

China & Hong Kong

Recent developments in intellectual property

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

China

China has continued to demonstrate its commitment to protecting intellectual property. In March 2006 the National IP Working Group, chaired by Vice Premier Wu Yi, released an action plan outlining a wide spectrum of legislative and enforcement reforms to strengthen IP protection in China. Shortly thereafter, President Hu Jintao noted during his visit to the United States that “China will continue to improve the legal regime for IP protection, step up law enforcement and crack down hard on IP infringement”. This section of the chapter highlights the major events relevant to IP protection in China over the past 12 months.

Filing statistics

The number of IP applications filed in China has grown at a phenomenal rate in recent years and there is no sign of it slowing down. During the first six months of 2006 the State Intellectual Property Office received more than 250,000 new applications, a 25 per cent increase on 2005. Most notably, the number of invention patent applications filed by local applicants jumped by 45 per cent. In contrast, invention patent filings by foreign applicants increased by only eight per cent.

The Chinese Trademark Office has been the busiest trademark registry in the world since 2004, and in 2005 the number of trademark applications filed in China exceeded 660,000, a 13 per cent increase from the previous year. The number of domain name registrations is also growing at a staggering rate. There are now nearly 1.2 million domain name registrations, an increase of more than 200 per cent from 2005. These numbers clearly show that filing in China is no longer an option, but has instead become the norm for protecting registrable IP assets.

Enforcement statistics

Official figures suggest that both the administrative and criminal authorities have stepped up their efforts in fighting IP violations. In 2005 the Administrations for Industry and Commerce undertook over 49,000 trademark-related investigations. More than 37,000 formal cases were commenced (including 6,770 related to foreign trademarks) – a 23 per cent increase since 2005. The Administrations for Industry and Commerce also transferred 236 cases to the Public Security Bureau for criminal investigation.

In 2005 the Public Security Bureau accepted 1,799 criminal cases involving IP infringement (an increase of 52 per cent) and made 2,119 arrests (an increase of 56 per cent). Nearly 2,700 persons were jailed in 2005 for IP-related crimes. During the first six months of 2006, the Customs Authority also prosecuted 1,076 IP-related cases and seized 39 million infringing items worth more than \$8.5 million. Despite these results, the Office of the US Trade Representative continued to identify China as one of the most serious IP offenders in its Special 301 Report, issued in April 2006.

Notable court cases

A number of high-profile Chinese IP cases have made international headlines during the past year. Many of them were resolved in favour of the foreign complainants. These results show that meaningful enforcement actions can now be taken to protect IP rights in China.

Patents

The closely watched Viagra appeal was decided in June 2006. The Beijing No 1 Intermediate People’s Court reversed the decision of the Patent Re-examination Board, which invalidated Pfizer’s patent on the erectile dysfunction drug sildenafil citrate. The respondent local drug companies have appealed this ruling.

Another patent case in June 2006 has made Chinese legal history. The Zhengzhou Intermediate People's Court awarded Rmb29.8 million (\$3.7 million) in damages in an infringement action – the largest IP-related court order ever made in China. The patent in question was one of the few Chinese patents bestowed with the prestigious Golden Patent Award.

Trademarks

On the trademark front, Starbucks has prevailed in its disputes with local cafés using the Chinese company name 'Xingbake', which is identical to the Mandarin transliteration of Starbucks's English name and registered Chinese trademark. The local cafés in question were ordered to change their names and pay damages in late 2005 by the Intermediate People's Courts in Shanghai and Qingdao respectively, even though they had both registered the disputed mark as a company name with the respective local authorities. The Shanghai café has filed an appeal, but at the time of writing no decision had yet been rendered.

Another widely reported case relates to the Silk Street Market, a popular Beijing shopping area for those seeking fake brand name goods. In December 2005 several luxury brand owners (Prada, Chanel, Louis Vuitton, Gucci and Burberry) successfully sued the landlord of the market and several of its tenant-vendors in the Beijing No 2 Intermediate People's Court. The defendants were ordered to pay Rmb20,000 (\$2,500) in damages and legal costs to each plaintiff. The landlord was also found liable for "providing conditions facilitating infringement" and failing to stop vendors from knowingly selling counterfeit goods after receiving notices from the brand owners. This ruling was upheld by the Beijing High People's Court in April 2006. Although China is not a common law country, this precedent-setting decision is expected to open up more options to IP owners for the enforcement of their rights, and may deter landlords from leasing their premises to vendors of counterfeit goods. Soon after this decision, the Xiangyang Market – the Shanghai counterpart of the Silk Street Market – was ordered to close by the local government.

