providing certainty in the rule of law when China acceded to the World Trade Organization (WTO) on December 11, 2001.

China has undergone fundamental economic reform for more than 20 years, but no earlier reform program had ever brought the catalytic effect to China's economy that WTO accession has already made and will continue to make in future. China's 20-year effort to improve its business environment has built a solid foundation on which to implement China's WTO commitments in the new century. By voluntarily exposing its economic policies, government conduct and domestic legislation to the constant close scrutiny which comes with full international trade participation, China is well down the path to integrate itself fully into the world economy. The reforms are irreversible.

As part of its WTO commitments, China has to bring intellectual property (IP) protection into line with the requirements of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Between 2001 and 2003, China has amended all of its major IP laws and regulations in order to strengthen the enforcement of IP in post-WTO China. China's commitment to providing a transparent and enforceable IP system no doubt will continue to boost the confidence of foreign investors in China.

In today's world economy, China's role has become increasingly fundamental, in clear contrast with the situation twenty years ago. The fact that many multinationals posted losses due to China's SARS outbreak is evidence of this close tie. IP protection in China has consequently become increasingly important to foreign businesses. Ten, or even five, years ago, China IP protection was still a remote, poorly understood and often threatening, issue for American (and most other foreign) companies. Now China IP seems to be inextricably tied up with most business transactions and investments. Increasingly, the concept of state owned IP has become an area of interest as the privatization of China's economy begins. Even companies with no physical presence in China have started to talk about China IP strategy. The number of last minute China IP filings in recent months, from companies that have not yet set up business in China has increased dramatically. The sudden interest is prompted by the rapid growth of the China market and increased peer pressure from competitors in the industry to enter the China market. The SARS outbreak, although unfortunate, has inspired more foreign pharmaceutical companies, health care providers, and biotech funds to invest in China. As a consequence, China will see a tremendous growth in its life science and healthcare industry in the years to come. With increasing numbers of multinationals relocating their production and R&D centers to China, China IP protection and enforcement have become increasingly critical to the success of their global businesses.

§1.02 China's Political and Business Environment Post-WTO

[1] The Concept of Private Ownership and Intellectual Property

China is a socialist country by constitution, unlike most WTO regimes. The private sector started to suffer in 1956, during China's socialist reform. The private sector and the concept of private ownership were completely

obliterated during the Culture Revolution between 1966 and 1976. The modern concept of IP as a form of intangible property was not introduced in China until 1982, when the first modern *Chinese Trademark Law* was enacted. Between 1978 and 1983, China went through experimental phases of privatization. Beginning with 1978 economic reform, individual enterprises (*getihu*) were gradually adopted by the government and the Chinese people. By the time China passed its pioneering 1985 *Patent Law*, larger private enterprises were emerging. But the concept of private ownership was not widely accepted in China until 1992, when Mr. Deng Xiao Ping made his historical southern tour to Shenzhen, (a city nominated as a special economic zone due to its proximity to Hong Kong), calling for the transformation of China into a market economy-based regime. That year, the *Chinese Patent Law* underwent its first amendment, and laws on copyright and computer software were introduced around the same time. At a time when tangible private property was not adequately recognized and protected, the protection and enforcement of intangible property was correspondingly lacking. In fact, over the past ten years, China was still laying foundations by promoting awareness of IP, while preparing for a more extensive and sophisticated registration and enforcement system.

During the Communist Party's 16th Congress held in Beijing in November 2002, President Jiang Zemin's keynote speech called for a breakthrough in China's reform, namely, to protect private ownership and to treat private firms and state owned enterprises (SOE) equally. Jiang's speech was made almost at the one-year anniversary of China's WTO accession, symbolizing the start of a new era in China's private tangible and intangible property protection.

[2] China's Legal System

Unlike the U.S. and other common law countries, China is a civil law regime. The National People's Congress (NPC) and its Standing Committee are responsible for enacting laws and supervising other government branches. The President is the symbolic leader of the country and responsible for promulgating laws adopted by the NPC. The State Council (also called the Central People's Government) is the highest executive branch that implements the laws adopted by the NPC and issues various administrative regulations and rules. The Supreme People's Court is the highest judicial organ that supervises the work of lower courts and interprets laws and regulations. As case law in China plays a less important role, judicial interpretations codifying judicial experience, compensating for the insufficiency and lack of detail in formal legislation has become vital in preserving national uniformity in implementation of laws. The Supreme People's Procuratorate monitors compliance with laws by other government branches under the NPC. It is an internal organ of checks and balances, and its national and local offices are also responsible for lodging criminal prosecutions.

