAN-PAC. L. & POL'Y J. 323, 325–26 (2008); see also Eric M. Griffin, *Stop Relying on Uncle Sam!—A Proactive Approach to Copyright Protection in the People's Republic of China*, 6 TEX. INTELL. PROP. L.J. 169, 182 (1998) (“Confucianism . . . goes back 2500 years and emphasizes learning by copying.”); Alexander C. Chen, *Climbing the Great Wall: A Guide to Intellectual Property Enforcement in the People's Republic of China*, 25 AIPLA Q.J. 1, 9–10 (1997) (explaining that Confucianism and Taoism philosophies focus on community development).

17. See ALFORD, *supra* note 15, at 18.

18. See INTELLECTUAL PROPERTY RIGHTS IN CHINA 2 (Chris Devonshire-Ellis et al. eds., 2d ed. 2011) (“The [‘]Regulation for the Award and Promotion of Technology Development[‘] [was] one of the first pieces of legislation regarding inventions. . . [and] included a grant for the protection of copies of Western technology.”).

piracy became a matter of serious concern.¹⁹ Although China adopted a copyright law in 1910, a patent law in 1912, and a trademark law in 1923, these laws offered little protection for foreigners and piracy continued to be rampant.²⁰ Subsequently, during the communist era following the creation of the People's Republic of China in 1949, there was little conception of private property.²¹ The People's Republic of China automatically acquired property rights in inventions and the corresponding right to economic exploitation of those inventions.²² Inventions were considered to be collective property.²³

Intellectual property protections reemerged in China only after the rise of Deng Xiaoping in 1978, who renewed ties with the West.²⁴ In 1979, China entered into the Agreement on Trade Relations between the United States of America and the People's Republic of China, requiring each country to afford patent, trademark, and copyright protection to nationals of the other country.²⁵ In the 1980s, China rapidly became the workshop of the world.²⁶ Tax incentives, government subsidies, and low cost labor induced many companies to shift manufacturing to China in order to reduce costs and increase production.²⁷ Correspondingly, in the mid-1980s, China's outward approach to intellectual property began to change and China entered into multiple major international agreements relating to intellectual property rights.²⁸ In 1985, China joined the Paris Convention for the Protection of Intellectual

19. See Peter K. Yu, *The Sweet and Sour Story of Chinese Intel[le]ctual Property Rights*, in TECHNOLOGY, PROCESS AND PROSPERITY: A HISTORY OF INTELLECTUAL PROPERTY AND DEVELOPMENT 2–3 (Graham Dutfield & Uma Suthersanen eds., forthcoming 2011), available at <http://www.peteryu.com/sweetsour.pdf> (explaining that with the increase in investments in China came an increase of piracy).

20. *Id.* at 3.

21. See Deli Yang, *The Development of Intellectual Property in China*, 25 WORLD PATENT INFO. 131, 134 (2003) (“After the Communist regime was established [in China], a limited number of inventions and copyrights were protected and administered by the government.”); see also Griffin, *supra* note 16, at 182 (explaining that communism calls for sharing and intellectual property laws would contradict this fundamental belief).

22. See Justin McCabe, *Enforcing Intellectual Property Rights: A Methodology for Understanding the Enforcement Problem in China*, 8 PIERCE L. REV. 1, 16 (2009) (discussing that despite China's administrative framework to distribute patents, “the state maintained so much discretionary control over the patent process that intellectuals and engineers did not use the system to acquire patent protection”).

23. See *id.* at 15 (explaining that the community shared intellectual property rights in communist China).

24. See Duan Ruichun, *China's Intellectual Property Rights Protection Towards the 21st Century*, 9 DUKE J. COMP. & INT'L L. 215, 216 (1998) (stating that Deng Xiaoping established the ground work for China's intellectual property right protections).

25. See Yu, *supra* note 19, at 4 (“China assumed an international legal obligation for intellectual property rights protection [even] before it had established a domestic intellectual property protection system.” (quoting XUE HONG & ZHENG CHENGSI, SOFTWARE PROTECTION IN CHINA: A COMPLETE GUIDE 5 (1999))).

26. See Karl P. Sauvart, *China: Inward and Outward Foreign Direct Investment*, 3 TRANSNAT'L CORPORATIONS REVIEW i, i (2011) (explaining reasons why the Chinese economy expanded in the 1980s).

27. See *id.* (“Firms were attracted by the availability of skills at low wages and an improving infrastructure . . .”).

28. See Michael N. Schlesinger, Note, *A Sleeping Giant Awakens: The Development of Intellectual Property Law in China*, 9 J. CHINESE L. 93, 98 (1995) (discussing China's international agreements dealing with intellectual property law beginning in the 1980s).

Property,²⁹ and in 1989 it joined the Madrid Protocol, requiring reciprocal trademark registration for member countries.³⁰ China became a member of the Berne Convention for the Protection of Literary and Artistic Work in 1992, and in that same year became a party to the Universal Copyright Convention.³¹ In 1994, China became a signatory to the Patent Cooperation Treaty,³² and in 1995 it became a member of the Madrid Protocol relating to the international registration of trademarks.³³ In 2001, China joined the World Trade Organization (WTO), making it subject to the standards of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.³⁴

As China began joining international agreements and courting the West in the 1980s, it began adopting intellectual property laws that often bore a striking resemblance to those of western countries.³⁵ The Trademark Law was enacted in 1982,³⁶ and in 1984 the Patent Law was adopted.³⁷ In 1990, China's Copyright Law was enacted,³⁸ and in 1998, the State Intellectual Property Office (SIPO) was established.³⁹ Since these intellectual property laws were first adopted, they have been amended frequently and have been supplemented by various implementing regulations, commentaries, and other measures, creating a complicated patchwork

29. See Robert H. Hu, *International Legal Protection of Trademarks in China*, 13 MARQ. INTELL. PROP. L. REV. 69, 83 (2009) (providing a table of China's international trademark agreements).

30. *Id.*

31. *Id.* at 98–99.

32. Naigen Zhang, *Intellectual Property Law Enforcement in China: Trade Issues, Policies and Practices*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 63, 65 (1997–98).

33. See Hu, *supra* note 29, at 83.

34. *Id.* at 83–84, 91. See also the 2004 amendments to boost intellectual property protections in Article 29 of the Foreign Trade Law of the People's Republic of China to comply with World Trade Organization obligations. Foreign Trade Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Apr. 6, 2004, effective July 1, 2004) art. 29 (Lawinfochina) (China). The state protects the intellectual property relating to foreign trade in accordance with relevant laws and administrative regulations concerning intellectual property. Where any of the import good violates any intellectual property right and, at the same time, endangers the foreign trade order, the foreign trade department of the State Council may take such measures as prohibiting the import of the relevant goods that the infringer has produced or sold for a certain period of time. *Id.*

35. See ANDREW C. MERTHA, *THE POLITICS OF PIRACY: INTELLECTUAL PROPERTY IN CONTEMPORARY CHINA* 42 (2005) (discussing the enactment of China's intellectual property laws in the 1980s and the role of U.S. trade negotiations in the development of China's intellectual property laws); see also Scott J. Palmer, *An Identity Crisis: Regime Legitimacy and the Politics of Intellectual Property Rights in China*, 8 IND. J. GLOBAL LEGAL STUD. 449, 458 (2001) (noting of the 1979 Agreement on Trade relations signed by both China and the United States, which mandated equivalent treatment of intellectual property rights in both countries).

36. See Palmer, *supra* note 35, at 458 (discussing China's enactment of intellectual property laws).

37. *Id.*

38. *Id.*

39. See *IPR Toolkit*, EMBASSY OF THE U.S., BEIJING, CHINA – INTELLECTUAL PROPERTY RIGHTS, http://beijing.usembassy-china.org.cn/protecting_ipr.html [hereinafter *IPR Toolkit*]. SIPO was reportedly created with the goal to coordinate enforcement of patent, trademark, and copyright rights in one agency. That has not transpired, and SIPO is currently responsible for issuing and enforcing patents. The State Administration on Industry and Commerce has authority over trademark registration and enforcement, as well as over disputes arising under the Unfair Competition Law. Copyright matters are handled by the National Copyright Administration. *Id.*

of legislation and related guidance that is often difficult to penetrate.⁴⁰ China's leaders continue to write and speak about the important role that intellectual property will play in China's economic development.⁴¹ In 2009 and 2010, the Supreme People's Court issued white papers touting their advances in intellectual property adjudication and providing unsubstantiated statistics to demonstrate increased enforcement.⁴²

Despite all of these apparent advances, in 2005, just four years after joining the WTO, the United States placed China on its Priority Watch List because of China's failure to meet its WTO obligations.⁴³ According to the United States Trade Representative, "China's IPR enforcement regime remains largely ineffective and non-deterrent. Widespread IPR infringement continues to affect products, brands and technologies from a wide range of industries"⁴⁴ China remains on the Priority Watch List and subject to Section 306 monitoring as of 2011.⁴⁵

Numerous commentators have speculated about the reasons for China's weak intellectual property enforcement record.⁴⁶ Some credit the low incomes in China, which fuel the demand for cheap copies of luxury goods, or they point to the fact that China is a net importer of products that are protected by intellectual property rights and therefore does not consider intellectual property protection to be a national priority.⁴⁷ Others argue that there is a "lack of coordination among Chinese government ministries and agencies, local protectionism and corruption, high thresholds for initiating investigations and prosecuting cases, lack of training

40. See *id.* (reviewing the amendments and revisions to China's patent, trademark, and copyright laws).

41. See Yu, *supra* note 19, at 6 (stating that Chinese leaders support intellectual property through speeches and position papers).

42. According to the 2010 White Paper, during that year 41,718 civil cases having a value of RMB 7,948,013,300 (approximately \$1.2 billion) were concluded. SUPREME PEOPLE'S COURT, INTELLECTUAL PROPERTY PROTECTION BY CHINESE COURTS IN 2010, available at www.cpahktd.com/UploadFiles/20110509082512655.pdf. Of those cases, 1,369 involved a foreign party. In addition, 2,391 administrative cases relating to intellectual property were concluded, and 3,942 first instance criminal cases were finalized in 2010. Interestingly, the report stated that the courts' decisions in the criminal cases became effective on 6,001 individuals, of which 6,000 were found guilty. *Id.*

43. See Declan McCullagh, *Rampant Piracy Lands China on "Watch List,"* CNET NEWS (May 2, 2005, 3:53 PM), http://news.cnet.com/Rampant-piracy-lands-China-on-watch-list/2100-1028_3-5692815.html (reporting on the George W. Bush Administration's decision to place China on the "priority watch list" in 2005); see also Kevin C. Lacey, *China and the WTO: Targeting China's IPR Record*, 2 LANDSLIDE 33, 33 (2010) (stating that China's laws and regulations governing enforcement of IPRs are inconsistent with its obligations as a member of the WTO).

44. OFFICE OF THE U.S. TRADE REP., EXEC. OFFICE OF THE PRESIDENT, 2010 SPECIAL 301 REPORT, at 19 (Apr. 30, 2010), available at http://www.ustr.gov/webfm_send/1906. The "movies, music, publishing, entertainment software, apparel, athletic footwear, textile fabrics and floor coverings, consumer goods, chemicals, electrical equipment, and information technology" are included among these industries. *Id.*

45. OFFICE OF THE U.S. TRADE REP., EXEC. OFFICE OF THE PRESIDENT, 2011 SPECIAL 301 REPORT, at 19 (April 2011), available at http://www.ustr.gov/webfm_send/2841.

46. See *infra* notes 47–48 and accompanying text.

47. See Mark Liang, *A Three-Pronged Approach: How the United States Can Use WTO Disclosure Requirements to Curb Intellectual Property Infringement in China*, 11 CHI. J. INT'L L. 285, 290–92 (2010) (proposing three primary causes for China's problems with intellectual property law enforcement).

and inadequate administrative penalties.”⁴⁸ Still others contend that China’s intellectual property laws were forced on it by the West, despite the fact that those laws were incompatible with China’s values and mores.⁴⁹

This article reviews the intellectual property laws that are currently in place in China in an effort to clarify the protections that are “on the books” and possibly available to owners of intellectual property.⁵⁰ The relatively sparse case law that is available in English translation will be assessed to determine how the intellectual property laws are actually being applied in China.⁵¹ Finally, the article offers strategies for intellectual property owners and draws conclusions about the current state of intellectual property protection in China.⁵²

III. TRADEMARK LAW

The Trademark Law of the People’s Republic of China was adopted in 1982 and was subsequently amended in 1993, and again in 2001.⁵³ A third amendment has been under consideration for several years but, as of this writing, has not yet been adopted.⁵⁴ The Trademark Law is supplemented by a set of implementing regulations that were enacted in 1992 and amended in 2002;⁵⁵ Regulations on the Determination of Well-Known Trademarks, adopted in 2003 and amended in 2009;⁵⁶ Measures for the Implementation of International Registration of Marks,

48. See Yu, *supra* note 19, at 6 (citing OFFICE OF USTR, 2002 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS 58–59 (2002)).

49. See Liang, *supra* note 47, at 290, 292–93. But see Joseph A. Massey, *The Emperor Is Far Away: China’s Enforcement of Intellectual Property Rights Protection, 1986–2006*, 7 CHI. J. INT’L L. 231, 232 (2006) (stating that the issue is China’s “failure to get its laws and international obligations adequately and effectively enforced”).

50. See *infra* Parts III—VI (discussing Chinese intellectual property laws).

51. See *infra* notes 96, 103, 106, 133, 162, 216, 284, 359, & 372 and accompanying text (discussing Chinese case law dealing with intellectual property rights protection).

52. See *infra* Part VII and accompanying text.

53. See *IPR Toolkit*, *supra* note 39 (detailing the revisions to China’s Trademark Law).

54. In August 2007, the third amendment was released for public comment and is currently under further review and revision. See, e.g., Comments on the Draft Amendment to the Chinese Trademark Law on Aug. 30 2007, Comm’n on Intellectual Prop., Int’l Chamber of Commerce (Oct. 31, 2007), available at [http://www.iccwbo.org/uploadedFiles/ICC/policy/intellectual_property/Statements/ICC%20Comments%20Chinese%20trademark%20law%20revision%20final-PolicyA\(1\).pdf](http://www.iccwbo.org/uploadedFiles/ICC/policy/intellectual_property/Statements/ICC%20Comments%20Chinese%20trademark%20law%20revision%20final-PolicyA(1).pdf) (displaying the ICC’s comments, concerns, and questions to the Draft Amendment to the Chinese Trademark Law). The Proposed Trademark Law of March 2010 is the latest iteration of the pending amendment. See Nadine Farid Johnson, *Pursuing Trademark Reform in China: Who Will Benefit—and Are the Proposed Changes Enough?*, 3 LANDSLIDE 6, 7–8 (2011), available at http://www.americanbar.org/content/dam/aba/publications/landslide/landslide_february_2011/johnson_landslide_jan_2011.pdf (discussing proposed amendments to the Trademark Law of the People’s Republic of China, including bad faith registration, increased remedies, and the ability to file one application for multiple classes of protection). However, improvements are still needed in a number of areas, including Internet counterfeiting and criminal enforcement, and previous amendments did not bring the law, as written or executed, “up to the international level.” *Id.* at 7, 10.

55. Regulation for the Implementation of the Trademark Law (promulgated by the State Counsel, Aug. 3, 2002, effective Sept. 15, 2002) *et seq.* (Lawinfochina) (China).

56. Provisions for the Determination and Protection of Well-Known Trademarks (promulgated by the State Admin. for Indus. & Commerce, Apr. 17, 2003, effective June 1, 2003) *et seq.* (Lawinfochina) (China).

enacted in 2003;⁵⁷ and Trial Measures for Evaluating and Protecting Brands in the Commercial Field, adopted in 2007.⁵⁸

The current Trademark Law states that it intends to protect the exclusive right to the use of a trademark and to encourage producers and dealers to guarantee the quality of their goods and services and preserve the credibility of trademarks, so as to protect the interests of consumers, producers, and dealers and to “promote the development of the socialist market economy.”⁵⁹ A review of the Trademark Law suggests that China has a Western-style system of trademark laws grafted onto a theoretical foundation that emphasizes social planning, leading to a series of disconnects and unsatisfactory application of the laws in the eyes of the West.⁶⁰

The Trademark Office of the Administrative Department for Industry and Commerce under the State Council, located in Beijing, has the responsibility for registration and administration of trademarks throughout the country.⁶¹ An application for registration can be filed by any natural person, legal person, or other organization that needs to acquire the exclusive right to the use of a trademark for the goods it produces, manufactures, processes, selects, or markets, or for the services it provides.⁶² The “use of trademarks” includes the use of the mark on goods, packages, or containers of the goods, or in trading documents, as well as the use of the mark in advertising, exhibition, or other business activities.⁶³

A. What Qualifies as a Trademark?

Several types of trademarks can be registered with the Trademark Office, including trademarks for goods and services, collective trademarks, and certification trademarks.⁶⁴ Any visible sign that can serve to distinguish the goods of a natural

57. Measures for the Implementation of Madrid International Registration of Marks (promulgated by the State Admin. for Indus. & Commerce, Apr. 17, 2003, effective June 1, 2003) *et seq.* (Lawinfochina) (China).

58. Notice of the Ministry of Commerce on Issuing the Measures for Brand Evaluation and Protection in the Commercial Field (for Trial Implementation) (promulgated by the Ministry of Commerce, Jan. 8, 2007, effective Jan. 8, 2007) *et seq.* (Lawinfochina) (China).