Copyright

Online copyright violations continue to plague both foreign and domestic IP owners in China. Respect for copyright remains relatively low among businesses, as illustrated by a series of recent lawsuits brought against two NASDAQ-listed Chinese companies.

Baidu.com, the most popular search engine in China, was successfully sued by Sony BMG, Warner Music, EMI and Universal Music for allowing free downloads of

their music. A local music company was also awarded Rmb68,000 (\$8,400) damages after Baidu's search engine was found to violate its copyright. In June 2006 China.com was ordered by a Beijing court to pay Rmb50,000 (\$6,250) in damages and costs for allowing the unauthorised download of ringtones recorded by a Chinese rapper.

New legislation and directives

China has continued to strengthen its legal framework for IP protection. Several important new tools have been introduced to facilitate the investigation of IP violations and the enforcement of IP rights, including a few industry-specific measures. Major improvements have also been made to the procedures for securing IP rights.

Trade shows

China now has a new framework for handling suspected IP violations at trade shows and exhibitions. The Measures on Protection of IP Rights at Exhibitions, which came into force in March 2006, require organisers of all events longer than three days to set up a complaint unit at the exhibition venue. A complaint may be made directly to the complaint unit, which is staffed by local IP officials, and the alleged infringers may be ordered to remove any infringing items and destroy or change any materials used. In addition, trade show organisers must not allow a repeat IP infringer to participate in their exhibitions.

Online piracy

China has the second largest internet population in the world and online IP violation is a widespread problem. A new tool to combat online copyright piracy is now available. From July 1 2006 the Regulation on the Protection of the Right of Communication through Information Networks has mandated that everyone must obtain permission and pay royalties before disseminating the copyrighted works or performances of another online. More importantly, network service providers must remove or disconnect links to infringing works upon receiving demands and evidence of infringement from IP owners. They must also provide authorities with information regarding operators of the websites that distribute pirated materials. The regulation provides for a fine of up to Rmb100,000 (\$12,500) and the confiscation of computer equipment.

Software

Lobbyists for the commercial software industry scored a huge success when the State Council, the highest executive organ of the Chinese government, proclaimed

in March 2006 that only legitimate software may be used on computers in government offices and state-owned and other enterprises. Soon afterwards the National Copyright Administration mandated that legitimate operating systems must be preloaded on personal computers made and sold in China. These political directives are expected to help to foster a culture of legal software use and respect for copyright generally.

Criminal investigation

The lack of coordination and cooperation between the authorities responsible for criminal and administrative investigation of IP violations has often been cited as a reason for ineffective IP protection in China. Several new measures were put in place in early 2006 to address this issue. For instance, local Administrations for Industry and Commerce are now required to notify the Public Security Bureau when they discover serious IP infringement and to transfer all suspected cases that meet the criminal prosecution threshold promptly. In March 2006 similar rules were put in place between the Public Security Bureau and Chinese Customs Authority. Whether these procedures will translate into an increase in criminal prosecutions remains to be seen.

Patent examination

The New Patent Examination Guidelines, which came into effect on July 1 2006, set out important clarifications regarding the standard of examination and the disclosure and claim requirements, as well as the patentability of certain subject matter (eg, genetic materials, medical use claims and computer programs). They also introduced changes that materially alter patent prosecution practice in China; most notably, a divisional application based on another divisional filing is no longer possible.

Trademark appeals

Decisions of the Chinese Trademark Office can be reviewed by the Trademark Review and Adjudication Board. A new set of rules came into force in October 2005, making board proceedings more user friendly to foreign brand owners. For example, evidence obtained overseas need no longer be notarized and legalised unless its authenticity is challenged. Moreover, the parties may now ask the board to mediate a dispute.