The court system in China comprises the Supreme People's Court and provincial courts. Provincial courts include provincial or metropolitan high courts, intermediate courts and basic courts. In addition to the regular courts,

[1] IP Cases Adjudicated from 1997 to 2002

Between 1997 and the first half of 2002, about 7846 patent actions were started. After June 2001, the IP tribunals were merged into civil tribunals, so the IP cases before the courts no longer had "ZHI" (IP) prefixes on the case numbers. Statistics for IP cases after 2001 have consequently become more difficult to obtain and may be inaccurate, since IP cases are numbered in the same way as regular civil cases. In 2002, the total patent cases adjudicated were 2080, an increase of 30.24% over 2001. The total adjudicated trademark cases in 2002 were 707, an increase of 46.68% compared to 2001. The total number of copyright cases increased by 60% from 2001 to 2002.[5] Relatively few foreign companies were actually litigating in China, due to lack of corporate budgets compounded by the lack of confidence in China's judicial system.

[2] Patent Administrative Enforcement Cases

The State Intellectual Property Office (SIPO) and its local offices are responsible independently or jointly with other agencies for patent administrative enforcement. Local patent bureaux frequently join forces with the local Agency of Industry and Commerce (AICs), Public Security Bureaux (PSB), local copyright administrations, customs and Technical Supervision Bureaux (TSBs) to conduct administrative actions. In 2002 alone, there were 1,442 accepted administrative patent disputes of which 1,291 were adjudicated. Out of 1,442 accepted patent disputes, 1,390 concerned patent infringement, 29 covered patent ownership issues and 23 disputes covered other issues. There were 104 disputes regarding inventions, 622 disputes regarding utility models, and 716 disputes regarding design patents. Adjudications were issued in 1,291 cases, resolution by judgment finalised 262 cases, settlement 711, withdrawal 239, judicial orders 28, and rejection 51 cases. From 1985 to 2002, the above patent administrative offices accepted about 9095 patent disputes and completed 7959 cases. In 2002 alone, 177 patent passing-off cases were prosecuted and 1,679 cases of misrepresenting patent were prosecuted.[6]

[3] Patent Re-examination and Invalidation Cases

The revised *Chinese Patent Law* made judicial review available on administrative decisions rendered by the SIPO. In 2002 alone, 961 review requests were made which is a more than 56% increase over 2001. Out of this total 803 cases were regarding inventions. Patent validity requests also increased by 33% compared to 2001. In 2002, 1753 cases were accepted, of which 130 cases were regarding inventions, 756 cases were regarding utility models and 8,866 cases concerned design patents. Since 1985, more than 450 patent administrative cases have been filed with the Beijing No. 1 Intermediate People's Court and the Beijing Higher People's Court. In 2002, 240 cases were appealed to the Beijing No. 1 Intermediate People's Court. There were 230 patent administrative cases filed with Beijing No. 1

[5] *See* March 3, 2003 online interview of Honorable Justice Jiang of Supreme People's Court at http://www.civillaw.com.cn/elisor.

[6] *See* SIPO 2002 Report.

Intermediate People's Court and appealed to Beijing Higher People's Court of which 15 cases were challenges of official patent review decisions regarding inventions, 25 cases were challenging invalidity decisions regarding inventions, one case was challenging the review decision of a utility model rejection, 116 cases were challenging invalidity decisions on utility models, 70 cases were challenging design invalidity decisions, and 3 cases were for other unsatisfactory notifications.[7]

[4] Trademark Administrative Actions

In 2002, 39,105 trademark disputes were handled by trademark administrative authorities, of which 23,539 involved trademark infringement and passing off, and 15,566 involved other areas. About 14,882 moulds, printing plates and other infringing tools were confiscated, and about 4,183.64 tons of infringing products were destroyed. The total administrative fines amounted to RMB214 million (about 27 million US dollars). About 78 persons in 59 cases were transferred for criminal prosecution.[8]

[5] Copyright Administrative Actions

In 2001, Chinese copyright administrative authorities confiscated 61.75 million pirated products, including 12.23 million books, 36.92 million video recordings, 5.82 million digital publications, 4.12 million software discs and 2.64 million other pirated products. 4,416 cases were accepted and 4,306 cases were concluded, of which 3,607 were by adjudication, 663 were settled and 66 were transferred for criminal adjudication.

Most of these cases involved domestic parties, as foreign parties were not allowed to enforce at local level until mid-2001.

§1.06 Challenges Facing Foreign IP Holders

Since China joined the WTO in December 2001, foreign expectations of China's IP enforcement have been higher than ever. The trend for increasing numbers of multinationals to relocate their manufacture and R&D centres to China, drives the call for more effective IP enforcement through civil litigation. Foreign companies still face enormous challenges if they want to enforce their IP rights through civil litigation, although the court system has been evolving toward a much better and friendlier attitude to foreign IP holders in recent years.