59. Trademark Law of the People's Republic of China (promulgated by the Standing Comm. People's Cong., Oct. 27, 2001, effective Mar. 1, 1983) art. 1 (Lawinfochina) (China).

60. See Leah Chan Grinvald, *Making Much Ado About Theory: The Chinese Trademark Law*, 15 MICH. TELECOMM. & TECH. L. REV. 53, 565-7 (2008) (arguing that a type of social planning theory has been unconsciously adopted for the theoretical justification of the Trademark Law; China needs to better understand its justifications so that it can make a long term change in its protection of trademarks).

61. Trademark Law of the People's Republic of China, art. 2 (2001).

62. *Id.* at art. 4.

63. Regulation for the Implementation of the Trademark Law of the People's Republic of China (promulgated by the State Council, Aug. 3, 2002, effective Sept. 15, 2002) art. 3 (Lawinfochina) (China).

64. See Trademark Law of the People's Republic of China, art. 3 (2001) (indicating that a collective trademark refers to one that is registered in the name of a group, association, or any other organization for use in business by its members to indicate membership). A certification trademark refers to one that is controlled by an organization that is capable of exercising supervision over particular kinds of goods or services and that is used by a unit other than the organization or by an individual for its goods or services, and is designed to certify the indications of the place of origin, raw materials, mode of manufacture, quality, or other specified properties of the goods or services. *Id.* Under U.S. law, the Lanham Act similarly permits registration of trademarks,

person, legal person, or other organization from those of another, including any work, design, letter of the alphabet, numeral, three-dimensional symbol, or color combination, or any combination of these signs, can be eligible for registration as a trademark.⁶⁵ In order to be registered with the Trademark Office, a trademark must have noticeable characteristics and be readily distinguishable.⁶⁶ In addition, it may not conflict with the legitimate rights of others obtained earlier.⁶⁷ A trademark cannot be registered if it bears only the generic name, design, or model number of the goods concerned; where it merely provides a direct indication of the quality, principal raw materials, function, use, weight, quantity, or other features of the goods; or where distinctive characteristics are lacking.⁶⁸ A registered trademark is valid for ten years and can be renewed for successive ten-year terms.⁶⁹

The Trademark Law also contains a lengthy list of signs and symbols that cannot be used or registered as trademarks.⁷⁰ These include marks that are identical or similar to the state name and national flags and emblems of the People's Republic of China or of a foreign country, as well as the names, flags, and emblems of international inter-governmental organizations.⁷¹ Trademarks cannot be identical to the specific locations that are the seats of central state organs or identical to the names or designs of landmark buildings, and they cannot be identical or similar to an official mark or inspection stamp that indicates control and guarantee.⁷² The law also prohibits trademarks which constitute exaggerated and deceitful advertising and those that are "detrimental to socialist morality or customs, or having other harmful influences."⁷³

B. Registration of a Trademark

An applicant for registration must specify the classification of the goods or services on which the trademark is to be used.⁷⁴ If the applicant intends to use the

service marks, collective marks, and certification marks. *See* 15 U.S.C. §§ 1051–54 (2006) (stating the kinds of trademarks eligible for registration in the United States).

65. Trademark Law of the People's Republic of China, art. 8 (2001). *Compare id.*, with 15 U.S.C. § 1127 (2006) ("The term [']trademark['] includes any word, name, symbol, or device, or any combination thereof— (1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.").

66. Trademark Law of the People's Republic of China, art. 9 (2001).

67. *Id.* *Compare id.*, with 15 U.S.C. § 1052(d) (2006) (stating that no trademark may be issued that copies or closely resembles another mark previously registered in the Patent and Trademark Office).

68. Trademark Law of the People's Republic of China, art. 11 (2001).

69. *Id.* at arts. 37–38.

70. *Id.* at art. 10.

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.* at art. 19; *see also* Regulation for the Implementation of the Trademark Law of the People's Republic of China (promulgated by State Council, Aug. 3, 2002, effective Sept. 15, 2002) art. 15 (Lawinfochina) (China) ("The name of a commodity or service to be filled in shall be based on the table of classification of commodities and services.").

trademark on goods in different classes, a separate application must be submitted for each class of goods or services in which the mark is to be used.⁷⁵ Likewise, if the owner of a registered trademark plans to use the mark on other goods of the same class, a new trademark application must be filed.⁷⁶

Unlike the United States, China has a first-to-file trademark system.⁷⁷ Where two or more applicants apply to register identical or similar trademarks for use on the same or similar goods, the Trademark Office is required to determine which application was filed first, and that application will then be examined and approved.⁷⁸ If the applications were filed on the same day, the trademark which was used earlier than the others will have priority for examination and registration.⁷⁹ However, if use started on the same day, or if none of the marks is in use, then the applicants are expected to reach an agreement and submit it in writing to the Trademark Office; if such an agreement is not received, then the Trademark Office will draw lots to determine which applicant has priority.⁸⁰

Numerous Western companies have encountered problems with trademark squatters in China.⁸¹ A trademark “squatter” is a company or individual who registers another party’s brand name as a trademark and then uses the trademark in connection with the sale of counterfeit goods or in an effort to otherwise profit from the goodwill of the genuine brand name owner.⁸² Upon registration, the trademark squatter becomes the rightful owner of the trademark and actually has the right to preempt the brand name owner from using its mark in China, either in connection with the sale of products there or in connection with the manufacture of products for export.⁸³ Although Article 31 of the Trademark Act states that no

75. Trademark Law of the People’s Republic of China, art. 20 (2001).

76. *Id.* at art. 21.

77. Compare Trademark Law of the People’s Republic of China, art. 29 (2001) (“[T]he trademark whose registration was first applied for shall be given preliminary examination and approval and shall be publically announced”), with 15 U.S.C. § 1051(b), (d) (explaining that while U.S. law permits the filing of an application for registration based on a bona fide intention to use a trademark in commerce, the registration will not be issued by the United States Patent and Trademark Office until the applicant files a verified statement that the mark is in use in commerce, including the date of the first use in commerce and a description of the goods in connection with which the mark is used).

78. Trademark Law of the People’s Republic of China, art. 29 (2001).

79. *Id.*

80. Regulation for the Implementation of the Trademark Law (promulgated by State Council, Aug. 3, 2002, effective Sept. 15, 2002) art. 19 (Lawinfochina) (China).

81. See Breann M. Hill, Comment, *Achieving Protection of the Well-Known Mark in China: Is There a Lasting Solution?*, 34 U. DAYTON L. REV. 281, 287 (2009) (“The ability to oppose a trademark is critical for many American companies because Chinese [‘]trademark squatting[’] activities have become rampant.”).

82. See generally Cynthia Henderson, *China IPR Webinar Series: An Introduction to Trademark Squatting in China*, OFFICE OF INTELLECTUAL PROP. POL’Y & ENFORCEMENT, U. S. PATENT & TRADEMARK OFFICE, available at www.stopfakes.gov/presentations/Cynthia_Henderson.ppt (summarizing trademark “squatting” and this problem in China).

83. *Id.* See, e.g., *China’s Highest Court Rules for ABRO*. 2 ABRO NEWSLETTER 1, 1 (2008), available at <http://www.abro.com/media/newsletters/7.pdf> (describing the outcome of a lawsuit brought by ABRO Industries, Inc., a manufacturer of various lubricants, cleaners, and adhesives, against Hunan Magic Power, a

applicant for trademark registration may infringe upon another person's existing prior rights and may not, by illegitimate means, rush to register a trademark that is already in use by another person and has certain influence, it is unclear precisely what this language means and the extent to which it is ever enforced.⁸⁴

Since there is no requirement that a trademark be in use before a trademark application can be filed with the Trademark Office, one important strategy is for companies to file trademark applications early, before they begin using a mark, in order to prevent third parties from squatting on their rights.⁸⁵ The Trademark Law provides that a trademark can be cancelled if it is not used for three consecutive years.⁸⁶ However, the trademark registration process can take anywhere from 18 to 24 months or longer.⁸⁷ Accordingly, the trademark applicant may have four to five years before it is required to show it is using its trademark or else risk cancellation of its registration.⁸⁸ Applicants are also well-advised to register their marks in many classes, not only the precise class of goods or services in which they plan to use a trademark, in order to allow room for future expansion and to prevent consumer confusion. Additionally, applicants should register their trademarks in English and in Chinese.⁸⁹ By registering in both languages, the trademark owner may prevent third parties from creating a Chinese version of their English language mark.⁹⁰

Chinese company, when Hunan Magic Power attempted to register the ABRO mark for use in Class 16 in China by claiming that it was selling products for "household" use).

84. Trademark Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Oct. 27, 2001, effective Mar. 1, 1983) art. 31 (Lawinfochina) (China); *see generally* Hill, *supra* note 81, at 287 (noting the ongoing problem with "trademark squatting" and trademark enforcement in China).

85. *See IPR Toolkit, supra* note 39 (explaining that China has a first-to-file system, and foreign companies should register their marks with the China Trademark Office before distributing their products).

86. Trademark Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Oct. 27, 2001, effective Mar. 1, 1983) art. 44 (Lawinfochina) (China). A trademark may also be cancelled if used on coarsely manufactured goods that are passed off as quality goods. *Id.* at art. 45.

87. *See* Jonathan A. Hyman, *Before You go to China: Strategies for Protecting Your Trademarks in China*, 49 ORANGE COUNTY LAW. 34, 34 (2007) (explaining that Chinese trademark applications undergo a search process and can take longer than 24 months if issues arise).

88. *See id.* at 35 (discussing how after three years of non-use, a trademark registration may be cancelled).

89. *See* Cynthia Henderson, *China IPR Webinar Series: An Introduction to Trademark Squatting in China*, OFFICE OF INTELLECTUAL PROP. POL'Y & ENFORCEMENT, U.S. PATENT & TRADEMARK OFFICE, *available at* www.stopfakes.gov/presentations/Cynthia_Henderson.ppt (discussing the problem of "trademark squatting" in China, and how third parties attempt to use trademarks that have already been registered).

90. *See Intellectual Property Rights: Trademark*, EMBASSY OF THE U.S., BEIJING, CHINA (last visited Oct. 11, 2011), <http://beijing.usembassy-china.org.cn/iprtrade.html> (encouraging trademark owners to create and register a Chinese language version of their mark, warning "[i]f you do not create a Chinese mark, the market will do so, creating a Chinese ['nickname'] for your product. Your company may not like the image this mark projects, or someone else in China may like it so much they register it in their own name, forcing you to ['buy it back.']").

C. Well-Known Trademarks

China's Trademark Law now contains several provisions relating to well-known marks.⁹¹ An applicant cannot register and may not use a trademark in connection with identical or similar goods, where that trademark is a reproduction, imitation, or translation of another person's well-known trademark that is not registered in China and is likely to cause public confusion.⁹² If the goods are dissimilar, an applicant cannot use or register a mark that is a reproduction, imitation, or translation of another person's well-known trademark not registered in China, if the applicant's trademark misleads the public so that the interests of the owner of the well-known mark are likely to be impaired.⁹³

To determine whether a trademark is well-known, the Trademark Office and Trademark Review and Adjudication Board are instructed to consider how well the trademark is known by the public, how long the trademark has been in continuous use, the duration and extent of advertising, the history of protection of the trademark as a famous mark, and other factors that would make the trademark a well-known or famous mark.⁹⁴ The People's Court will consider similar factors when a lawsuit contends that an infringed mark is a famous trademark.⁹⁵

In a highly publicized case, Starbucks successfully stopped a competing coffee shop from using its well-known marks.⁹⁶ The Shanghai 2nd Intermediate People's Court held that the Shanghai Xingbake Coffee Bar Company was liable for unfair competition and trademark infringement of the Starbucks name and logo.⁹⁷ The word "Xingbake" is a rough transliteration of "Starbucks."⁹⁸ The People's Court held that Starbucks' trademarks were famous, and also determined that Shanghai Xingbake Coffee Bar Company had registered its trade name, Xingbake, in bad faith.⁹⁹ Shanghai Xingbake was ordered to change its company name and to issue a

91. Trademark Law of the People's Republic of China, arts. 13–14 (2001); *see also* Patricia Marquez, *Trademark: A Comparative Look at China and the United States*, 14 *TOURO INT'L L. REV.* 334, 337 (2011) (discussing how both "the Paris Convention and TRIPS requires China to recognize unregistered well-known marks"); Stephanie M. Greene, *Protecting Well-Known Marks in China: Challenges for Foreign Mark Holders*, 45 *AM. BUS. L.J.* 371, 375 (2008) ("Well-known status in China also allows the rightful owner to seek cancellation of a mark unlawfully registered by a competitor or opportunist.").

92. Trademark Law of the People's Republic of China, art. 13 (2001).

93. *Id.*

94. *Id.* at art. 14; Notice of the State Admin. for Indus. & Commerce on Issuing the Working Instructions for the Determination of Famous Trademarks (promulgated by the State Admin. for Indus. & Commerce, Apr. 21, 2009, effective Apr. 21, 2009) arts. 7–8 (2009).

95. Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law to the Trial of Cases of Civil Disputes Over the Protection of Famous Trademarks (promulgated by the Supreme People's Ct., Apr. 23, 2009, effective May 1, 2009) art. 5 (Lawinfochina) (China).

96. *Starbucks Corp. and Shanghai President Coffee Corp. v. Shanghai Starbucks Cafe Co. Ltd. and Shanghai Starbucks Cafe Co. Ltd., Nanjing Rd. Branch* (The Higher People's Ct. of Shanghai Mun. Dec. 20, 2006) (Lawinfochina) (China).

97. *Id.*

98. In Chinese, "xing" means "star" and "bake" is pronounced like "bucks." *See* Greene, *supra* note 91, at 384 (explaining the English translation of the Chinese mark, "Xingbake").

99. *Starbucks Corp. and Shanghai President Coffee Corp.*, *supra* note 96.

public apology.¹⁰⁰ Shanghai Xingbake was also ordered to pay RMB 500,000, the maximum statutory compensation amount, to Starbucks.¹⁰¹

Other foreign companies have been less successful in protecting their famous marks in China.¹⁰² In one such case, Bloomberg LP sued Shanghai Pobo Internet Information Consulting Co., Ltd. for infringement of its Chinese trademark “Pengbo.”¹⁰³ Bloomberg received only RMB 300,000 (approximately \$37,500) in compensation and an apology.¹⁰⁴ However, the Bloomberg mark was not recognized as a well-known mark by the court, and therefore the Chinese company was not required to change its name.¹⁰⁵ In another case, the Beijing First Intermediate Court recognized that the word mark “Ferrari” was a well-known mark, but it refused to extend famous mark status to Ferrari’s “prancing horse” design mark.¹⁰⁶

D. Enforcement of Trademark Rights

The Trademark Law provides that the owner of a registered trademark shall enjoy the exclusive right to the use of the trademark, which shall be protected by law.¹⁰⁷

100. *Id.*

101. *Id.*; see also Jessica C. Wong, *The Challenges Multinational Corporations Face in Protecting their Well-Known Trademarks in China*, 31 BROOK. J. INT’L L. 937, 953–55 (2006). Wong reported that before receiving this order from the People’s Court, Starbucks sought administrative protections of its mark from the Shanghai Administration of Industry and Commerce. *Id.* at 954. In 2000, the administrative authorities ordered Shanghai Xingbake to stop using signs and logos that were similar to the Starbucks trademark. Shanghai Xingbake refused to do so and, in fact, opened an additional store under the Xingbake name. *Id.* Finally, over six years later, the People’s Court ordered Shanghai Xingbake to change its name and awarded Starbucks the equivalent of \$62,500. *Id.* at 955–56. Shanghai Xingbake appealed, and lost in 2007. *Id.* at 956.

102. See *infra* notes 103–05 and accompanying text (explaining the outcome of the *Bloomberg* case); see also *infra* note 106 and accompanying text (noting the unfavorable outcome in the *Ferrari* case). According to the press, Nike has enjoyed mixed success in defending its marks against counterfeiters in China. See Richard McGregor, *Chinese Court Hands Victory to Nike in Trademark Case*, FIN. TIMES, Feb. 21, 2003, available at <http://galetrials.com/products.aspx?pid=2838&marketID=2&trial> (explaining how in 2003, Nike reportedly obtained a court order in China to prevent a Spanish company, Cidesport, from manufacturing and exporting clothing bearing the Nike name out of China for sale in Spain). Nike was also involved in court battles in China relating to its “Air Jordan” mark. See *Nike Wins Lawsuits Over Fake Chinese Shoes*, CBS NEWS, Feb. 11, 2009, available at <http://www.cbsnews.com/stories/2007/08/21/business/main3188266.shtml>. But the problem continues, and hundreds of thousand pairs of counterfeit Nike shoes are sold as products each year, resulting in millions of dollars in profit for counterfeit shoe makers. See Nicholas Schmidle, *Inside the Knockoff-Tennis-Shoe Factory*, N.Y. TIMES, Aug. 22, 2010, at MM38, available at <http://www.nytimes.com/2010/08/22/magazine/22fake-t.html?pagewanted=all> (reporting on an incident in 2007 where nearly 300,000 counterfeit Nike sneakers were found in New York City, with a street value of over \$31 million).

103. See Greene, *supra* note 91, at 388 (discussing Bloomberg’s lawsuit against the Chinese company using the domain “pobo.com.cn,” which uses the same Chinese characters that Bloomberg registered as its Chinese name).

104. *Id.*

105. See *id.* at 388–89 (discussing, in addition to the *Bloomberg* case, problems experienced by Dell and Sony Ericsson in protecting their well-known marks).