Domain name disputes

Recovery of '.cn' domain names from cybersquatters has become more difficult since the China Internet Network Information Centre (CNNIC) revised the Domain Name Dispute Resolution Policy (CNDRP) in March 2006. Under the new policy, a domain name registered for

more than two years will no longer be subject to a CNDRP complaint. This means that a trademark owner must challenge such registration through other legal actions (eg, a civil lawsuit). Mere registration for the purpose of selling, renting or otherwise transferring a CNNIC domain name by itself (other than in order to obtain unjustified benefits from the complainant or its competitors) is no longer sufficient proof of bad faith. Furthermore, a registrant is presumed to enjoy a legitimate right if, prior to receiving a complaint:

- it has made good-faith use of the disputed domain name in connection with the offering of goods or services;
- it has made fair or legitimate non-commercial use of the domain name without intent to obtain commercial gain; or
- the disputed domain name has become well known even though the registrant has acquired no relevant trademark.

From a different angle, these changes have levelled the playing field and brought the CNDRP closer to the Internet Corporation for Assigned Names and Numbers Uniform Domain Name Dispute Resolution Policy, which is more familiar to foreign IP owners.

Looking forward

December 2006 marks the fifth anniversary of China's accession to the World Trade Organisation (WTO). Therefore, its compliance with the WTO treaty obligations, particularly the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, will again be subject to close scrutiny. Recent developments indicate that meaningful legal redress is now available to protect IP value in China, and there is also a clear trend that the IP regime is becoming more transparent. The most important developments to watch for in 2007 will be the proposed amendments to the Patent Law and Trademark Law, which were released for public consultation in mid-2006.

Hong Kong

Hong Kong has continued to show leadership in combating IP infringement on both the enforcement and legislative fronts. However, this stellar track record has been marred by an apparent inability and unwillingness to clamp down on abuse of the company names registration system.

Successes in IP enforcement

Online piracy cases have kept the civil and criminal courts

busy. In November 2005 the accused in the world's first prosecution for file sharing using the BitTorrent technology was sentenced to three months' imprisonment. In May 2006 the owner of a company selling pirated Japanese cartoon discs over the Internet was jailed for six months, the heaviest sentence to date for selling pirated copyright goods online. In January 2006 four internet service providers (ISPs) were ordered to disclose the identities of 22 customers who illegally uploaded a large number of Canto pop songs. This is the first time that ISPs have been required to provide personal data to support the civil actions of third-party IP owners. Four months later, more ISPs were ordered to disclose the identities of 49 illegal movie downloaders. These widely publicised cases have effectively curbed illegal uploading and downloading activities in Hong Kong.

Copyright amendment bill

A copyright amendment bill was introduced before the Legislative Council in March 2006. Among other things, it proposes a number of criminal offences, including that:

- directors and partners responsible for internal management be criminally liable for copyright infringement committed by their organisations;
- the scope of business end-user criminal liability be extended to printed works; and
- commercial dealing in circumvention tools or provision of services to circumvent technical measures for protecting a copyright work constitute a crime.

The bill is currently under examination by a bills committee, and major amendments and debates are expected in the coming legislative session.

Chinese '.hk' domain names

Chinese '.hk' domain names are to be introduced in the third quarter of 2006. Certain proprietors, such as trademark owners and holders of '.hk' domain names, will have priority to register the corresponding Chinese '.hk' domain names. The general launch is scheduled for the end of 2006. Brand owners should take advantage of the sunrise period to avoid the cybersquatting of their Chinese names or trademarks.

Squatting of trade names

Trade name squatting has become a serious problem in Hong Kong. The number of companies formed using English or Chinese company names that are identical or confusingly similar to trademarks or business names of well-known companies is increasing at an alarming rate. These companies are often used as legitimate fronts for conducting illicit activities in China, such as the manufacture of counterfeit products bearing the well-known trademarks in question. Despite repeated complaints and lobbying, in most cases the Hong Kong Companies Registry refuses to order a name change based on a narrow yet arguably correct view of its statutory power – that is, to direct a company to change its name only if it is "too like" a name already registered. However, this power cannot be invoked on trademark grounds. In most cases, court actions do not provide sufficient redress because these companies are empty shells with no operations or assets in Hong Kong, and the orders obtained are not binding upon the Companies Registry. Therefore, stakeholders are calling for a review of the existing laws. Formal complaints have also been lodged by a number of foreign governments and chambers of commerce. This will certainly be one of the most closely monitored IP issues in the coming year.

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