[1] Low Damages Awards

Chinese courts normally render very low damages awards. If the damages cannot be proved, judges have discretion to award statutory damages in an amount of not exceeding USD60,000. Lack of proof from the IP holders on the amount of damages suffered is normally held against them. When calculating statutory damages. IP holders will therefore rarely receive the

[7] *See* SIPO 2002 Report.

[8] *See* http://www.chinaiprlaw.com/yycj/yycj66.htm.

upon. Foreign companies, especially FIEs, should be aware of the regional acceptance offices in order to save the inconvenience of last minute filings in Beijing. There are 14 acceptance offices nationwide located in Shanghai, Guangzhou, Tianjin and 11 other capital cities including Xi'an, Changsha, Nanjing, Jinan, Shenyang, Chengdu, Wuhan, Zhengzhou, Shijiazhuang, Harbin and Changchun.

§2.03 Patent Eligible Subject Matter

Processes, products and improvements thereof are patent eligible subject matter.[11] As discussed below, China has a number of nonstatutory categories which are unpatentable *per se*. Unlike in the U.S., virtually "anything under the sun that is made by man" is patent eligible.[12] These Chinese provisions may not be consistent with the TRIPS requirements. Article 27(1) of the TRIPS Agreement provides that patent protection should be available for inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Article 27(2) of the TRIPS Agreement permits member states to exclude some categories to protect public order or morality, including protection of human, animal or plant life or health or to avoid serious prejudice to the environment. Conversely the TRIPS Agreement does not prevent certain subject matter from being patent eligible, such as "rules or methods for mental activities", "abstract ideas", "algorithms *per se*" or "computer programs *per se*." Since patent eligibility is simply a threshold question, it is not necessary for WTO members such as China to establish a higher threshold, which may deprive certain technologies of the opportunity to be substantively examined and ultimately protected.

§2.04 Nonstatutory Categories

Scientific discoveries, rules and methods for mental activities, methods for the diagnosis or treatment of diseases, animal and plant varieties *per se*, and substances obtained by means of nuclear transformation are, by law unpatentable subject matter.[13] In addition, any inventions that are against Chinese laws, contrary to social morality, or detrimental to public interests are not patent eligible.[14]

Foreign businesses should note that business methods, computer software related inventions and chemical substances are not *per se* excluded categories. Animal and plant varieties are protected through separate *sui generis* variety rights regulations. Under the MPEG, DNA Extracts, genes and proteins are regarded as chemical substances, and thus patent eligible. In addition, processes for the production of animals and plants, and microorganisms are patent eligible in China. But biotechnology related inventions that are contrary to social morality, or detrimental to the public

11 *See* Article 2 of *Patent Implementing Rules*.
12 *See Diamond v. Chakrabarty*, 447 U.S. 303, 308-309 (1980). U.S. Courts have found that abstract ideas, laws of nature and natural phenomena are not patent eligible. *See Diamond v. Diehr*, 450 U.S. 175, 185 (1981).
13 *See* Article 25 of the *Chinese Patent Law*.
14 *See* Article 5 of the *Chinese Patent Law*.

interest, such as methods of cloning human beings, human beings so cloned, methods of modifying the human biological production system, and industrial or commercial application of human embryos, are not patent eligible.[15]

After the SARS outbreak in spring 2003, the SIPO issued a *Notice* on May 15, 2003 (the *May Notice*), encouraging Chinese individuals and companies to apply for SARS related inventions. According to the *Patent Law*, methods for the diagnosis or treatment of diseases are not patent eligible *per se*. The *May Notice* clarified that drugs, equipment, mechanisms, or tools that are used to prevent, diagnose, or treat SARS are patent eligible subject matter. The *May Notice* also provided an expedited process for approving SARS related patent applications. Application funds were also provided for government sponsored SARS research projects. Specific selected patent agents are available to serve domestic applicants at a minimum charge. Foreign companies may take advantage of the expertise of these agents when a SARS related application is at issue. On the SIPO's web site (http://www.sipo.gov.cn), the public may search SARS related prior art databases free of charge. The search must however be conducted in Chinese.