106. See Jing “Brad” Luo & Shubha Ghosh, *Protection and Enforcement of Well-Known Mark Rights in China: History, Theory, and Future*, 7 NW. J. TECH. & INTELL. PROP. 119, 141 (2009) (summarizing the *Ferrari v. Jijian* case).

107. Trademark Law of the People’s Republic of China (promulgated by the Standing Comm. People’s Cong., Oct. 27, 2001, effective Mar. 1, 1983) art. 3 (Lawinfochina) (China).

Several different acts can constitute infringement on the exclusive rights to the use of a registered trademark, including the following: (1) using a trademark that is identical or similar to the registered trademark on the same or similar goods without permission by the owner of the registered mark;¹⁰⁸ (2) selling goods that infringe on the exclusive right to the use of a registered trademark;¹⁰⁹ (3) counterfeiting, or making without authorization, representations of another person's registered trademark, or selling such representations;¹¹⁰ (4) altering a registered trademark without permission by its owner and selling goods bearing such an altered trademark on the market;¹¹¹ and (5) impairing another person's exclusive right to the use of a registered trademark in another manner.¹¹²

When a trademark owner believes that its exclusive rights are being infringed on by the acts of another, the parties are instructed to settle the dispute through consultation.¹¹³ However, if the parties are unable or unwilling to do so, then the owner of the registered trademark or any other interested party may either bring suit in the People's Court or resort to an administrative remedy through the Trademark Office of the State Administration for Industry and Commerce (SAIC).¹¹⁴ The SAIC may question the parties, review their contracts and accounts relating to the infringement, inspect the premises where the suspected infringer carries out its activities, inspect articles involved in the infringement, and seize the articles proven to have been used in the infringing activities.¹¹⁵ If the SAIC determines that an act of infringement has occurred, it may order the infringer to cease the infringing activity immediately, and it may confiscate and destroy the goods involved and the tools used to manufacture the goods and the counterfeit representations of the registered trademark.¹¹⁶ A fine may also be imposed.¹¹⁷ The

108. Trademark Law of the People's Republic of China, art. 52(1) (2001).

109. *Id.* at art. 52(2).

110. *Id.* at art. 52(3).

111. *Id.* at art. 52(4).

112. *Id.* at art. 53(5).

113. *Id.* at art. 53. The instruction that the parties settle the dispute through consultation reflects the Trademark Law's interest in promoting the development of a socialist market economy. *See id.* at art. 1 ("This Law is enacted for the purposes of improving the administration of trademarks, protecting the exclusive right to use a trademark, and encouraging producers and traders to guarantee the quality of their goods and services and maintain the reputation of their trademarks, with a view to protect the interests of consumers, producers and traders and promote the development of the socialist market economy."). Under U.S. law, there is no requirement that the parties attempt to settle a dispute when a trademark owner believes that its rights are being infringed by another party. To the contrary, the trademark owner is authorized to bring a civil action. 15 U.S.C. § 1114(1) (2006).

114. Trademark Law of the People's Republic of China, art. 53 (2001). The Trademark Office of the SAIC handles trademark infringement complaints. *See Issues in Focus: Intellectual Property Rights – Trademark*, EMBASSY OF THE U.S., BEIJING, CHINA, <http://beijing.usembassy-china.org.cn/iptrade.html> (last visited Oct. 19, 2011). In addition, "[t]he Trademark Division of each provincial and municipal Administration for Industry and Commerce (AIC) has authority to investigate trademark infringement within its geographic jurisdiction, seize evidence and adjudicate complaints." *Id.*

115. Trademark Law of People's Republic of China, art. 55 (2001).

116. *Id.* at art. 53.

117. *Id.*

SAIC may also mediate a settlement between the parties to compensate the trademark owner or interested party for the infringement.¹¹⁸ If the mediation fails, the injured party may bring suit in the People's Court.¹¹⁹

The amount of compensation due for an infringement on the exclusive rights of the trademark owner may be the amount of profits that the infringer earned as a result of the infringement, or the amount of losses that the trademark owner suffered as a result of the infringement, including any reasonable expenses paid in its efforts to put an end to the infringement.¹²⁰ However, where the profits earned by the infringer or the losses suffered by the trademark owner are difficult to determine, the People's Court will only award damages of not more than RMB 500,000,¹²¹ depending upon the circumstances of the infringement.¹²² Further, if the infringer unknowingly sells goods that infringe upon the exclusive rights of a trademark owner, but the infringer can prove that he obtained the goods lawfully and can identify the supplier, he will not be liable to pay any compensation to the trademark owner.¹²³

The Trademark Law permits the trademark owner or other interested party to obtain an order imposing what is essentially a preliminary injunction or an order for preservation of evidence.¹²⁴ If the trademark owner has evidence proving that another party is committing or will soon commit an act of infringement—and that if such act is not stopped promptly, it will cause irreparable harm to his legitimate rights and interests—he can apply to the People's Court for an order requiring the infringer to cease the act and adopting measures to preserve his property.¹²⁵ Similarly, where evidence may be missing or become unobtainable in the future, the

118. *See id.* (stating that a party must request mediation).

119. *Id.* Civil suits alleging an act of infringement of the exclusive rights to use a registered trademark may be brought in the People's Court of the place where an act of infringement has been carried out, where the infringing products are stored, sealed, or detained, or where the infringer is domiciled. Interpretation of the Supreme People's Court Concerning the Application of Laws in the Trial of Cases of Civil Disputes Arising from Trademarks (promulgated by the Supreme People's Ct., Oct. 12, 2002, effective Oct. 16, 2002) art. 6 (Lawinfochina) (China).

120. Trademark Law of the People's Republic of China, art. 56 (2001). In the United States, the owner of a registered trademark may recover (1) the infringer's profits, (2) any damages sustained by the trademark owner, and (3) the costs of the lawsuit. 15 U.S.C. § 1117(a) (2006). In assessing damages, the court may enter judgment for any sum up to three times the amount found as actual damages, according to the circumstances of the case. In an exceptional case, the court may also award reasonable attorney's fees to the prevailing party. *Id.*

121. Trademark Law of the People's Republic of China, art. 56 (2001). Based on current exchange rates, RMB 500,000 is approximately equivalent to \$78,000. In the United States, in a case involving the use of a counterfeit trademark, the court may award statutory damages in an amount not less than \$1,000 or more than \$200,000 per counterfeit mark per type of goods or services sold. 15 U.S.C.A. § 1117(c) (West 2008). However, if the court finds that the use of the counterfeit mark was willful, the court may award damages in an amount up to \$2,000,000 per counterfeit mark per type of goods or services sold. *Id.*

122. Trademark Law of the People's Republic of China, art. 56 (2001). *See, e.g.,* Shandong Crane Factory Co., Ltd. v. Shandong Shanqi Heavy Industry Co., Ltd. (Sup. People's Ct. Apr. 27, 2009) (Lawinfochina) (China) (awarding Shandong Crane Factory RMB 200,000 based on “the nature, circumstances, duration and scope of the infringement by Shanqi Heavy Industry” after neither Shangqi Heavy Industry's proceeds nor Shandong Crane Factory's losses could be determined from the infringement of the trade name “Shanqi”).

123. Trademark Law of the People's Republic of China, art. 56 (2001).

124. *Id.* at art. 57.

125. *Id.*

owner of a registered trademark may apply to the People's Court for an order preserving the evidence prior to filing a lawsuit.¹²⁶ The court must make a ruling within 48 hours after receiving an application for preservation of evidence, and the order will be enforced immediately.¹²⁷ The trademark owner must then bring a lawsuit within 15 days after the court adopts the preservation measure, or the measure will be rescinded.¹²⁸

In addition to the remedies and sanctions created by the Trademark Law, counterfeiting is addressed by other areas of law as well.¹²⁹ Trademark counterfeiting is a form of unfair competition, and the Law Against Unfair Competition provides that “[a] business operator shall not harm his competitors in market transactions by resorting to any of the following unfair means [including] counterfeiting a registered trademark of another person.”¹³⁰ In addition, there may be criminal liability for counterfeiting.¹³¹ A person convicted of criminal counterfeiting may receive a sentence of up to seven years in prison, fines, or both.¹³²

In one recent case, People's Procuratorate of Jing'an District, Shanghai v. Huang Chunhai,¹³³ an employee of the state was convicted of trademark counterfeiting.¹³⁴ The defendant, Chunhai, was an inspector with the Inspection Detachment of the

126. *Id.* at art. 58.

127. *Id.*

128. *Id. Compare id., with* 15 U.S.C. § 1116(a), (d) (2008) (authorizing U.S. courts to grant an injunction to prevent a violation of the rights of the owner of a registered trademark and, in the case of counterfeit marks, to grant an *ex parte* order for the seizure of counterfeit goods and marks, the means of making such marks, and records relating to the violation).

129. *See, e.g.,* Trademark Law of the People's Republic of China, art. 59 (2001) (stating that the intentional selling of counterfeit goods will also result in a criminal investigation).

130. Law of the People's Republic of China Against Unfair Competition (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 2, 1993, effective Dec. 1, 1993) art. 5 (China.org.cn) (China). In addition to the penalties set forth by the Trademark Law, counterfeiting is also punishable by a fine of not less than one time but not more than three times the illegal earnings of the counterfeiter. Anti-Unfair Competition Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 2, 1993, effective Sept. 2, 1993) arts. 5, 21 (Lawinfochina) (China). In addition, the business operator's license may be revoked, and if the commodities offered for sale are fake and inferior, he may be investigated for criminal liability. *Id.*

131. Trademark Law of the People's Republic of China, art. 59 (2001). *See* Criminal Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 14, 1997, effective Oct. 1, 1997) arts. 213–15 (Lawinfochina) (China) (discussing criminal penalties for counterfeiting trademarks).

132. *See* Criminal Law of the People's Republic of China, art. 215 (1997) (depending on the nature of the crime); *see also* Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property (promulgated by the Supreme People's Ct. and the Sup. People's Procuratorate, Dec. 8, 2004, effective Dec. 22, 2004) arts. 1–3 (Lawinfochina) (China) (stating fines and prison sentences for specific acts of counterfeiting); *see generally* Newsletter, CHINA PATENT AGENT (H.K.) LTD., at 4 (2011), <http://www.cpahkltd.com> [hereinafter CHINA PATENT AGENT] (summarizing criminal penalties for counterfeiting under Chinese law).

133. People's Procuratorate of Jing'an District, Shanghai v. Huang Chunhai (No.2 Interm. People's Ct. of Shanghai Mun. Sept. 17, 2008) (Lawinfochina) (China).

134. *Id.*

Shanghai Tobacco Monopoly Bureau.¹³⁵ Chunhai allegedly gave the owner of a grocery store advance notice of surprise inspections, thereby enabling the store owner to evade punishment for the sale of counterfeit tobacco.¹³⁶ He also introduced others to the store owner so that they could purchase counterfeit cigarettes from the store, and he shared “huge profits” with the store owner.¹³⁷ The court found that Chunhai acted as an accomplice in the crime of selling commodities bearing counterfeit trademarks and that he also engaged in the crime of helping criminals evade punishment.¹³⁸ Chunhai was sentenced to fixed-term imprisonment for two years and was fined RMB 2,000 (approximately \$313 based on current exchange rates).¹³⁹ He was also ordered to turn over his illegal proceeds to the state treasury.¹⁴⁰

IV. PATENT LAW

The Patent Law of the People’s Republic of China was adopted in 1984 and then amended three times in 1992, 2000, and 2008.¹⁴¹ The provisions of the Patent Law are supplemented by various other regulations and measures, including the Implementing Regulations of the Patent Law of the People’s Republic of China (amended in 2002 and 2010) and Measures for the Administrative Enforcement of Patents (adopted in 2001 and amended in 2010).¹⁴²

The Patent Law recognizes three types of invention-creations which may be the subjects of patents: inventions, utility models, and designs.¹⁴³ An invention patent covers “new technical solutions proposed for a product, a process, or the improvement thereof.”¹⁴⁴ An invention patent is valid for twenty years from the date the patent application was filed.¹⁴⁵ A utility model patent protects “new

135. *Id.*

136. *Id.*

137. *See id.* (stating that the sales from the counterfeit cigarettes resulted in a profit of RMB 86,000).

138. *Id.*

139. *Id.*

140. *Id.*

141. *See* Patent Law of the People’s Republic of China (promulgated by the Standing Comm. of the Nat’l People’s Cong., Dec. 27, 2008, effective Apr. 1, 1985) (Lawinfochina) (China) (stating the amendment history). The amendments enacted on December 27, 2008, took effect on October 1, 2009. *See Third Revision of China’s Patent Law: Legal Texts and Documents on the Drafting Process 2006–2008*, EU-CHINA IPR2 (2009), available at http://www.ipr2.org/images/eu_patent_law-final.pdf (noting the effective date).

142. Detailed Rules for the Implementation of the Patent Law of the People’s Republic of China (promulgated by the State Council, Jan. 9, 2010, effective July 1, 2001) (Lawinfochina) (China); *see also* Measures for the Patent Administrative Law Enforcement (promulgated by the State Intellectual Property Office, Dec. 29, 2010, effective Feb. 1, 2011) (Lawinfochina) (China); General Principles of Civil Law of the People’s Republic of China [revised] (promulgated by the Nat’l People’s Cong., Apr. 12, 1986, effective Jan. 1, 1987) ch. 5 § 3, ch. 6 § 3 (Lawinfochina) (China) (containing provisions relating to ownership of intellectual property rights and civil liability for infringement).

143. Patent Law of the People’s Republic of China, art. 2 (2008).

144. *Id.* Under U.S. law, a utility patent may be issued for any new and useful process, machine, article of manufacture or composition of matter, or for any new and useful improvement thereof. 35 U.S.C. § 101 (2006).

145. Patent Law of the People’s Republic of China, art. 42 (2008). Similarly, under U.S. law, a utility patent is valid for twenty years from the date on which the patent application was filed. 35 U.S.C. § 154(a)(2).

technical solutions proposed for the shape and structure of a product, or the combination thereof," which are suitable for a practical use.¹⁴⁶ A utility model patent is valid for ten years from the date of application.¹⁴⁷ A design patent protects new designs of the shape, pattern, or the combination thereof for a product, or the combination of the color with shape and pattern, which "are rich in aesthetic appeal and are fit for industrial application."¹⁴⁸ A design patent is valid for ten years from the date the patent application was filed.¹⁴⁹

A. Requirements for Issuance of a Patent

In order to receive a patent, inventions and utility models must be novel, creative, and of practical use.¹⁵⁰ An invention or utility model is novel when it is not an existing technology (i.e., no patent application has been filed), and no identical invention or utility model is recorded in patent application documents or patent documents published or announced after the date of application.¹⁵¹ However, novelty is not destroyed if, within six months before the date of application, the invention was exhibited for the first time at an international exhibition sponsored or recognized by the Chinese Government, if it was published for the first time at an

146. Patent Law of the People's Republic of China, art. 2 (2008). U.S. law has no equivalent to the utility model patent. See *Intellectual Property Rights: Patent*, EMBASSY OF THE U.S., BEIJING, CHINA, <http://beijing.usembassy-china.org.cn/iprpatent.html> (last visited Oct. 24, 2011) (noting that a Chinese utility model patent is similar to a U.S. improvement patent).

147. Patent Law of the People's Republic of China, art. 42 (2008).

148. *Id.* at art. 2. Under U.S. law, a design patent may be issued for "any new, original and ornamental design for an article of manufacture." 35 U.S.C. § 171 (2006).

149. Patent Law of the People's Republic of China, art. 42 (2008). Under U.S. law, a design patent is valid for fourteen years from the date the patent is issued. 35 U.S.C. § 173.

150. Patent Law of the People's Republic of China, art. 22 (2008). Compare *id.*, with 35 U.S.C. § 101 (providing that in the U.S., "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor . . ."). Recent cases indicate that an invention may lack practical applicability if it has not been marketed in China. For example, in *Merck Co. v. Henan Topfond Pharmaceutical Co.* (February 27, 2007), Henan Topfond, a Chinese pharmaceutical company, challenged Merck's issued patent on a hair-loss drug in an action filed with the Patent Reexamination Board of the State Intellectual Property Office. See Esther H. Lim & Angela Y. Dai, *The Current Reality with IP in China*, 21 WORLD TRADE 1, 8 (2008), available at <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=db6ad237-44c3-4e03-8932-2013002d5a5d> (discussing the current state of intellectual property protection in China and what companies should be doing to protect their rights). The board held that Merck's patent was invalid because it lacked "practical applicability." Although Merck's patent issued in 1996, Merck had never marketed the hair-loss drug in China, and therefore there was no evidence that the invention could be made or used or that it could produce effective results. *Id.*

151. Patent Law of the People's Republic of China, art. 22 (2008). Note that the 2008 amendments to the Patent Law shifted to an absolute novelty standard, requiring inventions and utility models not be attributable to any existing technology published either inside or outside China or that was used openly or known to the public inside China. See John V. Grobowski & Yigiang Li, *Amendments to the Patent Law of the People's Republic of China*, FAEGRE & BENSON (Sept. 13, 2011), <http://www.faegre.com/9830> (discussing the "absolute novelty" standard).

academic or technological conference, or if its contents were divulged by others without the consent of the applicant.¹⁵²

Several types of inventions and discoveries are specifically exempted from patent protection.¹⁵³ A patent will not be granted for a scientific discovery, rules and methods for intellectual activities, methods for the diagnosis or treatment of disease, animal or plant varieties, substances obtained by means of nuclear transformation, and designs that are mainly used for marking the pattern, color, or the combination of two prints.¹⁵⁴

B. Inventorship and Ownership of Patent Rights

China's Patent Law provides that when an invention-creation¹⁵⁵ is made by an employee in the course of performing his duties to his employer,¹⁵⁶ or is made mainly using the materials and technical means of the employer,¹⁵⁷ it is considered to be an employment invention-creation.¹⁵⁸ The employer then has the right to apply for a patent on the invention-creation, and if a patent issues, the employer is the owner of that patent.¹⁵⁹ For non-employment invention-creations, the inventor has the right to apply for a patent and will be the owner of any patent that is granted.¹⁶⁰ Both the right to apply for a patent and the resulting patent rights may be transferred.¹⁶¹

152. Patent Law of the People's Republic of China, art. 24 (2008). *See also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by the State Council, Jan. 9, 2010, effective July 1, 2001) art. 30 (Lawinfochina) (China) (explaining further what constitutes an "international exhibition" and an "academic or technical conference").

153. *See* Patent Law of the People's Republic of China, art. 25 (2008) (listing things exempted from patent protection in China). Under U.S. law, a patent will not be granted for ideas and theories. *See* *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (holding that the "laws of nature, physical phenomena, and abstract ideas have been held not patentable"). In addition, mathematical formulas, algorithms and equations, and the laws of nature cannot be patented. *Id.*

154. Patent Law of the People's Republic of China, art. 25 (2008).

155. *See id.* at art. 2 (noting that an invention-creation refers to an invention, a utility model, or a design).

156. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by State Council, Jan. 9, 2010, effective July 1, 2001) art. 12 (Lawinfochina) (China). An invention is considered to be made by an employee in the course of performing his duties to his employer when the invention is made: "(1) in the course of performing his own duty; (2) in [the] execution of any task, other than his own duty, which was delivered to him by [the employer]; or (3) within [one] year of his retirement, removal from office, or termination," where the invention-creation relates to his duties to the previous employer. These provisions apply to temporary staff members as well as regular employees. *Id.*

157. *See id.* (discussing that the materials and technical means of the employer include the employer's "money, equipment, spare parts, raw materials, or technical data which are not . . . disclosed to the public").

158. Patent Law of the People's Republic of China, art. 6 (2008).

159. *Id.* However, for invention-creations made using the materials and technical means of the employer, if the employer and employee have entered into a contract that gives the employee the right to apply for and own patent rights in the invention-creation, the contract will prevail. *Id.*

160. *Id.*

161. *Id.* at art. 10. The parties to such a transfer of rights are generally required to conclude a written transfer agreement and register it with SIPO. *Id.*

In the recent case of *Wu Linxiang and Chen Hua'nan v. Zhai Xiaoming*,¹⁶² the People's Court found no factual or legal basis to support an employee's contentions that he had the right to file applications in his own name for an invention patent, a utility model patent, and two design patents relating to the "Yishitong Digital Intelligent Lock."¹⁶³ The court determined that Wu Linxiang and Chen Hua'nan, the plaintiffs, had formed Yishitong Co. and employed the defendant, Zhai Xiaoming, as the major researcher in charge of the intelligent lock project.¹⁶⁴ Although Xiaoming argued that the patents were all based on technical schemes he created before his employment and that the investments by Yishitong Co. did not produce any substantive innovation, the court found no factual basis to support Xiaoming's claim that these were individual inventions.¹⁶⁵ To the contrary, the court found that Yishitong Co. had invested significant amounts of financial and human resources into the development of the Yishitong Digital Intelligent Lock.¹⁶⁶ Accordingly, the developments were classified as service inventions owned by Yishitong Co., which had the right to apply for the patents at issue.¹⁶⁷

C. Confidentiality Examination

Any person who plans to apply for a patent in a foreign country on an invention or utility model created in China¹⁶⁸ is required to submit their patent application to the State Intellectual Property Office (SIPO) in Beijing for a confidentiality examination.¹⁶⁹ If the person files a patent application in a foreign country without first requesting a confidentiality examination, the applicant loses his or her right to obtain a patent in China.¹⁷⁰ Filing an international patent application with SIPO

162. *Wu Linxiang and Chen Hua'nan v. Zhai Xiaming* (Higher People's Ct. of Jiangsu Province Oct. 17, 2006) (Lawinfochina) (China).

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.*

167. *Id.*

168. An invention or utility model made in China is one where "the material contents of whose technical scheme is being accomplished in China." Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by State Council of the People's Republic of China, Jan. 9, 2010, effective July 1, 2001) art. 8 (Lawinfochina) (China). This vague definition presents problems for companies who may have researchers in China working in collaboration with researchers in other countries. *See, e.g.*, John Z.L. Huang et al., *New Rules Regarding the Chinese Patent Law Take Effect*, MWE CHINA LAW OFFICES, <http://www.mwechinalaw.com/news/2010/chinalawalert0210b.htm> (last visited Sept. 18, 2011).

169. Patent Law of the People's Republic of China (promulgated by Standing Comm. Nat'l People's Cong., Dec. 27, 2008, effective Apr. 1, 1985) art. 20 (Lawinfochina) (China).

170. *Id.*; *see also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 8 (2010). *Cf.* 35 U.S.C. §§ 184–85 (2006) ("Except when authorized by a license obtained from the Commissioner of Patents a person shall not file or cause or authorize to be filed in any foreign country prior to six months after filing in the United States an application for patent or for the registration of a utility model, industrial design, or model in respect of an invention made in this country.").

constitutes such a request for a confidentiality examination.¹⁷¹ The applicant must be notified within four months after the request is filed if SIPO determines that a confidentiality examination is required because the invention or utility model is likely to involve national security, or because there are substantial interests that may require the invention or utility model to be kept secret;¹⁷² otherwise, the applicant can proceed with its foreign patent filing.¹⁷³ If the applicant is notified that a confidentiality examination is being undertaken, SIPO must notify the applicant within six months if it decides that the invention or utility model must remain confidential.¹⁷⁴ If the applicant does not receive such a notice within six months after the application was filed, it can file its patent application in a foreign country or file an international patent application with a foreign agency.¹⁷⁵

D. Patent Application Procedures

The Patent Law sets forth the basic requirements that every patent application must meet.¹⁷⁶ An application for an invention or utility model patent must include a written request, written description, and an abstract, as well as a written claim.¹⁷⁷ The patent application and any other documents submitted must be in Chinese.¹⁷⁸ The written description must contain a clear and comprehensive description of the invention or utility model so that an individual in the field of the relevant technology can carry out the invention, and must include a description of the technical field of the invention, relevant background art, the contents of the invention, and the mode of carrying out the invention or utility model.¹⁷⁹ When necessary, drawings should also be included.¹⁸⁰ The abstract must consist of a

171. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 8 (2010).

172. *Id.* at art. 9.

173. *Id.*

174. *Id.*

175. *Id.*

176. See Patent Law of the People's Republic of China (promulgated by Standing Comm. Nat'l People's Cong., Dec. 27, 2008, effective Apr. 1, 1985) arts. 26–31 (Lawinfochina) (China) (detailing the necessary components of a patent application filed in China).

177. *Id.* at art. 26; see also Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by the State Council, Jan. 9, 2010, effective July 1, 2001) arts. 16–23 (2010) (explaining the requirements set forth in China's Patent Law in more detail). Applications are filed with the State Intellectual Property Office (SIPO) in Beijing. See Lei Fang, *Chinese Patent System and Its Enforcement*, at 6 (2005), <http://www.sutherland.com/files/Publication/7d59443f-8187-4680-b24a-34de34553642/Presentation/PublicationAttachment/ce106e5e-d8f4-496f-a09b-ce892161dafb/Chinese%20Patent.doc> (last visited Sept. 18, 2011) (reviewing the Chinese patent law system).

178. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 3 (2010). Note that when a foreigner, foreign enterprise, or other organization without a regular residence or business site in China intends to apply for a patent or handle other patent-related matters in China, it must retain a legally established patent agency to handle the application or other matters. Patent Law of the People's Republic of China, art. 19 (2008).

179. *Id.* at art. 26; see also Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 17 (2010).

180. *Id.* at art. 17. The specification of a utility model patent application must contain a drawing. *Id.*

summary of the main technical points of the invention or utility model described in the application.¹⁸¹ The application is required to contain an independent claim outlining the technical solution of the invention or utility model and stating the essential technical features necessary for that solution;¹⁸² it may also contain dependent claims.¹⁸³ Only one invention or one utility model can be disclosed in one patent application.¹⁸⁴ However, two or more inventions or utility models that are embodied in “a single general inventive concept” may be included in one application.¹⁸⁵

Applications for invention and utility model patents undergo a preliminary examination upon filing.¹⁸⁶ The preliminary examination essentially consists of a verification that the patent application contains the required documents, that those documents are in the prescribed form, and that the application otherwise appears to satisfy the requirements for the issuance of a patent.¹⁸⁷ The Patent Administration Department will notify the applicant if problems are discerned, and the applicant has an opportunity to correct the application within a specified time.¹⁸⁸ If no reason for rejection is identified after preliminary examination of a utility model application, the Patent Administration Department will register and announce the utility model and will issue a patent certificate.¹⁸⁹ Within two months after announcement of the issuance of a utility model patent, the patentee or any other interested person may request the Patent Administration Department to issue an evaluation report on the patent.¹⁹⁰

Following the preliminary examination of an invention patent application, the application will be published within eighteen months after the date the application

181. Patent Law of the People's Republic of China, art. 26 (2008); *see also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 23 (2010).

182. *See id.* at arts. 20–21 (explaining the requirements for independent claim drafting).

183. *See id.* at arts. 20–22 (detailing the requirements for dependent, or subordinate claims, specifically in Article 22).

184. Patent Law of the People's Republic of China, art. 31 (2008).

185. *Id.*; *see also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 34 (2010) (stating that two or more inventions or utility models that are part of a single general inventive concept must be technically inter-related and contain one or more common “special technical features,” features that define the contribution that the invention or utility model makes over the relevant prior art). If an application for a patent contains two or more inventions, the applicant may submit a divisional application which will be entitled to the filing date and priority date of the original application, provided that the divisional does not exceed the scope of the original disclosure. *Id.* at arts. 42–43.

186. *See* Patent Law of the People's Republic of China, arts. 34, 40 (2008) (indicating that the State Council conducts a preliminary examination of the patent application before taking further action).

187. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 44 (2010).

188. *Id.*

189. Patent Law of the People's Republic of China, art. 40 (2008).

190. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 56 (2010). The “interested persons” who may request an evaluation report are those described in Article 60 of the Patent Law (i.e., accused infringers of the patent right). *Id.*; *see also* Patent Law of the People's Republic of China, art. 60 (2008).

was filed.¹⁹¹ Within three years after filing the application, the applicant must request the Patent Administration Department to carry out a substantive examination of the application;¹⁹² if the applicant fails to do so, the application will be withdrawn.¹⁹³ Upon requesting substantive examination, the applicant must submit all references existing prior to the date of the patent application, and the applicant may also be required to submit any search or examination made in connection with an application for a patent in a foreign country.¹⁹⁴ If no reason for rejection is identified after the substantive examination is completed, the patent will be registered and announced, and the patent right will become effective on the date of the announcement.¹⁹⁵

If the substantive examination results in a determination that the application does not comply with the requirements of the Patent Law, the applicant may respond or may amend the application.¹⁹⁶ If the Patent Administration Department still believes that the application does not conform to law after the applicant submits its response or amendment, the application will be rejected.¹⁹⁷ The applicant may file an appeal with the Patent Review Board within three months after receiving notice of the rejection and, if the applicant disagrees with the decision of the Patent Review Board, the applicant may then file an action with the People's Court.¹⁹⁸

Only one patent will be granted for an invention.¹⁹⁹ However, the Patent Law allows an applicant to apply for both a utility model patent and an invention patent for the same invention, provided that both applications are submitted on the same day.²⁰⁰ The application for a utility model patent will undergo preliminary examination, but not substantive examination, and the utility model patent will

191. *See id.* at art. 34 (2008) (noting that the application may be published earlier upon the request of the applicant); *see also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 46 (2010) (explaining that following a request for publication, the State Council shall publish that application immediately unless the application is to be rejected).

192. Patent Law of the People's Republic of China, art. 35 (2008).

193. *Id.* The Patent Administration Department may also carry out a substantive examination of its own accord when necessary. *Id.* This differs significantly from the U.S. patent practice. When an application is filed with the United States Patent and Trademark Office, it is assigned to an examiner for examination of the application and the alleged new invention. *See* 35 U.S.C. § 131 (2006) (explaining that the Director sees that the patent is examined). The patent applicant does not request examination. *Id.*

194. Patent Law of the People's Republic of China, art. 36 (2008).

195. *Id.* at art. 39.

196. *Id.* at art. 37.

197. *Id.* at art. 38. The application may be rejected, *inter alia*, because the claimed invention is not patentable under Articles 5 or 25 (precluding patentability of inventions that violate the law, social ethics, or harm public interests, scientific discoveries, etc.), Article 9 (providing that only one patent can be granted for an invention), or because the claimed invention is not novel, creative, or of practical use. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 53 (2010).

198. Patent Law of the People's Republic of China, art. 41 (2008).

199. *Id.* at art. 9.

200. *Id.*; *see also* Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 41 (2010) (explaining that the applicant must indicate that he or she has applied for another patent for the same invention).

therefore be issued in a relatively short period of time.²⁰¹ If an invention patent is ultimately granted, the applicant can waive the utility model patent for the same invention, and the invention patent will then be granted.²⁰²

An application for a design patent must include a written request, drawings or pictures of the design, a brief description of the design, and other documents considered by the applicant to be relevant.²⁰³ The drawings or pictures submitted with the application must clearly show the design of the products for which patent protection is requested, and in some instances, samples or models of the product incorporating the design may be requested.²⁰⁴ An application for a design patent is limited to one design, although two or more similar designs for the same product (or two or more designs for similar products that are sold or used in sets) may be claimed in one application.²⁰⁵ Like a utility model application, an application for a design patent receives only preliminary examination.²⁰⁶ If no reason for rejection is identified, the Patent Administration Department will register and announce the design patent, which becomes effective on the date of the announcement.²⁰⁷

E. Patent Reexamination Proceedings

At any time after a patent is issued, any person who believes that the patent grant was contrary to law may file a request for reexamination with the Patent Reexamination Board.²⁰⁸ The request must state the reasons why the person believes that patent should be invalidated and must include any relevant supporting documents.²⁰⁹ The patent owner is notified of the request for reexamination and has an opportunity to respond within a specified time.²¹⁰ Where the patent in question is an invention or utility model patent, the patentee may amend its claims

201. See Embassy of the U.S. in Beijing China, *Issues in Focus: Intellectual Property Rights – Patents*, U.S. DEP'T OF STATE, <http://beijing.usembassy-china.org.cn/iprpatent.html> (last visited Oct. 18, 2011) (“Both Design and Utility Model applications are reviewed only for compliance with application formalities and not for substance.”); see also James Haynes, *Chinese Utility Model Patents Might Cut Your IP Costs by Half While Providing Better Protection*, http://www.teehowe.com/news_detail.php?id=323 (last visited Sept. 17, 2011) (stating that utility models receive only preliminary examination, not substantive examination; issue faster; are less expensive to obtain; and have fewer maintenance fees – making them a good choice for inventions like electronics or others that have a limited period of being fashionable or new, and which grow less valuable with time).

202. Patent Law of the People's Republic of China, art. 9 (2008).

203. *Id.* at art. 27; see also Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 35 (2010) (stating that no more than ten similar designs may be included in one application for a design patent).

204. Patent Law of the People's Republic of China, art. 27 (2008); see also Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, arts. 27–29 (2010).

205. Patent Law of the People's Republic of China, art. 31 (2008).

206. *Id.* at art. 40.

207. *Id.*

208. *Id.* at art. 45.

209. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 65 (2010).

210. *Id.* at art. 68.

but may not broaden the original scope of patent protection;²¹¹ however, the patentee may not amend its description or drawings.²¹² If the patent at issue is a design patent, no amendments to the drawings, photographs, or description of the design are permitted.²¹³ The Patent Reexamination Board may hold a hearing and is required to issue its decision in a timely manner.²¹⁴ Any patent that is declared invalid is deemed to be non-existent from the beginning.²¹⁵

In 2004, the Patent Reexamination Board issued a decision invalidating Pfizer's patent for sildenafil citrate, the active ingredient in its drug, Viagra.²¹⁶ The request for reexamination was filed by twelve Chinese generic pharmaceutical companies and alleged that Pfizer's patent did not provide adequate disclosure under Article 26 of the Patent Law and also lacked novelty.²¹⁷ The Patent Reexamination Board held Pfizer's patent invalid for containing insufficient disclosure, stating that the technical descriptions in the specification made it impossible to confirm that the claimed compound could "cure or prevent erectile dysfunction of male animals without the creative labor of technical personnel in the field [sic] concerned."²¹⁸ The Beijing No. 1 Intermediate People's Court subsequently reversed the decision of the Patent Reexamination Board in 2006, finding that the claimed compound

211. *Id.* at art. 69.

212. *Id.*

213. *Id.*

214. *See id.* at art. 70 (explaining that the party must request the hearing); *see also* Patent Law of the People's Republic of China, art. 46 (2008) (discussing that the party may bring a lawsuit before the People's Court within three months of the Patent Reexamination Board's decision).