§2.05 Invention, Utility Models and Industrial Designs

Patents are classified into inventions, utility models and designs.[16] The patent term for an invention is twenty years from the filing date and the term for utility models and designs is ten years from the filing date.[17] Foreign companies are clearly most interested in filing invention patents in China, as these have a longer term and can be translated from or into foreign counterpart applications filed outside China through international treaties. For the past few years or so, foreign applicants have been filing more invention applications in China than Chinese applicants. By contrast, there were only 448, 997 and 1,273 utility model patent applications filed in 2001, 2002 and 2003 respectively by foreign applicants, compared to 79,275, 92,162 and 107,842 filed in 2001, 2002 and 2003 respectively by Chinese applicants.[18] Very few foreign companies are currently enforcing their invention patents in China. Instead, foreign companies generally choose to enforce their design patents and utility model patents in China. As a matter of strategy, both utility model and design patent filings should be employed more frequently by foreign businesses since they are easier and cheaper to obtain and to enforce.

§2.06 Conditions for Granting a Patent

The granting of a patent requires novelty, inventiveness and practical applicability.[19] Quasi-enablement and best mode requirements elaborated under 35 *U.S.C.* §112 are also required for a properly drafted patent application. Whether concealment of the best mode would invalidate an issued patent or render that patent unenforceable is still uncertain, as

15 *See* MPEG Article 7.
16 *See* Article 2 of the *Chinese Patent Law*.
17 *See* Article 42 of the *Chinese Patent Law*.
18 *See* SIPO's statistics published on its web site http://www.sipo.gov.cn.
19 *See* Articles 22 and 23 of the *Chinese Patent Law*.

[9] Calculation of Illegal Profits from Passing-off Patents

When the patent administrative authorities determine that passing-off of others' patents has been established, they should determine the infringers' illegal gain in accordance with the following methodologies:[104]

1) for sales of products that pass off others' patents the sales price of the products should be multiplied by the number of products sold as being the illegal gain; or

2) for a contract that relates to passing-off others' patents by calculating the fees collected as being the illegal gain.

The infringer may appeal a punishment decision regarding passing-off patents. The appeal does not stay enforcement of the decision. The infringer by passing-off shall pay the administrative fine within 15 days after receiving the punishment decision. A daily 3% penalty will be imposed based on the total administrative fine if overdue.[105]

[10] Proper Patent Marking

On May 30, 2003, the SIPO issued *Provisions on Patent Marking*. The *Provisions* were implemented on July 1, 2003. According to the *Provisions*, within the validity of patent rights, patentee or authorized licensee may mark their patented products or products directly made from patented methods with patent numbers and patent symbols. When marking with patent numbers and patent symbols, the following requirements should be met:

1) Chinese language marking with the type of patent rights such as Chinese invention patent, Chinese utility patent, or Chinese design patent; and

2) for patents issued by the SIPO, ZL refers to patent, the first two digits refer to the year of the patent application, the third digit refers to the type of patent, the fourth digit, and digits thereafter refer to the numbers and computerized identification code.

Other than that, the patentee or licensee may add other language and designs, but the additional language and designs and other marking methods should not mislead the public. Improper marking of patent numbers and symbols constitutes passing-off of patents, and the patent administration authorities may impose administrative penalties.

[11] Evidence in Administrative Adjudication

The patent administrative authorities may collect evidence during the adjudication. They may also preserve evidence if it is likely that the evidence

[104] *See id.*, Article 37.
[105] *See id.*, Articles 39 and 40.

may be destroyed or prove difficult to obtain. The patent administrative authorities may also request other government agencies to assist in collecting evidence.[106]

[12] Legal Liabilities under Administrative Adjudication

Once the patent administrative authorities determine that there is an infringement, they should render the adjudication decision and order the infringer to cease infringement immediately, and adopt the following measures to stop the infringing activities:[107]

1) If the infringers manufacture patented products, they should be ordered to cease manufacturing activities and destroy the specialised equipment and the moulds that are used to make the infringements. They should not be allowed to sell or use the infringing stocks. If the infringing products are perishable, the infringers should be ordered to destroy them.

2) If the infringers use patented methods, they should be ordered to cease the infringing activities immediately and destroy the specialised equipment and the moulds for implementing patented methods. They should not be allowed to sell or use products that are directly made using the patented methods. If the infringing products are perishable, the infringers should be ordered to destroy them.

3) If the infringers sell patented products or products that are made directly using patented methods, they should be ordered to cease distribution of the products. They should not be allowed to use and sell infringing inventory or market these products. If the infringing products are perishable, the infringers should be ordered to destroy them.

4) If the infringers offer to sell patented products or products directly made using patented methods, they should be ordered to immediately cease to offer the products for sale and eliminate the adverse impact, and the infringers should not be allowed to conduct any further sales activities.

5) Alternatively, if the infringers import patented products or products directly made from patented methods, they should be ordered to cease importation immediately. If the infringing products are already imported, sales, use or marketing by any other means should be allowed. If the infringing products are perishable, the infringers should be ordered to destroy the products. If the infringing products are not yet imported, the patent administrative authorities should notify the Customs authorities of their decision so that they may adopt necessary measures to stop importation.