215. Patent Law of the People's Republic of China, art. 47 (2008).

216. *See* Jeffrey A. Andrews, *Pfizer's Viagra Patent and the Promise of Patent Protection in China*, 28 LOY. L.A. INT'L & COMP. L. REV. 1, 1 (2006) (describing the challenge to Pfizer's Viagra patent in China and the progress China has made toward protecting intellectual property law).

217. *See id.* at 11–13 (noting that the pharmaceutical companies opted to use China's patent laws to invalidate Pfizer's patent as opposed to counterfeiting the drug or undertaking research and development costs to market a new drug).

218. *See id.* at 13 (quoting Stone Xu, *An In-depth Look at Viagra's Abrupt Change of Fate in China*, CHINA IP (HURRY MEDIA), Sept. 28, 2004 (quoting the No. 6228 Invalidity Claim Decision of the Patent Reexamination Board)).

was one of nine compounds disclosed in the patent specification.²¹⁹ The Beijing High People's Court upheld the reversal by the Intermediate Court in 2007.²²⁰

F. Compulsory Licensing Provisions

The Chinese Patent Law contains a compulsory licensing scheme that has no counterpart in U.S. patent law.²²¹ The Patent Administration Department of the State Council has the ability to grant a compulsory license for exploitation of an invention patent or utility model patent under a variety of circumstances.²²² A compulsory license may be granted when the patent owner is either over-exercising or under-exercising its patent rights.²²³ For example, a compulsory license may be granted where the patent owner or its licensee fails to exploit the patent, without legitimate reason, for three years after the patent is granted and four years after the date the patent application was filed.²²⁴ Conversely, the patent owner may also lose

219. See Rachel T. Wu, Comment, *Awaking the Sleeping Dragon: The Evolving Chinese Patent Law and its Implication for Pharmaceutical Patents*, 34 *FORDHAM INT'L L.J.* 549, 571, 584–85 (2011) (arguing that although the third amendment to the Patent Law is a great leap forward, pharmaceutical counterfeiting will continue to happen if the local governments do not cooperate with central government in enforcing patent protection laws); see also Yang Hongjun, *Viagra Patent Affirmed? – Analysis of the Appellate Court's Decision* (March 2008), <http://www.kingandwood.com/article.aspx?id=Viagra-Patent-Affirmed---Analysis-of-the-Appellant-Courts-Decision&language=en> (noting that the eight other compounds disclosed in the same patent uphold the patent's validity). Pfizer then reportedly sued at least one Chinese pharmaceutical company for infringing its sildenafil patent. See Jesse Greenspan, *Pfizer Hardens Stance Over Chinese Viagra* (Nov. 17, 2006, 12:00 AM), <http://www.law360.com/articles/13738/pfizer-hardens-stance-over-chinese-viagra>. Pfizer also successfully asserted its trademark rights relating to Viagra (known in China as “weige” or “great brother”) against counterfeiters. See *Pfizer Wins Viagra Trademark Case in China* (Dec. 29, 2006, 3:42 AM), <http://www.marketwatch.com/story/pfizer-wins-viagra-trademark-case-in-china>. The Beijing No. 1 Intermediate People's Court ordered Lianhuan Pharmaceutical Co. to stop making blue pills similar to Viagra and to pay Pfizer RMB 300,000 (about \$38,000) in damages. *Id.*

220. See Wu, *supra* note 219, at 571. GlaxoSmithKline was also targeted by a group of Chinese pharmaceutical companies who attempted to invalidate GlaxoSmithKline's patent on rosiglitazone, one of the active ingredients in Avandia, because it allegedly lacked novelty. *Id.* at 572. GlaxoSmithKline eventually abandoned the patent. *Id.*

221. The compulsory licensing provisions were added to China's Patent Law in 2008 and took effect on October 1, 2009. See *Amendment Provides New Roadmap for Compulsory Licenses*, SIPO (Nov. 30, 2009), http://english.sipo.gov.cn/news/iprspecial/200911/t20091130_482836.html (discussing compulsory licenses under Chinese patent law in light of the most recent amendments). No reported compulsory licenses have been granted in a patent owned by a foreign country. *Id.* However, the compulsory licensing provisions clearly demonstrate the differing values placed on patent rights by the United States and China. In the U.S., a patent is a property right that the patent owner can enforce against all others, including the U.S. government. See 28 U.S.C. § 1498 (2006) (authorizing a patent owner to bring an action against the United States whenever an invention described in and covered by a patent is used or manufactured by or for the United States without authorization from the patent owner). Conversely, in China, the government has the ability to take away the exclusive rights of the patent owner by granting compulsory licenses to third parties. Patent Law of the People's Republic of China (promulgated by Standing Comm. Nat'l People's Cong., Dec. 27, 2008, effective Apr. 1, 1985) art. 48 (Lawinfochina) (China).

222. See *id.* at arts. 48–52 (describing each circumstance where a compulsory license may be granted).

223. *Id.* at art. 48.

224. *Id.* at art. 48(1). A patent is not sufficiently exploited when the patentee or its licensee uses the patent in a manner or on a scale that fails to meet the domestic demands for the patented product or process. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by State

its exclusive rights in an invention or utility model patent if it is exercising those rights in a monopolistic way, such that the negative impact on competition needs to be eliminated or reduced.²²⁵ Compulsory licenses may also be issued where public interests are at stake.²²⁶ For instance, a compulsory license under an invention patent or utility model patent may be granted where a national emergency or an extraordinary state of affairs occurs.²²⁷ Similarly, for the benefit of public health, a compulsory license may be granted for the manufacture of a patented drug and for its export to countries or regions subject to relevant international treaties to which the People's Republic of China is a party.²²⁸

Finally, a compulsory license may be granted for purposes of avoiding infringement of relevant prior art.²²⁹ If a patented invention or utility model represents a major technological advancement of remarkable economic significance, as compared with an earlier granted invention or utility model patent, and where exploitation of the former patent relies on exploitation of the latter, the Patent Administration Department may grant the junior patentee a compulsory license to exploit the senior patent.²³⁰ Where such a license is granted, the Patent Administration Department may also grant the senior rights-holder a compulsory license to exploit the junior invention or utility model.²³¹

The compulsory licensing provisions are to be invoked only when an entity files a request for a compulsory license with the Patent Administration Department.²³² An individual or company that is granted a compulsory license does not receive an exclusive right and does not receive the right to grant sublicenses.²³³ The recipient of the compulsory license is required to pay reasonable royalties to the patent owner.²³⁴ The patent owner and the licensee are expected to agree on the amount of royalties to be paid; however, if the parties are unable to reach an agreement, the

Council of the People's Republic of China, Jan. 9, 2010, effective July 1, 2001) art. 73 (Lawinfochina) (China). A compulsory license will be granted in these circumstances only when the person requesting the license provides evidence to show that he has requested a license from the patentee under reasonable terms but has failed to receive a license within a reasonable period of time. Patent Law of the People's Republic of China, art. 54 (2008).

225. Patent Law of the People's Republic of China, art. 48(2) (2008). Note that if the subject invention is a semiconductor technology, a compulsory license will only be granted in order to eliminate or reduce negative effects on competition caused by the patentee's monopolistic practices. *Id.* at art. 52.

226. *Id.* at art. 49.

227. *Id.*

228. *Id.* at art. 50.

229. *Id.* at art. 51.

230. *Id.*

231. *Id.*

232. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (promulgated by State Council of the People's Republic of China, Jan. 9, 2010, effective July 1, 2001) art. 74 (Lawinfochina) (China). The Patent Law contains no provision for the *sua sponte* granting of a compulsory license by the Patent Administration Department. *See generally* Patent Law of the People's Republic of China, arts. 48–58 (2008) (providing a complete list of regulations regarding compulsory licenses).

233. *Id.* at art. 56.

234. *Id.* at art. 57.

Patent Administration Department will determine the royalty rate.²³⁵ If either party disagrees with the decision of the Patent Administration Department, the party may file a legal action with the People's Court.²³⁶

G. Enforcement of Patent Rights

A patent owner who believes that its rights are being infringed is expected to consult with the infringer and attempt to settle the dispute.²³⁷ If the consultation fails, then the patent owner can pursue a remedy through administrative channels or it can file a civil action with the People's Court.²³⁸ The patent owner or other interested party²³⁹ can file a petition asking the patent administrative department²⁴⁰ to handle the dispute.²⁴¹ The petition must be filed against a specific party and must contain detailed facts relating to the alleged infringement.²⁴² In order to petition for administrative action, the patent owner may not have previously filed an action in the People's Court relating to the infringement dispute.²⁴³ Within five days after the case is accepted, the patent administrative department will serve a copy of the petition on the accused infringer, and the accused infringer must then submit a defense within fifteen days.²⁴⁴

235. *Id.*

236. *Id.* at art. 58. A lawsuit must be brought within three months. *Id.*

237. *Id.* at art. 60. In addition to patent infringement disputes, the administrative authorities can also mediate disputes relating to patent ownership and inventorship, remuneration of inventors, adequacy of royalties to be paid after publication of an invention patent application but before the patent is granted, and other patent matters. Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 85 (2010).

238. Patent Law of the People's Republic of China, art. 60 (2008).

239. See Measures for Patent Administrative Law Enforcement (2010) (promulgated by State Intellectual Property Office, Dec. 12, 2010, effective Feb. 1, 2011) art. 8 (Lawinfochina) (China) (defining the "interested parties" who can file a petition for administrative relief to include licensees and the lawful heirs of the patent owner; sole and exclusive licensees may file petitions separately from the patent owner, while ordinary licensees may file a separate petition only if specifically stipulated in the license agreement).

240. See Detailed Rules for the Implementation of the Patent Law of the People's Republic of China, art. 79 (2010) (describing what constitutes the "patent administrative department"). See Embassy of the U.S. in Beijing China, *Intellectual Property Rights: Patents*, U.S. DEP'T OF STATE, available at <http://beijing.usembassy-china.org.cn/iprpatent.html> (last visited Oct. 19, 2011). The administrative action is instituted in the local office of the State Intellectual Property Office (SIPO) where the infringing activity is believed to be taking place. *Id.*

241. Patent Law of the People's Republic of China, art. 60 (2008). An administrative action may be filed for infringement of an invention, utility model, or design patent. *Id.* at art. 60. However, the administrative authorities will not intervene in the absence of a petition from the patent owner or licensee. *Id.*

242. Measures for Patent Administrative Law Enforcement (2010) (promulgated by State Intellectual Property Office, Dec. 12, 2010, effective Feb. 1, 2011) art. 8 (Lawinfochina) (China).

243. *Id.*

244. See *id.* at art. 12 (noting the short time frame the patent administrative department must send copies of the petition to the accused infringer). If the patent owner wants to seek assistance in preserving evidence prior to filing its infringement action, it must file an application for evidence preservation with the People's Court. Patent Law of the People's Republic of China, art. 67 (2008).

The patent owner may request the administrative department to conduct an investigation and collect evidence relating to the alleged infringement.²⁴⁵ The authorities may review relevant contracts, books of account, and other documents, and it may interrogate the parties and other witnesses.²⁴⁶ They may conduct a site visit and take photographs and video recordings, and they may demand an on-site demonstration if the alleged infringement relates to a patent for a method of production.²⁴⁷ “Samples” of allegedly infringing products can also be collected.²⁴⁸ If the administrative department determines that evidence is likely to be destroyed and will be hard to obtain again in the future, it may seize the evidence.²⁴⁹

The administrative agency may mediate the case between the parties or, if mediation fails, it may issue a decision about the handling of the dispute.²⁵⁰ The decision must state whether an infringement has been proven and, if so, whether the infringer will be ordered to promptly stop the infringement.²⁵¹ In some circumstances, the administrative agency may elect to hold an oral trial prior to entering its judgment.²⁵² All administrative actions are to be concluded within four months after the date of acceptance of the case.²⁵³ Upon the request of the parties, the administrative authorities can also carry out mediation concerning the amount of compensation due to the patent owner as a result of the infringement.²⁵⁴ If the mediation fails, the parties can file a legal action with the People’s Court.²⁵⁵

The Patent Law contains special provisions relating to the “counterfeiting” or “passing off” of a patent.²⁵⁶ Patent counterfeiting consists of placing a patent notice on an unpatented product, selling such a product, stating that an unpatented technology is patented, counterfeiting or altering a patent certificate or document, or otherwise misleading the public into believing that an unpatented technology or design is subject to a patent.²⁵⁷ When an administrative department conducts an

245. Measures for Patent Administrative Law Enforcement, art. 35 (2010).

246. *Id.* at art. 36.

247. *Id.*

248. *Id.* at art. 37.

249. *Id.* at art. 38.

250. *Id.* at arts. 13, 17.

251. *Id.* at arts. 17, 41. If the infringer is dissatisfied with the order, it can file an action with the People’s Court within fifteen days after receipt of the order. Patent Law of the People’s Republic of China (promulgated by the Standing Comm. of the Nat’l People’s Cong., Dec. 27, 2008, effective Apr. 1, 1985) art. 60 (Lawinfochina) (China). If the infringer does not appeal and does not cease its infringement, the administrative department can file an action for compulsory enforcement with the People’s Court. *Id.*; see also Measures for Patent Administrative Law Enforcement, art. 42 (2010).

252. *Id.* at art. 14.

253. *Id.* at art. 19. A one-month extension may be granted if a case is extremely complicated. *Id.*

254. *Id.* at art. 20.

255. Patent Law of the People’s Republic of China (promulgated by the Standing Comm. of the Nat’l People’s Cong., Dec. 27, 2008, effective Apr. 1, 1985) art. 60 (Lawinfochina) (China).

256. *Id.* at art. 63; see also Measures for Patent Administrative Law Enforcement, arts. 2, 5, 43 (2010) (explaining procedures for dealing with acts of “passing off patents”).

257. Detailed Rules for the Implementation of the Patent Law of the People’s Republic of China (promulgated by the State Council, Jan. 9, 2010, effective July 1, 2001) art. 84 (Lawinfochina) (China). The Measures for Patent Administrative Law Enforcement provides that a patent administrative department shall

investigation of suspected patent counterfeiting, it has the authority to question the parties and otherwise investigate the circumstances, including conducting site inspections, reviewing financial books and records, inspecting products relating to the suspected act of counterfeiting, and sealing up or detaining products produced by the counterfeited patent.²⁵⁸

The counterfeiting case must be concluded within one month.²⁵⁹ At the conclusion of the investigation, if the act of passing off was established, an administrative penalty can be imposed.²⁶⁰ The counterfeiter can be ordered to correct the situation, and the matter will be announced to the public.²⁶¹ In addition, any unlawful gains of the counterfeiter will be confiscated, and the counterfeiter may be fined up to three times the amount of such unlawful gains;²⁶² if the counterfeiter has received no unlawful gains, then a fine of up to RMB 200,000 may be imposed.²⁶³ If the acts of counterfeiting rise to the level of criminal activity, then the case will be transferred to the appropriate authorities²⁶⁴ and criminal penalties can be imposed.²⁶⁵ A person who counterfeits another person's patent can "be sentenced to not more than three years of fixed-term imprisonment, criminal detention," and/or may be fined.²⁶⁶

In addition to seeking administrative remedies, a patent owner who believes that its patent is being infringed can also file an action with the Intermediate People's Court in the relevant municipality or province.²⁶⁷ Any action for patent infringement must be brought within two years from the date when the patent

institute an investigation when it "finds a suspected act of passing off patents or does so with the help of a tipoff" Measures for Patent Administrative Law Enforcement, art. 26 (2010).

258. Patent Law of the People's Republic of China, art. 64 (2008); *see also* Measures for Patent Administrative Law Enforcement, art. 28 (2010) (regarding sealing up and detaining products).

259. *Id.* at art. 34.

260. Patent Law of the People's Republic of China, art. 63 (2008).

261. *Id.*

262. *Id.*

263. *Id.*

264. *See* Criminal Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 14, 1997, effective Oct. 1, 1997) § 7, art. 216 (Lawinfochina) (China) (discussing criminal penalties for counterfeiting); *see also* Measures for Patent Administrative Law Enforcement (promulgated by the State Intellectual Property Office, Dec. 29, 2010, effective Feb. 1, 2011) art. 29 (Lawinfochina) (China) (stating that "[i]f any crime is constituted, the case shall be transferred to the public security organ"). Alternatively, if the act of passing off is minor and has already been corrected, no punishment will be imposed. *Id.*; *see also* Notice of the Sup. People's Ct. on Giving Full Play to the Functions of Trial of Criminal Cases and Severely Punishing Intellectual Property Infringements and the Production and Sale of Counterfeit and Shoddy Commodities Pursuant to Law (promulgated by the Sup. People's Ct., Nov. 25, 2010, effective Nov. 25, 2010) section 2 (Lawinfochina) (China) (explaining the People's Court's role in combating criminal acts of intellectual property law infringement).

265. Criminal Law of the People's Republic of China, art. 216 (1997); *see also* Interpretation of the Sup. People's Ct. and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement Upon Intellectual Property Rights (promulgated by the Sup. People's Ct. and the Supreme People's Procuratorate, Dec. 8, 2004, effective Dec. 22, 2004) art. 4 (Lawinfochina) (China) (stating the penalty for counterfeiting patents).