[106] *See id.*, Article 32.
[107] *See id.*, Article 33.

§3.09 Duration of Copyright Protection

There is no time limitation on the right of attribution, right of alternation and right of integrity.[123] However, right of publication and other property rights do have a finite duration. Generally, the term for rights of publication and property rights is the life of the author (or most recently deceased author) plus fifty years. Under the following circumstances, the term for rights of publication and property rights is fifty years from the date of first publication:

- when the author of the work is a corporation or other entity;
- when the work is a photographic work, cinematographic, television and audio-visual work; or
- when the radio or television program has been broadcast.

If the above works are not published within 50 years from their creation, copyright protection for the right of publication and the property rights will lapse.[124]

§3.10 Ownership of Copyright

Unless otherwise stipulated by the *Chinese Copyright Law*, copyright in a work vests in the author or authors. An author may be a citizen, or an entity. The individual, legal person or other entity whose name is attached to a work is presumed to be the author. This presumption can be overcome by adequate proof to the contrary.[125]

[1] Compilation Works

A compilation of existing works, or portions of existing works, or existing non-copyrightable data or other materials, the selection or arrangement of which embodies originality, is called a compilation work. The copyright of the compilation work vests in the compiler. But when exercising the copyright, the compiler may not infringe the copyright of the underlying works being compiled.[126]

[2] Derivative Works

The copyright of a derivative work vests in a modifier, translator, annotator, or arranger. When exercising copyright, the author of a derivative work shall not infringe the copyright of the original work.[127]

[3] Commissioned Works

The commissioner and commissionee may stipulate the ownership of a commissioned work by contract. If a contract does not specify who owns the copyright, or if there is no contract between the parties, the copyright vests in the commissionee.[128]

[123] Article 20 of the *Copyright Law*.
[124] Article 21 of the *Copyright Law*.
[125] Article 11 of the *Copyright Law*.
[126] Article 14 of the *Copyright Law*.
[127] Article 12 of the *Copyright Law*.
[128] Article 17 of the *Copyright Law*.

[4] Collective Works

The copyright of a collective work vests in the co-authors. A person or entity who does not contribute to a collective work cannot become an author. If a collective work can be partitioned, co-authors may be vested copyright in each of their respective contributions. When exercising copyright, a co-author may not infringe the copyright in the collective work as a whole.[129]

[5] Motion Pictures and Other Similarly Produced Audio-visual works

The copyright in a motion picture or other similarly produced audio-visual work vests in the producer. But the screenwriter, director, photographer, lyric writer, musical composer and other creative personnel enjoy the right of authorship. These authors have the right to be compensated in accordance with the contracts signed with the producer. The authors of the script and music of a motion picture or other similarly produced audio-visual work, can independently exercise their respective copyright, as these works can be separately used.[130]

[6] Works of Fine Art

Transfer of the original copy of a work of fine art does not constitute a transfer of copyright ownership, but the holder of the original copy has the right to publicly display the original copy.[131]

§3.11 Works Made for Hire

In general, a work completed by an employee during the course of his or her employment is treated as a work made for hire. Subject to the exceptions mentioned below, the employee who authored the work enjoys rights in the copyright, but the employer has the priority to use the work made for hire. Within two years of the completion of the work, the author may not license a third party to exploit the work in the same way as it is used by the employer, without the employer's authorization.[132]

There are two exceptions to this general rule under which the author only enjoys rights of authorship while other property and moral rights are vested in the employer[133]:

- the work made for hire was created by primarily using the employer's materials and technology, and the employer bears the liability for the work. This covers works such as engineering designs, product designs, maps, software and other materials; or
- laws and administrative regulations or the contract stipulates that copyright vests in the employer.

[129] Article 13 of the *Copyright Law*.
[130] Article 15 of the *Copyright Law*.
[131] Article 18 of the *Copyright Law*.
[132] Article 16 of the *Copyright Law*.
[133] Article 16 of the *Copyright Law*.

[7] Criminal Liability

The revised *Copyright Law* strengthened copyright enforcement through civil and administrative measures. The law does not address criminal enforcement, as Chinese law provides that such provisions must be set out in China's *Criminal Code*.

The revised *Copyright Law* expanded copyright infringement to several new categories, such as:

- unauthorized rental of motion pictures, audio-visual works, computer software, and sound recordings;
- unauthorized use of layout designs of published books and journals;
- unauthorized public dissemination of live performances or recordings of such performances;
- unauthorized dissemination of copyright works via information networks;
- wilful circumvention or sabotage of technical measures adopted by authors or owners of neighbouring rights in connection with the exercise of their rights; and
- the deliberate removal or alteration of electronic ownership management information contained in works for the protection of the said work.

As mentioned, under the current copyright system, criminal liability cannot be imposed against these activities. Future corresponding crimes may however be added through judicial interpretation or new legislation. The criminal penalties detailed in Articles 217 and 218 of the *Criminal Code* adopted in 1997 have not yet been revised to reflect these new categories of copyright infringement. The Supreme People's Procuratorate and the Ministry of Public Security jointly issued a guideline on economic crimes on April 17, 2001. However, the guideline only referred to IP crimes related to patents, trademarks and unfair competition. No further clarification was made for copyright crimes.

Under Article 217 of the *Criminal Code*, the following activities may be punished by up to three years imprisonment, and/or criminal fines:

- reproduction and distribution without authorization of literary works, musical works, motion pictures, television or visual recording works, computer software and other works;
- publication without authorization of books in which others have exclusive publication rights;
- reproduction and distribution of sound recording works without the producer's authorization; or
- production and sale of unauthorised fine art reproductions.

If the illegal gains are enormous, or the circumstances are very serious, then no less than three years and up to seven years imprisonment, and/or criminal

fines can be imposed. It is unclear from the wording of the law what constitutes "enormous" or "serious". By reviewing judicial interpretations issued in 2001 that are applicable to other IP crimes, it may be deduced that illegal gains made by an individual of more than RMB100,000 (about USD12,000), or by a corporation or legal entity of more than RMB500,000 (about USD60,000), are considered to be "enormous." Therefore, by analogy, copyright owners may expect similar awards for copyright crimes.

Article 217 provides for distributor's criminal liability on the wilful sales of infringing copies identified in Article 216. Distributors could be punished by up to three years imprisonment, and/or criminal fines.

§3.18 Private Collective Copyright Administration

In China, private Collective Copyright Administration bodies are still rare, although they are expressly permitted under the newly added Article 8 of the *Copyright Law*. Under Article 8, copyright owners and holders may authorize a collective body to exercise their copyrights. Upon authorization, the collective body may act on behalf of the owners or holder to claim rights, litigate or arbitrate. The Collective Copyright Administration must be non profit-making, and its formation, rights, obligations, collection and distribution of copyright license fees, supervision and management are regulated by the State Council.

Until 2000, there was only one organization, the Music Copyright Society of China (MCSC) established on December 17, 1992, that was allowed to act on behalf of its collective members. The MCSC represents Chinese singers, composers, music adaptors, heirs, music publishers and recording companies of Chinese nationality. It currently has more than 2500 members. Since then, a few other collective bodies have also been established. It is unclear whether foreign copyright owners/holders can form such collective bodies in China, or even join existing collective bodies in China. Collective bodies' effectiveness in protecting the interests of foreign copyright owners has therefore yet to be tested.

§3.19 Import of Printed Publications

The *Regulations on Administration of Publications* implemented on February 1, 2002 provide that the so-called printed publication import business units have exclusive import rights for printed publications. Printed publication import business units are state owned companies formed in accordance with the *Regulations*. These companies are given rights to import and distribute foreign printed publications in China. Before importation, the catalogue of foreign printed publications must be recorded with the publishing administrative authorities at the provincial level. Foreign copyright owners and holders should verify that the importer holds a Chinese importer's business license and a printed publication import business license approved by the Press and Print Administration in Beijing (the so called Publication Administrative Authority of the State Council) at an early stage of any business negotiations. Without special authorization, ordinary companies or individuals in China are not allowed to conduct business of this nature.

prior registered mark, and whether the designated goods and services are identical or similar to the goods and services designated by the prior registered mark, under Articles 17 and 18 of the *Trademark Law*.

If an application passes examination, it will be published for opposition. An opposition may be filed within three months less one day after the date of publication.[164] Oppositions are most commonly based on the grounds that the mark is identical or similar to either another registered mark covering identical or similar goods, or a mark that is well known in China.

If no opposition is made within the specified period, the mark is officially registered and then published again in the Trademark Gazette as a registered mark.[165] It usually takes three months from the date of publication of registration before the registrant receives the Registration Certificate.

§4.10 Post-Grant Proceedings

Within 5 years after registration of a mark, any party can file a petition with the TRAB to invalidate the registered mark on substantially the same grounds as for oppositions, but not where the same arguments have previously failed in an opposition for the same mark.[166] If the petitioner is a well-known mark registrant in China, the five-year statue of limitations can be extended if the registrant acted in bad faith when registering the well-known mark in China.