266. *Id.*

267. Patent Law of the People's Republic of China, art. 60 (2008).

owner knew or should have known of the infringing acts.²⁶⁸ The Patent Law contains provisions for preserving evidence prior to filing an infringement suit²⁶⁹ and filing an application to stop an infringing act that will cause irreparable harm to the interests of the patent owner (i.e., a preliminary injunction in Western parlance),²⁷⁰ which are similar to those provided by the Trademark Law.²⁷¹ There is no discovery by the parties in a civil case, and evidence is collected by the court.²⁷² If the case involves infringement of a utility model patent or a design patent, the court may require the patent owner to obtain a patent right assessment report from the Patent Administration Department.²⁷³

The scope of protection afforded to an invention or utility model patent is to be determined by the claims, although the written description and drawings can be used to explain what is claimed.²⁷⁴ This means that the scope of protection is to be “determined by the technological features described in the claims, including” equivalent features which an ordinary technician in the same field could think of without any creative work, or where “the use of similar means could bring about similar functions or achieve similar effects as the technological features described in the claims.”²⁷⁵ In the case of a design patent, the scope of protection is limited to the design of the product as shown in the drawings or pictures.²⁷⁶

The People’s Court has the authority to award compensation to a patent owner if infringement is found.²⁷⁷ The patent owner is entitled to recover its actual losses

268. *Id.* at art. 68.

269. *Id.* at art. 67.

270. *Id.* at art. 66.

271. See Trademark Law of the People’s Republic of China (promulgated by the Standing Comm. Nat’l People’s Cong., Oct. 27, 2001, effective Mar. 1, 1983) art. 58 (Lawinfochina) (China) (describing the preservation of evidence provision).

272. Patent Law of the People’s Republic of China, art. 64 (2008).

273. *Id.* at art. 61.

274. *Id.* at art. 59.

275. Measures for Patent Administrative Law Enforcement (promulgated by the State Intellectual Property Office, Dec. 29, 2010, effective Feb. 1, 2011) art. 16 (Lawinfochina) (China). See, e.g., Hubei Wushi Pharm. Group Co., Ltd. v. Aonuo (China) Pharm. Co., Ltd. and Wang Junshe (Sup. People’s Ct. 2009) (Lawinfochina) (China) (This was an invention patent infringement case relating to whether the calcium and zinc gluconates oral solution sold by Wushi Pharmaceuticals infringed claim 1 of Aonuo’s patent requiring “active calcium” and “glutamate or glutamine.”). The court determined that the accused solution contained calcium gluconate and lysine hydrochloride, which were not equivalent to the technical characteristics of the Aonuo patent. As a result, there was no infringement of Aonuo’s patent right. *Id.*

276. Patent Law of the People’s Republic of China, art. 59 (2008). In a highly publicized case from 2008, the First Intermediate People’s Court of Beijing held that Guanzhou Weierwei Electronic Science and Technology infringed Motorola’s design patent for a two-way radio. See Jocelyn Allison, *Motorola Wins in Patent Dispute With Chinese Firm*, IP LAW360 (Mar. 24, 2008), http://www.bannerwitcoff.com/_docs/news_events_archive/news/03.08%20Katz%20IP%20Law360pdf.pdf. Weierwei was ordered to stop manufacturing and selling the radios and to compensate Motorola in an undisclosed amount. *Id.* It has been suggested that Motorola’s success was due in part to filing its infringement case in Beijing in order to avoid local protectionist tendencies, rather than filing in Guanzhou where Weierwei was located.

277. See Interpretation of the Sup. People’s Ct. on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (promulgated by the Sup. People’s Ct., Dec. 28, 2009, effective Jan. 1, 2010) art. 16 (Lawinfochina) (China) (stating that the People’s Court will determine the compensation for infringement of invention, utility, and design patents).

caused by the infringement or, if actual loss is difficult to determine, then the patent owner may recover the benefits acquired by the infringer through the infringement.²⁷⁸ If both of these amounts are difficult to determine, the patent owner may recover a reasonable royalty.²⁷⁹ The amount of compensation also includes expenses that the patent owner reasonably incurred in putting an end to the infringement.²⁸⁰ Minimal statutory damages may also be awarded where actual compensation and a reasonable royalty are both difficult to determine.²⁸¹ In that instance, the court may award compensation ranging from RMB 10,000 (approximately \$1,567) to RMB 1,000,000 (approximately \$156,755), taking into account the type of patent right at issue, the nature of the infringement, and the seriousness of the case.²⁸² An appeal may be filed with the Higher People's Court.

As a result, damages awards in patent infringement cases decided by Chinese courts have historically been quite low in comparison with U.S. verdicts.²⁸³ The highest reported verdict to date in a patent case in China was in *Chint Group Corp. v. Schneider Electric Low Voltage (Tianjin) Co., Ltd.*,²⁸⁴ a case involving allegations of infringement of a utility model patent directed to a miniaturized circuit breaker.²⁸⁵ In 2007, the Wenzhou Intermediate People's Court awarded damages to Chint in the amount of RMB 334,000,000 (approximately \$45,000,000).²⁸⁶ The case ultimately settled in 2009 for RMB 157,000,000 (approximately \$23,000,000), after Schneider filed an appeal with the Zhejiang High People's Court.²⁸⁷ The Chint verdict and settlement amounts, however, were far out of line with the average

278. *Id.* at art. 65.

279. *Id.*

280. *Id.* Under U.S. law, "the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs . . ." 35 U.S.C. § 284 (2006). In an exceptional case, the court may also award "reasonable attorney fees to the prevailing party." *Id.* § 285.

281. Patent Law of the People's Republic of China, art. 65 (2008).

282. *Id.*; see also Interpretation of the Sup. People's Ct. on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (promulgated by the Sup. People's Ct., Dec. 28, 2009, effective Jan. 1, 2010) art. 16 (Lawinfochina) (China) (explaining the factors the People's Court will consider in awarding compensation for patent infringement).

283. See Kristina Sepetys & Alan Cox, *Intellectual Property Rights Protection in China: Trends in Litigation and Economic Damages*, IPEG, at 6 (2009), http://www.ipeg.eu/blog/wp-content/uploads/NERA-IP-Protection_China_2009.pdf (noting patent infringement damages in China are low compared to the U.S.); see also Lei Mei, *Chinese Patent Litigation: Tips for US Companies*, LAW360 (June 19, 2009) (stating "[g]enerally, damage awards for patent infringement in China are less than [\$100,000 U.S. dollars]").

284. *Chint Group Corp. v. Schneider Electric Low Voltage (Tianjin) Co., Ltd.* (Wenzhou Intermediate People's Court 2007) (China).

285. See Sharon R. Barner et al., *The Chint v. Schneider Settlement: 157 Million Reasons to Believe Chinese Patent Holder's Right Have Muscle*, FOLEY & LARDNER LLP LEGAL NEWS ALERT (Apr. 15, 2009), http://www.foley.com/publications/pub_detail.aspx?pubid=5949; see also Robert L. Burns, *Will China Become the World Leader in Patent Litigation?*, LEXIS NEXIS CHINA LEGAL REVIEW (Dec. 2007), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=5baf9931-12cd-4d65-8f27-4644b9010b98> (discussing the outcome in the *Chint* case).

286. See Barner et al., *supra* note 285 (stating that the RMB 334 million in damages was the largest amount awarded in a Chinese patent infringement case).

287. See *id.* (noting the RMB 157 million settlement).

verdicts in recent patent cases in China.²⁸⁸ According to data obtained from CIELA, the average damages awarded in a patent infringement case in 2009 were only RMB 57,878, and successful plaintiffs were typically awarded an additional RMB 3,665 in costs.²⁸⁹ Accordingly, there is little incentive to avoid infringement of patents, and Chinese entrepreneurs may be willing to take risks in order to earn an easy profit.²⁹⁰ The only real disincentive is the risk of criminal penalties, including possible imprisonment, for patent counterfeiting.²⁹¹

The Patent Law also identifies several acts that do not constitute patent infringement.²⁹² These include a first sale defense, where the alleged infringer resells a patented product or a product made using a patented method,²⁹³ and prior user defenses, where the other party already manufactured identical products or utilized an identical method prior to the filing of the patent application and continues to do so afterward.²⁹⁴ In addition, using a patent specifically for purposes of scientific research and experimentation does not constitute patent infringement.²⁹⁵ Similarly, producing, using, or importing patented drugs, medical devices, or instruments for purposes of providing information required for administrative examination and approval will not constitute infringement of patent rights.²⁹⁶ Finally, innocent middlemen are excused from liability if they use or sell an infringing product without knowing that it was produced and sold without authorization from the patent owner.²⁹⁷

288. See *supra* note 283.

289. See CIELA Summary Report Trend by Year, CIELA CHINA IP LITIGATION ANALYSIS, available at <http://www.ciela.cn/Search/TrendByYearResult.aspx?pageId=1&ppId=2&language=en&city=&court=&mainType=Patent&subType=&cause=Infringement&industry> (last updated Mar. 4, 2011). In 2007, the year of the *Chint* verdict, the average damages awarded in a patent infringement case were only RMB 64,964, and the average costs awarded were RMB 4,110.

290. See, e.g., Sepetys & Cox, *supra* note 283, at 1, 6 (noting that setting damages at a proper level can deter infringers and the traditionally low damage awards in patent infringement lawsuits in China are hurting the country's ability to effectively enforce IPR).

291. See *supra* notes 265–66 and accompanying text (discussing criminal penalties for patent infringement).

292. Patent Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Dec. 27, 2008, effective Apr. 1, 1985) art. 69 (Lawinfochina) (China).

293. *Id.* at art. 69(1).

294. *Id.* at art. 69(2).

295. *Id.* at art. 69(4). Although many people believe that U.S. law includes a similar research exception from patent infringement, no such statutory exception exists. See Kevin Iles, *A Comparative Analysis of the Impact of Experimental Use Exemptions in Patent Law on Incentives to Innovate*, 4 NW. J. TECH. & INTELL. PROP. 61, 67 (2005) (“The US has no general statutory research exemption, only a narrow judicially crafted common law exemption which dates back to 1813.”).

296. Patent Law of the People's Republic of China, art. 69(5) (2008).

297. *Id.* at art. 70. The Patent Law thus creates numerous loopholes whereby infringers can escape liability for their unauthorized acts. For instance, middlemen are essentially isolated unless the patent owner can prove that they had actual knowledge that they were dealing with items that were made and sold without authorization from the patent owner. See *id.* (requiring actual knowledge in order to be liable for infringement).

V. COPYRIGHT LAW

China's Copyright Law was adopted in 1990, and it was subsequently amended in 2001 and 2010.²⁹⁸ The Copyright Law has been supplemented on multiple occasions by the Regulations for the Implementation of the Copyright Law of the People's Republic of China, enacted in 2002;²⁹⁹ Implementing Measures for Administrative Copyright Penalties, adopted in 2003 and amended in 2009, to include remedies for online piracy;³⁰⁰ and Regulations on Copyright Collective Administration, adopted in 2004.³⁰¹ Nevertheless, China's copyright laws continue to be criticized as inconsistent with international conventions, particularly in their treatment of foreign copyright owners, because the vague language in the laws frequently leads to inconsistent decisions.³⁰²

A. *Protected Works*

The works protected by China's copyright law include works of literature, art, natural sciences, social sciences, engineering, and technology, which are created in any of the following forms: written works; oral works; musical, dramatic, *qu yi*,³⁰³ choreographic, and acrobatic works; works of fine art and architecture; photographic works; cinematographic works; graphic works such as drawings of engineering and product designs, maps, sketches, and models; computer software; and others.³⁰⁴ However, the Copyright Law does not apply to laws and regulations, resolutions, decisions of state organs, and other documents of a legislative,

298. Copyright Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Feb. 26, 2010, effective June 1, 1991) (Lawinfochina) (China).

299. Regulation on the Implementation of the Copyright Law of the People's Republic of China (promulgated by the State Council, Aug. 2, 2002, effective Sept. 15, 2002) art. 1 (Lawinfochina) (China).

300. See Measures for the Implementation of Copyright Administrative Punishment (promulgated by the China Copyright Office, May 7, 2009, effective June 15, 2009) art. 5 (Lawinfochina) (China) (stating that acts of online infringement are subject to punishment).

301. Regulation on the Collective Administration of Copyright (promulgated by the State Council, Dec. 28, 2004, effective Mar. 1, 2005) art. 1 (Lawinfochina) (China).

302. See Donald P. Harris, *The Honeymoon is Over: The U.S.-China WTO Intellectual Property Complaint*, 32 *FORDHAM INT'L L.J.* 96, 97 (2008) (noting that inconsistency between Chinese copyright protection laws and enforcement and international standards resulted in a WTO complaint).

303. Regulation on the Implementation of the Copyright Law of the People's Republic of China (promulgated by the State Council, Aug. 2, 2002, effective Sept. 15, 2002) art. 4(5) (Lawinfochina) (China). "Qu yi" includes works such as *xiang sheng* (cross talk), *kuai shu* (clapper talk), *dag u* (ballad singing with drum accompaniment), and *ping shu* (storytelling based on novels), which are performed by recitation and singing. *Id.*

304. Copyright Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Feb. 26, 2010, effective June 6, 1991) art. 3 (Lawinfochina) (China). Under U.S. law, "[c]opyright protection subsists, . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 102(a) (2006). Works of authorship include "(1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works." *Id.*

administrative, or judicial nature.³⁰⁵ In addition, it does not provide protection for news on current affairs or for common property, such as calendars, numerical tables, and “forms of general use and formulas.”³⁰⁶ Protection of copyright in works of folk literature and folk art is dealt with in separate laws.³⁰⁷

B. Rights of the Copyright Owner

Copyright attaches on the date when a work is created.³⁰⁸ A work need not be published in order for Chinese citizens, legal entities, and other organizations to enjoy copyright in the work.³⁰⁹ Protection also extends to copyrights of foreigners or stateless persons in works governed by international treaties or agreements between China and the copyright owner’s country of residence, as well as those not subject to such an agreement.³¹⁰

The copyright owner receives a long list of personal and property rights, which are outlined in Article 10.³¹¹ These include the right to publish a work, the right to claim authorship of a work, the right to reproduce a work, the right to sell an original or a copy of a work to the public, the right to exhibit or perform a work publicly, the right to broadcast a work or make it available through an information network, the right to create derivative works, the right to translate a work into another language, and the right to protect a work against distortion and mutilation.³¹² Copyright owners may also license or assign many of these rights to others for a fee.³¹³ Copyright protection lasts for the lifetime of the author plus 50 years after his death.³¹⁴ If the copyright is owned by a legal entity or other

305. Copyright Law of the People’s Republic of China, art. 5(1) (2010).

306. *Id.* at art. 5(2)–(3). Under U.S. law, copyright protection does not extend to any “idea, procedure, process, system, method of operation, concept, principle or discovery” 17 U.S.C. § 102(b).

307. Copyright Law of the People’s Republic of China, art. 6 (2010). Intangible Cultural Heritage Law of the People’s Republic of China (promulgated by Standing Comm. of the Nat’l People’s Cong., Feb. 25, 2011, effective June 1, 2011) art. 1 (Lawinfochina) (China), *available at* <http://hk.lexiscn.com/law/intangible-cultural-heritage-law-of-the-peoples-republic-of-china.html>.

308. Regulation on the Implementation of the Copyright Law of the People’s Republic of China (promulgated by the State Council, Aug. 2, 2002, effective Sept. 15, 2002) art. 6 (Lawinfochina) (China).

309. Copyright Law of the People’s Republic of China, art. 2 (2010).

310. *Id.*

311. *Id.* at art. 10.

312. *Id.* Under U.S. law, the owner of a copyright has the exclusive right to do and to authorize six distinct acts: (1) “to reproduce the copyrighted work . . . ; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies of the work . . . to the public by sale or other transfer of ownership, or by rental, lease or lending; (4) . . . to perform the copyrighted work publicly; (5) . . . to display the copyrighted work publicly; and (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.” 17 U.S.C. § 106.

313. Copyright Law of the People’s Republic of China, art. 10 (2010).

314. *Id.* at art. 21. Under U.S. law, copyright in a work on or after January 1, 1987, endures for a term consisting of the life of the author plus seventy years after the author’s death. 17 U.S.C. § 302(a) (2006).

organization, protection extends for 50 years after the first publication of the work.³¹⁵

The Copyright Law provides that the copyright in a work belongs to its author, except where otherwise specified.³¹⁶ If a work is created under the direction of a legal entity that bears responsibility for it, then the supervising entity is deemed to be the author.³¹⁷ If a work is created jointly by two or more authors, then the copyright in the work is jointly owned unless the work can be easily separated into parts and exploited separately.³¹⁸

The specific provisions applying these basic rules are complicated and sometimes contradictory.³¹⁹ For instance, “a work created by a citizen in fulfillment of the tasks assigned to him by a legal entity or other organization is a work created in the course of employment.”³²⁰ The copyright in such a work is owned by the employee, but the employer has priority to “exploit the work within the scope of its professional activities,” and the employee cannot authorize any third party to exploit the work in the same manner as the employer for a period of two years.³²¹ However, with respect to drawings of engineering designs and product designs, computer software, and other works created primarily with the employer’s resources, the employee enjoys the right of authorship only;³²² the employer receives all other copyright rights and may simply reward the author.³²³ The copyright in a commissioned work, on the other hand, belongs to the commissioned party, unless the parties reach a different agreement in their contract.³²⁴

The Copyright Law contains a number of fair use-type provisions, allowing a work to be used without the permission of the copyright owner and without payment of any compensation to the owner, so long as the name of the author and title of the work are mentioned where appropriate.³²⁵ For example, one may use

315. Copyright Law of the People’s Republic of China, art. 21 (2010). Under U.S. law, copyright in a work made for hire “endures for a term of 95 years from the year of its first publication, or a term of 120 years from the year of its creation, whichever expires first.” 17 U.S.C. § 302(c) (2006).