At any time after grant, any party may file a petition with the TRAB to cancel the registered mark on the grounds that the mark owner has violated certain trademark regulations after registration.[167] Such violations may include any of the following: 1) failure to use the mark for three consecutive years; 2) alteration of, or addition to, the mark; 3) making an unrecorded assignment of the mark; or 4) the trademark infringes on another party's copyright, design patent, well-known trademark, or other prior rights, and the infringement has been confirmed by a final judgment. Cancellation on the grounds of non-use or improper use is not limited to the five-year statute of limitations. The Trademark Office may also initiate a cancellation proceeding *ex officio* upon detection of non-use or improper use during administrative enforcement action.

Under the old law, any party could file a petition with the TRAB to revoke a registered mark within one year of grant.[168] The revised *Trademark Law* repealed this category of revocation proceeding.

§4.11 Appeal

If the Trademark Office renders an unfavourable decision in an application, opposition, invalidation, or cancellation action, an appeal can be filed with

[164] *See* Article 30.
[165] *Id.*, Article 30.
[166] *See* Article 41 of the *2001 Trademark Law*.
[167] *See* Article 44 of the *2001 Trademark Law*.
[168] *See* Article 27 of the old *Trademark Law*.

the TRAB within 15 days of the initial decision.[169] If the interested party is dissatisfied with the appeal decision of the TRAB, it may, within thirty days from receipt of the decision, file a lawsuit with the Beijing Intermediate People's Court. After December 1, 2001, judicial review has been made available on the following four TRAB adjudications:

1) Adjudications rejecting a trademark application under Article 32 of the *Trademark Law*;
2) Adjudications on an opposition under Article 33;
3) Adjudications on an invalidation claim under Article 43; and
4) Adjudications on a cancellation claim under Article 49.

According to a notice issued by the Supreme People's Court on May 21, 2002, if an administrative lawsuit involves substantive trademark issues, the IP tribunal of the Beijing Intermediate People's Court should accept the case; if however, an administrative lawsuit does not involve substantive trademark issues, the administrative tribunal of the Court should accept and adjudicate the case.[170]

§4.12 Use of Registered Trademarks

Use of a trademark by the registrant and/or his registered licensee is mandatory in China. Three years of consecutive non-use of a registered mark will make it subject to cancellation.[171] The owner of a registered trademark may use the words "registered mark" or their Chinese language equivalent or the "R" symbol with a circle. Evidence such as invoices, advertisements, sales records, or Customs declarations bearing the registered mark may be used to establish use of the mark. Use by a registered licensee and in restricted circumstances use of the registered mark in advertisements or exhibitions in China, may also satisfy the use requirement.

The registrant or his registered licensee must not alter the registered mark, change the name, address of the registrant or other registered details, or assign the registered mark without the approval of the Trademark Office.[172]

Foreign companies should take use requirements into consideration when formulating their PRC trademark strategy.

[169] *See* Articles 32 and 33 of the *2001 Trademark Law*.
[170] *See* Reply Regarding Allocation of Patent and Trademark Cases after Patent Law and Trademark Law Were Amended, No. Fa (2002) 117, issued by the Supreme People's Court on May 21, 2002.
[171] *See* Article 44 of the *2001 Trademark Law*.
[172] *See* Article 44 of the *2001 Trademark Law*.

1) Using another party's identical or similar mark as a product name or trade dress on identical or similar products, so as to mislead the public;
2) Intentionally providing storage, transportation, delivery, or concealment for trademark infringing acts.

Article 3 of the revised *Implementing Rules* further defined "use" as putting a mark on products, packaging, or containers, or putting the mark on product transaction papers, or using the mark in advertisements, exhibitions, or other commercial activities. Despite the clarification, it is still difficult to ascertain the exact boundaries of trademark infringement under *Chinese Law*.[183]

[2] Determination of Infringement

In practice, the following three steps are relevant in determining whether a particular use of a trademark is an infringing act prohibited under the new *Trademark Law*:

a. Determining the scope of registered trademark rights - registered trademark rights are limited to the registered mark and the registered goods or services.

b. Considering the infringing matter whether it is an accused mark or an accused product.

c. Comparing the registered mark and the goods and services designated by the registered mark with the accused matter and determining whether the comparison is identical or similar, including considering whether the accused mark is identical or similar to the registered mark or the accused goods or services are identical or similar to the designated goods or services covered by the registered mark.

After the above three steps, the result of the comparison could be one of the following eight situations:

a. The accused mark is identical with the registered mark, and the goods or services for which the accused mark is used are identical with the goods or services designated by the registered mark.

b. The accused mark is identical with the registered mark, and the goods or services for which the accused mark is used are similar to the goods or services designated by the registered mark.

c. The accused mark is similar to the registered mark, and the goods or services for which the accused mark is used are identical with the goods or services designated by the registered mark.