316. Copyright Law of the People’s Republic of China, art. 11 (2010).

317. *Id.*

318. *Id.* at art. 13. Note that no co-authorship may be claimed by anyone who has not participated in the creation of the work. *Id.*; see also Regulation on the Implementation of the Copyright Law of the People's Republic of China (promulgated by the State Council, Aug. 2, 2002, effective Sept. 15, 2002) art. 9 (Lawinfochina) (China). Under U.S. law, copyright in a work “vests initially in the author or authors of the work. The authors of a joint work are co-owners of copyright in the work.” 17 U.S.C. § 201(a) (2006).

319. See Copyright Law of the People’s Republic of China, art. 16 (2010) (illustrating the complex nature of these rules).

320. *Id.*

321. *Id.* Compare *id.*, with 17 U.S.C. § 201(b) (providing that in the case of a work made for hire, “the employer or other person for whom the work was prepared is considered the author . . . and, unless the parties have expressly agreed otherwise . . .,” owns all of the rights in the copyright).

322. Copyright Law of the People’s Republic of China, art. 16 (2010).

323. *Id.*

324. *Id.* at art. 17.

325. *Id.* at art. 22.

another person's published work for purposes of personal study or research and may use quotations from another person's work for purposes of comment or to illustrate or explain a point.³²⁶ Works may be translated or reproduced in small quantities for use in classroom teaching or scientific research, so long as they are not published for distribution to the public.³²⁷ Works may be used by the media for purposes of reporting current events, and news reports may then be published or rebroadcast by other newspapers or radio or television stations.³²⁸ Works may also be reproduced by libraries and museums for purposes of display or preservation of a copy of the work.³²⁹ Live performances of published works are authorized, if no fee is charged to the public and the performers are not paid, and outdoor displays are also permitted.³³⁰ Works may be translated from Han into minority languages for distribution throughout the country and may be published in Braille.³³¹ Finally, passages from a work, or a single work of fine arts or photography, may be compiled in textbooks for educational purposes, provided that remuneration is paid and the name of the author and title of the work are mentioned.³³²

Except in those instances described above, anyone who exploits another person's work must enter into a copyright license with the owner.³³³ If the agreement is for an exclusive license, the contract must be in writing.³³⁴ Every license agreement must indicate the nature of the rights being licensed, whether the license is exclusive or nonexclusive, the term of the license and its geographical scope, the licensing fees, and the liabilities of the parties in case a breach occurs.³³⁵ Sublicenses can be granted only with the permission of the copyright owner.³³⁶

326. *Id.* at art. 22(1)–(2).

327. *Id.* at art. 22(6).

328. *Id.* at art. 22(4)–(5).

329. *Id.* at art. 22(8).

330. *Id.* at art. 22(9)–(10).

331. *Id.* at art. 22(11)–(12). U.S. law is less specific and states that “the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching . . . , scholarship, or research, is not an infringement of copyright.” 17 U.S.C. § 107 (2006). Fair use is decided on a case-by-case basis. *See id.* (stating that the fair use factors to consider include are “(1) the purpose and character of the use, including whether such use is of a commercial nature . . . ; (2) the nature of the copyrighted work;” (3) the amount of the work used in proportion to the work as a whole; and “(4) the effect of the use upon the potential market for or value of the copyrighted work”).

332. Copyright Law of the People's Republic of China, art. 23 (2010). Note that such uses are authorized even where the author has declared in advance that use of his work is not permitted. *Id.*

333. *Id.* at art. 24.

334. Regulation on the Implementation of the Copyright Law of the People's Republic of China (promulgated by the State Council, Aug. 8, 2002, effective Sept. 15, 2002) art. 23 (Lawinfochina) (China).

335. Copyright Law of the People's Republic of China, art. 24 (2010); *see also* Regulation on the Implementation of the Copyright Law of the People's Republic of China, art. 24 (2002) (discussing that in the case of an exclusive license with ambiguity in its agreement, the license will be construed to give the licensee the right to prevent any other person, including the copyright owner, from exploiting the work in the same manner as the licensee).

336. *Id.* at art. 24.

C. Enforcement Measures

The National Copyright Administration and the administrative departments of the local people's governments are vested with enforcement of copyright.³³⁷ Two different categories of infringement are proscribed by the Copyright Law.³³⁸ A person who engages in certain acts of infringement can incur civil liabilities, including being forced to curtail the infringement, "eliminating the bad effects of the act," making an apology, and/or paying compensation for damages.³³⁹ These bad acts include publishing a work without permission of the author, claiming authorship in a work the person did not create, publishing a work of joint authorship without permission from the other co-authors, distorting or mutilating a work created by another, plagiarism, exploiting a work created by another without paying remuneration, broadcasting or recording a performance without the permission of the performer, and other infringing acts.³⁴⁰ If such acts result in harm to the public interest, additional administrative punishments may be imposed as well.³⁴¹

A second group of infringing acts is addressed by Article 48 of the Copyright Law, which makes it illegal to reproduce and distribute works through an information network without the permission of the copyright owner, rebroadcast or reproduce a radio or television program without authorization, or publish a book when the exclusive right of publication is owned by another person.³⁴² It is also illegal to intentionally circumvent technological measures adopted by a copyright owner to protect the copyright and related rights in a work, including a sound recording or video recording, or to intentionally remove or alter any electronic rights management information attached to a work without permission by the owner.³⁴³ Producing or selling a work where the authorship of the work is counterfeited is also prohibited.³⁴⁴ Anyone who violates any of these provisions may

337. Measures for the Implementation of Copyright Administrative Punishment (promulgated by the China Copyright Office, May 7, 2009, effective June 15, 2009) art. 2 (Lawinfochina) (China); *see also id.* at art. 6 (explaining that illegal acts with a material impact nationwide are investigated by the National Copyright Administration in Beijing, while illegal acts with an impact in a specific jurisdiction are investigated by that jurisdiction's respective local copyright authorities).

338. *See* Copyright Law of the People's Republic of China, arts. 47–48 (2010) (listing two different categories of infringement acts).

339. *Id.* at art. 47.

340. *Id.* at art. 47(1)–(5), (7), (10)–(11).

341. Measures for the Implementation of Copyright Administrative Punishment, arts. 34 (2009); *see also id.* at 4 (stating that the copyright administrative departments may discipline violators by ordering them to stop the infringement and impose a fine, confiscate any illegal gains, confiscate infringing products and equipment used for making, installing, and storage of infringing works, and other punishments).

342. Copyright Law of the People's Republic of China, art. 48 (1)–(2), (5) (2010).

343. *Id.* at art. 48(6)–(7).

344. *Id.* at art. 48(8).

incur civil liability, administrative penalties including confiscation of the infringing copies and any unlawful gains, fines, and criminal penalties.³⁴⁵

The administrative authorities may decide to investigate a case on their own initiative, on referral from another department, or based on an application filed by the copyright owner, an interested party, or other informant.³⁴⁶ The investigation may include the gathering of relevant evidence, such as financial and other documents; collecting samples of suspected infringing products; or seizing the infringing products, equipment used to install and store the infringing products, infringing website pages and website server, and other equipment and tools associated with the infringement as evidence.³⁴⁷ The administrative authorities may also take statements from the parties and other witnesses.³⁴⁸

At the conclusion of the investigation, a report is prepared and an administrative punishment may be imposed based on the seriousness of the illegal acts, the duration of the infringement, and the resulting damage.³⁴⁹ The administrative department can order the person to stop the infringement, confiscate his unlawful gains, and confiscate or destroy any infringing copies of the protected work.³⁵⁰ The infringer may also be fined up to three times the volume of the illegal business; where the volume of the infringement is difficult to calculate, a fine of not more than RMB 100,000 (approximately \$15,670) may be imposed.³⁵¹ If the infringing act

345. *Id.* at art. 48. See, e.g., *IFPI wins 'Illegal Music Download' Cases Against Yahoo! China*, ROUSE (2008), <http://www.iprights.com/content.output/330/330/About%20Us/Press%20Releases/IFPI%20wins%20the%20%27illegal%20music%20download%27%20cases%20against%20Yahoo!%20China.msp> (describing the outcome of a lawsuit brought against Yahoo! China by the International Federation of Phonographic Industry (IFPI) where the Beijing Higher People's Court found that Yahoo! China infringed IFPI's copyrights by providing links to sound recordings that it should have known were pirated and Yahoo! China's failure to delete these links upon notice was an "obvious indulgence" of infringement); see also Charlie Zhu, *Beijing Court Rules Yahoo! China Violates IPR*, REUTERS (Dec. 2, 2007, 4:10 AM), <http://www.reuters.com/article/2007/12/21/us-yahoo-china-ipr-idUSSHA9621520071221> (discussing Reuters' report that Yahoo! China was ordered to delete the infringing links and pay compensation of approximately RMB 200,000). *But cf.* Erin Coe, *Chinese Court Hands Baidu Win in File-Sharing Fight*, IP LAW360 (Jan. 26, 2010, 7:03 PM), <http://www.law360.com/articles/145679/chinese-court-hands-baidu-win-in-file-shring-fight> (discussing the holding that the IFPI's subsequent suit against search engine Baidu for displaying deep links to websites that contained pirated music was not infringement).

346. Measures for the Implementation of Copyright Administrative Punishment (promulgated by the China Copyright Office, May 7, 2009, effective June 15, 2009) art. 11 (Lawinfochina) (China). Law enforcement personnel who discover ongoing illegal copyright infringements are empowered to stop the illegal act, seize suspected infringing products and equipment used to make such products, and collect other relevant evidence. *Id.* at art. 15. They are then required to transfer the information and materials to the copyright administrative department within seven days. *Id.*

347. *Id.* at art. 16.

348. *Id.* at art. 18(3), (5).

349. *Id.* at art. 29(1).

350. See Copyright Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Feb. 26, 2010, effective June 1, 1991) art. 48 (Lawinfochina) (China); see also Measures for the Implementation of Copyright Administrative Punishment, art. 3(5) (2009) (stating that illegal acts under the copyright laws are subject to punishment from the administrative department).

351. Regulation on the Implementation of the Copyright Law of the People's Republic of China (promulgated by the State Council, Aug. 2, 2002, effective Sept. 15, 2002) art. 36 (Lawinfochina) (China). Any imposed fine must be determined in accordance with Article 36 of the Regulation on the Implementation of the Copyright Law of the People's Republic of China, Article 24 of the Regulation on the Protection of Computer

is particularly serious, the administrative department may also confiscate the materials, tools, and instruments used to produce the infringing copies.³⁵²

Where the copyright infringement is particularly serious, criminal liability may also apply.³⁵³ The Criminal Law prohibits the copying and distribution of works without the permission of the copyright owners, the publishing of books whose copyrights are exclusively owned by others, the duplication and distribution of audiovisual works without permission, and the production and sale of artistic works bearing fake signatures.³⁵⁴ However, the penalties that may be imposed are relatively light.³⁵⁵ Where the infringer gains profits of RMB 30,000 (\$4,700) or more, or where there are more than 500 infringing pieces, the infringer may be sentenced to imprisonment or detention of less than three years and/or may be fined.³⁵⁶ If the amount of illegal profits exceeds RMB 150,000 (approximately \$23,500), or if the number of infringing copies exceeds 2,500, then the infringer will be sentenced to a fixed term of imprisonment ranging from three to seven years and will also be fined.³⁵⁷ The amount of the fine imposed can range from one to five times the amount of illegal profits earned by the infringer and should take into account all of the circumstances of the crime committed.³⁵⁸

In one notable case, the People's Court held that a Chengdu company, Gongruan Network Technology Company, and its managers copied and distributed several versions of "Tomato Garden" computer software by copying Microsoft

Software, and Articles 18 and 19 of the Regulation on the Protection of the Right to Dissemination on Information Network. Measures for the Implementation of Copyright Administrative Punishment, art. 30 (2009).

352. Measures for the Implementation of Copyright Administrative Punishment, art. 31 (2009). An infringement is "serious" where the profits from the infringement exceed RMB 2,500, the total amount of money taken in by the illegal operations exceeds RMB 15,000, there are over 250 separate infringing copies, the infringer has previously been found liable for copyright infringement, or there are other material impacts. *Id.*

353. *Id.* at art. 8; see also Criminal Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 14, 1997, effective Oct. 1, 1997) art. 217 (Lawinfochina) (China) (discussing the criminal penalties for serious acts of copyright infringement).

354. *Id.* at art. 217(1)–(4).

355. See Kristie M. Kachuriak, *Chinese Copyright Piracy: Analysis of the Problem and Suggestions for Protection of U.S. Copyrights*, 13 DICK. J. INT'L L. 599, 611–12 (1995) (discussing the ineffectiveness of the copyright protection system and the tendency for only paltry penalties to be imposed for intellectual property matters).

356. See Criminal Law of the People's Republic of China, art. 217 (1997) (stating that certain acts of copyright infringement can carry a sentence of up to three years in prison, as well as a fine); see also CHINA PATENT AGENT, *supra* note 132, at 5 (displaying in a chart the specific acts that will result in a prison sentence of up to three years and a fine).

357. See Criminal Law of the People's Republic of China, art. 217 (1997) (stating that criminal penalties ranging from three to seven years in prison and fines will be imposed "when the amount of the illicit income is huge or when there are other particularly serious circumstances . . ."); see also CHINA PATENT AGENT, *supra* note 132, at 5 (displaying in a chart specific acts that will result in a prison sentence between three and seven years and a fine).

358. Interpretation II of the Supreme People's Court and the Supreme People's Procuratorate of the Issues Concerning the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (promulgated by the Supreme People's Court, Supreme People's Procuratorate, Apr. 5, 2007, effective Apr. 5, 2007) art. 4 (Lawinfochina) (China).

Windows XP software without the permission of Microsoft.³⁵⁹ The court found that all of the defendants committed the crime of copyright infringement, for which Gongruan's illegal income was huge (RMB 2,924,287.09), and the case was especially serious (nearly 80,000 downloads, well beyond the 2,500 copy threshold for "particularly serious circumstances").³⁶⁰ Gongruan was fined RMB 8,772,861.27, approximately \$ 1,375,900.³⁶¹ The individual defendants were sentenced to prison terms ranging from two years to three years and six months and were fined from RMB 100,000 (\$15,670) to RMB 1,000,000 (\$156,700) each.³⁶² In addition, the State Treasury confiscated Gongruan's illegal income.³⁶³

The Copyright Law contains provisions allowing for injunctive relief and preservation of evidence that are comparable to those contained in the patent and trademark laws.³⁶⁴ A copyright owner who believes that another person is infringing, or is about to infringe, his rights and that irreparable harm will result, may apply to the People's Court for an order requiring the infringer to cease the illegal activity.³⁶⁵ Before instituting legal proceedings, the copyright owner may also apply to the People's Court for preservation measures if the copyright owner believes that evidence is likely to be destroyed or will be difficult to obtain after the case is filed.³⁶⁶

The People's Court also has the ability to impose civil remedies, including a formal apology and compensation for damages.³⁶⁷ The copyright owner may be awarded the actual losses suffered as a result of the infringement or, if actual losses are difficult to calculate, the unlawful gains of the infringer.³⁶⁸ If the amount of actual losses and unlawful gains cannot be determined, the People's Court is only authorized to award compensation in an amount not to exceed RMB 500,000 (approximately \$78,500).³⁶⁹ The copyright owner is also entitled to recover all reasonable expenses incurred in bringing the action.³⁷⁰

359. The People's Procuratorate of Huqiu Dist. of Suzhou City of Jiangsu Province v. Chengdu Gongruan Network Tech. Co., Ltd. (Huqiu Dist. People's Ct. of Suzhou Aug. 20, 2009) (Lawinfochina) (China).

360. *Id.*

361. *Id.*

362. *Id.*

363. *Id.*

364. See Copyright Law of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Feb. 26, 2010, effective June 1, 1991) art. 50 (Lawinfochina) (China) (discussing the injunctive relief provision for the copyright owner to stop an infringer's activities).

365. *Id.* When dealing with such an application, the court is to apply the provisions in Articles 93 through 96 and Article 99 of the Civil Procedure Law of the People's Republic of China. *Id.*

366. *Id.* at art. 51.

367. See *id.* at arts. 47–49 (discussing the different acts of infringement that may result in civil liability).

368. *Id.* at art. 49.

369. *Id.*

370. *Id.*

Little protection may be afforded to foreign works of applied art.³⁷¹ In *Inter IKEA Systems BV v. Taizhou Zhongtian Plastic Co., Ltd.*,³⁷² IKEA (a Dutch corporation) alleged that defendant Zhongtian Company infringed IKEA's copyrights by copying its Mammut series of children's furniture.³⁷³ The court acknowledged that China is a member of the Berne Convention, and foreign works of applied art are protected by Chinese laws.³⁷⁴ The court further explained that the People's Court considers "works of applied art from the angles of utility and artistry."³⁷⁵ Utility is not protected by copyright law, but a work's artistry may be protected as a work of fine art; that is, the work of applied art must reach the artistic level that a work of fine art is supposed to reach.³⁷⁶ In this instance, the court found that the appearance of the Mammut chairs and stools was generally the same as that of the majority of ordinary children's chairs and stools.³⁷⁷ The court held that the design of the Mammut chairs and stools were "relatively simple and did not reach the artistic level that a work of fine art needed to reach."³⁷⁸ As a result, the designs could not be protected and, even if the furniture produced by the defendant was similar or identical to the Mammut designs, it did not infringe IKEA's copyright.³⁷⁹

VI. TRADE SECRETS AND UNFAIR COMPETITION

Unlike most states in the U.S., China does not have one law providing protection for trade secrets (that is, there is no equivalent to the Uniform Trade Secrets Act that has been adopted by most states in the United States).³⁸⁰ Instead, several relevant laws deal with trade secret protection, including the Law of the People's Republic of China Against Unfair Competition (the "Law Against Unfair Competition" adopted in 1993), the Contract Law, the labor laws, and the criminal laws.³⁸¹

The Law Against Unfair Competition states that a business owner must follow principles of voluntariness, equality, fairness, honesty and credibility, and must

371. See, e.g., *Inter IKEA Systems B.V. v. Taizhou Zhongtian Plastic Co., Ltd.* (No. 2 Intermediate People's Ct. of Shanghai Mun. Aug. 22, 2009) (Lawinfochina) (China) (addressing the issue of what constitutes applied art).

372. *Id.*

373. *Id.*

374. *Id.*

375. *Id.*

376. *Id.*

377. *Id.*

378. *Id.*

379. *Id.*

380. See J. Benjamin Bai & Guoping Da, *Strategies for Trade Secrets Protection in China*, 9 NW. J. TECH. & INTELL. PROP. 351, 355 (2011) (noting that there are numerous statutes that provide trade secret protection and that among several, the Anti-Unfair Competition Law is considered the primary statute).

381. See *id.* (suggesting that "Chinese Company Law, Contract Law, Labor Law, and Labor Contract Law" provide language regarding trade secret regulations); see also Criminal Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 14, 1997, effective Oct. 1, 1997) art. 219 (Lawinfochina) (China) (discussing criminal penalties for violating trade secret agreements).

observe generally recognized business ethics.³⁸² Specifically, a business operator is prohibited from obtaining another's trade secrets³⁸³ by unfair means, including stealing, luring, and intimidation; disclosing, using, or allowing another person to use trade secrets obtained from another by such means; or violating a confidentiality agreement.³⁸⁴ Employees are also prevented from breaching a contract or violating their employers' "requirements about disclosing, using or allowing others to use the trade secrets" to which the employee has been given access.³⁸⁵

A business owner who believes its trade secrets have been compromised can seek relief from the "industry and commerce administrative organs at or above the county level."³⁸⁶ If the administrative authorities determine that trade secrets have been infringed, the infringer may be ordered to stop selling any products produced with the owner's trade secrets, and infringing products may be destroyed.³⁸⁷ An administrative fine may also be imposed, ranging from RMB 10,000 to RMB 200,000 (approximately \$1,567 to \$31,367),³⁸⁸ and the infringer may be ordered to return all drawings, software, and other materials containing the trade secrets.³⁸⁹ If the trade secret owner suffers significant losses, criminal liability may also attach,³⁹⁰ and the infringer may be sentenced to not more than three years of fixed-term imprisonment, criminal detention, and/or a fine.³⁹¹

382. Anti-Unfair Competition Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Sept. 2, 1993, effective Sept. 2, 1993) art. 2 (Lawinfochina) (China).

383. *Id.* at art. 10; *see also* Several Provisions on Prohibiting Infringements upon Trade Secrets (promulgated by the St. Admin. for Industry & Commerce, Dec. 3, 1998, effective Dec. 3, 1998) art. 3 (Lawinfochina) (China). A "trade secret" is defined as "practical information about technologies and business operations, which is unknown to the public and is able to bring economic benefits to the owner and for which the owner has taken confidentiality measures." *Id.* at art. 2. The "confidentiality measures taken by the owner" include signing a confidentiality agreement, establishing a system for handling confidential information, and adopting other reasonable measures to protect confidential information. The protected information includes "designs, procedures, formula[s] . . . , manufacturing techniques and methods, management secrets, [customer lists], information about resources, production and sales strategies," contractual and other information. *Id.*

384. Anti-Unfair Competition Law of the People's Republic of China, art. 10 (1993); *see also* Several Provisions on Prohibiting Infringements upon Trade Secrets, art. 3 (1998) (stating acts which constitute trade secret infringement).

385. *Id.* at art. 3(4).

386. *Id.* at art. 4.

387. *Id.* at arts. 6–7.

388. *Id.* at art. 7.

389. *Id.* at art. 7(1).

390. *See* Criminal Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 14, 1997, effective Oct. 1, 1997) art. 219 (Lawinfochina) (China) (stating that those who encroach on commercial secrets and bring losses may be sentenced); *see also* Bai & Da, *supra* note 380, at 351 (stating that the lack of a U.S. style discovery system in China makes it difficult to bring an action for trade secret misappropriation; instead, trade secret owners should consider criminal prosecution and policies aimed at prevention of misappropriation).

391. Criminal Law of the People's Republic of China, art. 219 (1997). For particularly serious violations, a prison term of three to seven years and a fine may be imposed. *Id.* *See, e.g.*, First Procuratorate of Shanghai P.R. China v. Hu Shitai et al. (No. 1 Intermediate People's Ct. of Shanghai Mun. Mar. 29, 2010) (Lawinfochina) (China) (finding four employees of mining company Rio Tinto guilty of bribery and trade secret misappropriation relating to business information about the iron ore trade and imposing sentences ranging

The administrative authorities are authorized to mediate a claim for damages between the trade secret owner and the infringer, or the owner may file a claim for damages in the People's Court.³⁹² The trade secret owner is entitled to recover its losses associated with the trade secret misappropriation or, if such losses are difficult to determine, the trade secret owner may recover all profits derived from the infringement by the infringer.³⁹³ The trade secret owner may also recover its reasonable costs incurred in bringing the action.³⁹⁴

The contract laws also contain provisions governing the use of trade secrets.³⁹⁵ The provisions on contract formation state that a party may not disclose or improperly use any trade secret which it learns while negotiating a contract, regardless of whether any contract is ultimately formed.³⁹⁶ If a party discloses or improperly uses such a trade secret, the party will be liable for damages.³⁹⁷ The Contract Law also contains a special chapter relating to technology contracts (i.e., contracts for the development or transfer of technology, and contracts for technical consulting or services).³⁹⁸ The parties to technology contracts are required by law to abide by their confidentiality obligations with respect to any secret technologies.³⁹⁹

China's labor laws also permit parties to a labor contract to reach agreements safeguarding the trade secrets and intellectual property of the employer.⁴⁰⁰ If an

from seven to fourteen years, fines ranging from RMB 200,000 to RMB 500,000, and requiring forfeiture of the property illegally received).

392. Several Provisions on Prohibiting Infringements upon Trade Secrets (promulgated by the St. Admin. for Industry & Commerce, Dec. 3, 1998, effective Dec. 3, 1998) art. 9 (Lawinfochina) (China); *see also* Anti-Unfair Competition Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Sept. 2, 1993, effective Sept. 2, 1993) art. 20 (Lawinfochina) (China) (stating that the party seeking relief may bring a lawsuit before the People's Court). *See, e.g., GE Wins Trade Secret Infringement Case Against Jiuxiang*, DANSAMS NEWS (Nov. 12, 2007), <http://www.dansams.com/news/news.asp?id=174>. In 2007, the General Electric Company (GE) filed an action against Xi'an Jiuxiang Electrical Technology Co. Ltd. and its owner, Wang Xiaohui, pursuant to Article 20 of the Unfair Competition Prevention Act. Wang worked for GE as an engineer and signed two employment contracts agreeing that he would not disclose GE's trade secrets relating to computed tomography (CT) equipment. As an employee for GE, Wang attended numerous training sessions, and he was privy to the most sensitive trade secrets and documents relating to CT equipment. Wang then left GE and set up his own company, Jiuxiang, to install and repair medical equipment for hospitals, including CT equipment, and he held training sessions where he presented information obtained from GE. The Xi'an Intermediate People's Court held that Wang misappropriated GE's trade secrets and also infringed their copyrights. He was ordered to immediately stop the infringement and pay compensation to GE in the amount of RMB 900,000. *Id.*

393. Anti-Unfair Competition Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., Sept. 2, 1993, effective Sept. 2, 1993) art. 20 (Lawinfochina) (China).

394. *Id.*

395. Contract Law of the People's Republic of China (promulgated by the Nat'l People's Cong., Mar. 15, 1999, effective Oct. 1, 1999) art. 43 (Lawinfochina) (China).

396. *Id.*

397. *Id.*

398. *Id.* at arts. 322–64.

399. *Id.* at arts. 347, 350.

400. *See* Labor Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., July 5, 1994, effective Jan. 1, 1995) art. 22 (Lawinfochina) (China) (allowing parties to reach agreements concerning their employer's trade secrets); *see also* Labor Contract Law of the People's Republic of China (promulgated by the Standing Comm. of the Nat'l People's Cong., June 29, 2007, effective Jan. 1, 2008)

employee has an obligation to maintain the confidentiality of his employer's trade secrets, the contract may also include noncompetition provisions;⁴⁰¹ however, the employer must pay compensation to the employee during the noncompetition period after the termination of the labor contract.⁴⁰² The employees subject to noncompete provisions are limited to positions of senior management, senior technicians, and other employees who have knowledge of the employer's trade secrets.⁴⁰³ As a result, employers may not be able to restrict a low level employee's ability to go work for a competitor.⁴⁰⁴

Protection of trade secrets is recognized as being extremely difficult for Western companies doing business in China.⁴⁰⁵ While employees and contractors should be required to sign agreements stating that they will not disclose or misappropriate the trade secrets of their employers, and will not compete with their former employers after leaving their employment, such agreements may be poorly enforced.⁴⁰⁶ To the extent possible, trade secret owners are therefore cautioned to stringently limit access to trade secret information to key personnel having a legitimate interest in knowing the information.⁴⁰⁷

VII. CONCLUSION

Intellectual property reforms in China continue.⁴⁰⁸ The country now has in place a system of intellectual property protections that bear a strong resemblance to

art. 23 (Lawinfochina) (China) (stating that an employer may form an agreement with the employees requiring the employees to keep the employer's trade secrets confidential); SHAN HAILING, *THE PROTECTION OF TRADE SECRETS IN CHINA* 220–21 (2008) (arguing that the notion of employee loyalty in China is relatively new by stating that “[f]or more than sixty years, socialist public ownership was the dominant form of corporate ownership in China. Under this old ownership system, loyalty to enterprises equated to loyalty to the state”).

401. Labor Contract Law of the People's Republic of China, art. 23 (2008).

402. *Id.*

403. *Id.* at art. 24.

404. See Bai & Da, *supra* note 380, at 369 (noting that not all employees are subject to non-compete obligations). *But see* Sean Cooney et al., *China's New Labour Contract Law: Responding to the Growing Complexity of Labour Relations in the PRC*, 30 U.N.S.W. L.J. 786, 799–800 (2007) (suggesting that a non-compete obligation can be imposed on any employee because the language of the statute seems to permit the inclusion of such an obligation in the labor contract of *any employee*).

405. See, e.g., Marisa Anne Pagnattaro, *Protecting Trade Secrets in China: Update on Employee Disclosures and the Limitations of the Law*, 45 AM. BUS. L.J. 399, 399 (2008) [hereinafter *Protecting Trade Secrets in China*] (recognizing protection of trade secrets in China as “a daunting challenge”); Marisa Anne Pagnattaro, “*The Google Challenge*”: *Enforcement of Noncompete and Trade Secret Agreements for Employees Working in China*, 44 AM. BUS. L.J. 603, 603 (2007) [hereinafter *The Google Challenge*] (describing a big challenge to conducting business in China as safeguarding trade secrets); see also Erin Ailworth, *Data Theft Case May Test US, China Ties*, BOS. GLOBE, at B5 (Sept. 19, 2011) (reporting that American Superconductor Corp. is investigating the apparent theft of encryption codes and other technology relating to wind turbines by its Chinese partner).

406. See Pagnattaro, *The Google Challenge*, *supra* note 405, at 605 (discussing the enforcement problems of noncompete agreements in China and the danger of any court finding these agreements to be void).

407. See Pagnattaro, *Protecting Trade Secrets in China*, *supra* note 405, at 412–15 (discussing best practices in drafting noncompete agreements to protect trade secrets under Chinese law, including limiting the number of employees who have access to trade secrets); see also Pagnattaro, *The Google Challenge*, *supra* note 405, at 635 (recommending that “[o]nly employees with actual access to trade secret information should be signing noncompete agreements with confidentiality provisions”).

408. See *supra* Parts III—V (noting recent amendments to Chinese trademark, patent, and copyright laws).

Western laws in some respects and that largely comply with international agreements.⁴⁰⁹ However, the penalties for infringement are weak and enforcement remains extremely problematic.⁴¹⁰ Based on case studies, it is apparent that foreign countries wishing to conduct business in China have no reasonable expectation that their intellectual property rights will be consistently recognized and enforced.⁴¹¹

Significant differences exist between Chinese and United States intellectual property laws, which often work to the detriment of intellectual property owners in the U.S.⁴¹² In the trademark area, China's first-to-file system allows squatters to register another company's brand name and then prevent the rightful owner from using the mark.⁴¹³ Even owners of well-known marks have experienced difficulties in protecting their marks in China.⁴¹⁴ China's patent laws authorize the issuance of utility model patents that undergo no substantive examination until they are the subject of litigation,⁴¹⁵ and Chinese law allows for the granting of compulsory licenses to third parties when a patent owner is over-exercising or under-exercising its patent rights or where public interests are at stake.⁴¹⁶ The copyright laws provide a shorter period of protection than U.S. law,⁴¹⁷ and the various laws relating to trade secrets limit the employees who can be made subject to noncompete agreements.⁴¹⁸ Even in those situations where Chinese and American laws sound similar, they are often subject to different interpretations.⁴¹⁹ For example, although Chinese copyright law protects foreign works of applied art, the courts consider such works

409. See *supra* note 35 and accompanying text.

410. See *supra* notes 46–49 and accompanying text (discussing the potential causes of China's weak intellectual property enforcement system).

411. See generally Glen R. Butterson, *Pirates, Dragons and U.S. Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement*, 38 ARIZ. L. REV. 1081, 1084, 1093–1107 (1996) (discussing the intellectual property rights enforcement issues in China, focusing on copyrights, which is a particularly problematic area for infringement and enforcement).

412. See McCabe, *supra* note 22, at 19–27 (highlighting the differences between U.S. and Chinese intellectual property laws).

413. See *supra* Part III.B (describing China's first-to-file trademark registration system and the corresponding issue of trademark squatters).

414. See, e.g., *supra* Part I (discussing Apple's struggles with counterfeit stores in China); *supra* note 106 and accompanying text (mentioning the holding of the Beijing First Intermediate Court, declining to give famous mark status to Ferrari's horse).

415. See *supra* note 201 and accompanying text (stating that a utility model patent will only undergo a preliminary examination before issuance).

416. See *supra* notes 221–28 (discussing the circumstances where a compulsory patent license may be granted in China).

417. See *supra* notes 314–15 and accompanying text (noting that the term of copyright protection in China extends for the life of the author plus 50 years after the author's death, whereas in the United State, copyright protection extends for the life of the author plus 70 years after the author's death).

418. See *supra* note 403 and accompanying text (limiting those subject to noncompete agreements to senior-level employees and employees who have knowledge of the trade secret).

419. See McCabe, *supra* note 22, at 19–20 (discussing the similarities in the language of the patent infringement provisions of 35 U.S.C. § 271 (a) of U.S. Patent Law and Article 11 of the Patent Law of the People's Republic of China, yet noting that these laws may be interpreted to mean different things).

from the angles of utility and artistry, thereby precluding protection of designs that do not reach the level of fine art.⁴²⁰

In addition, China lacks transparency.⁴²¹ Few court cases result in published decisions, and even fewer of those opinions are translated into English.⁴²² The outside world is forced to rely on press reports which may, in some instances, be inaccurate or even biased, or on white papers issued by the Chinese court systems.⁴²³ Instead of annual reports and a few “representative opinions” selected by the Chinese authorities to show their allegedly increased levels of enforcement, the public should be given access to all decisions issued by the courts relating to intellectual property.⁴²⁴ In this way, there will be greater accountability on the part of the courts, particularly those in the provinces that have been repeatedly accused of protectionism, and greater predictability for companies who are interested in doing business in China.⁴²⁵

420. See *supra* notes 371–79 and corresponding text (discussing the case, *Inter IKEA Systems BV v. Taizhou Zhongtian Plastic Co., Ltd.*).

421. See Wei Shi, *Incurable or Remediabale? Clue to Undoing the Gordon Knot Tied by Intellectual Property Rights Enforcement in China*, 30 U. PA. J. INT’L L. 541, 563 (2008) (explaining that transparency in both China’s administration and judicial system is problematic).

422. See Thomas E. Volper, Note, *TRIPS Enforcement in China: A Case for Judicial Transparency*, 33 BROOK. J. INT’L L. 309, 329 (2007) (exploring the problem of transparency in the Chinese judiciary, including the fact that opinions are scarcely published).

423. See Shi, *supra* note 421, at 563 (noting that due to a lack of consistent publication of changes to laws, “the public has no steady and direct access to legal databases”).

424. See Volper, *supra* note 422, at 329 (stating that the Supreme People’s Court publishes a select few judicial opinions in its Gazette, along with some highly edited lower court decisions).

425. See *id.* (“[P]ublic access to judicial decisions could help elevate the level of judicial ethics [in China].”); see also Peter K. Yu, *From Pirates to Partners: Protecting Intellectual Property in China in the Twenty-First Century*, 50 AM. U. L. REV. 131, 220 (2001) (suggesting that the United States should encourage China to publish and translate their judicial decisions in order to aid the public and foreign businesses).