[183] For instance, it is unclear whether referring to a registered trademark in a confidential manufacture or production agreement would constitute "use".

d. The accused mark is similar to the registered mark, and the goods or services for which the accused mark is used are similar to the goods or services designated by the registered mark.

e. The accused mark is identical with the registered mark, and the goods or services for which the accused mark is used are different from the goods or services designated by the registered mark.

f. The accused mark is similar to the registered mark, and the goods or services for which the accused mark is used are different from the goods or services designated by the registered mark.

g. The accused mark is not identical or similar to the registered mark, and the goods or services for which the accused mark is used are identical with the goods or services designated by the registered mark.

h. The accused mark is not identical or similar to the registered mark, and the goods or services for which the accused mark is used are similar to the goods or services designated by the registered mark.

Under the new *Trademark Law*, the first four situations (a through d) constitute infringement but not the last four situations (e through h) do not. It should be noted that trademark jurisprudence is not well developed in China because most infringement cases are handled by the Administrative Authorities who are not required to provide a well-grounded reasoning for their decisions. Although the *Polariod* factors[184] or other similarly developed tests that are widely accepted in the U.S. courts have not been officially or systematically recognized by the Chinese Trademark Office or Chinese Courts when determining the issue of likelihood of confusion, individual factors such as the degree of similarity of the appearance, sound and meaning of the marks are considered in practice.

[3] Defenses

There are no specific statutory defenses to a civil trademark lawsuit under the revised *Trademark Law*. Defendants may nevertheless assert the following defenses:

- The mark at issue is invalid based on statutory invalidation grounds (Defendants must initiate an invalidation proceeding at the TRAB);[185]

[184] Such as the strength of the plaintiff's mark, degree of similarity in the marks (appearance, sound and meaning), proximity of goods, likelihood of bridging the gap, defendant's intent, evidence of actual confusion, purchaser sophistication and the quality of the defendant's goods or services.

[185] *See* Article 41 of the *2001 Trademark Law*.

Foreign companies are recommended to have each and every employee sign an employment agreement containing a non-disclosure clause. Senior employees should have non-compete clauses in their employment agreements. When drafting these agreements, FIEs are strongly recommended to review all applicable regulations and rules, both national and local. Normally FIEs overlook the provision of compensation fees when negotiating and executing non-compete restrictive covenants. The amounts and payment of compensation fees are mandatory in China. Failure to pay or undue delay in paying the minimum statutory compensation fees will result in the automatic termination of the non-compete agreement. Some cities in China may require an employer to pay a confidentiality fee in exchange for an employee signing a confidentiality agreement. Again, failure to pay or undue delay in paying the confidentiality fee may result in the automatic termination of the confidentiality agreement.

Chinese companies and FIEs in China are increasingly cautious about hiring high-level employees, as a breach of a pre-existing confidentiality agreement or non-compete agreement may expose the hiring company or FIE to a trade secret infringement lawsuit. Therefore, the mere existence of such an agreement may place an employer in a better position when negotiating a settlement with an ex-employee or the new employer of an ex-employee.

§5.06 Confidentiality Agreement

According to the *1997 Opinions* issued by the Ministry of Science, companies may enter technology confidentiality agreements with their engineers, administrative personnel and any other employees who have access to the trade secrets. The confidentiality agreement could be independent or combined with the employment agreement. The company may refuse to hire a person who refuses to sign the confidentiality agreement. But the confidentiality agreement should not unlawfully restrict the normal job switch of the employee. A confidentiality agreement is effective upon signing by the parties and may be arbitrated or litigated on its breach. Employees have the right to be compensated for their development of trade secrets and undertaking confidentiality obligations. When an employee leaves a company, the company may reiterate the obligations of confidentiality orally or in writing.

In most common law jurisdictions, preserving confidentiality of trade secrets held by an employee is one of the assumed duties of the employee. In China, however, employment in itself is not sufficient to give rise to an obligation to preserve confidentiality, thus, the employer must pay confidentiality fees. But unlike compensation fees mandated for non-compete clauses, there is no minimum level for confidentiality fees. FIEs thus are recommended to carefully draft the employment agreement to reflect that salary paid to an employee also constitutes confidentiality preservation fees so as, to avoid future disputes on confidentiality obligations.

§5.07 Non-Compete Clause

Companies may incorporate non-compete clauses in a confidentiality agreement or employment agreement, prohibiting certain employees from participation in a business that competes with the company after his or her departure. The maximum term of a non-compete clause is 3 years. The company must pay compensation fees to the employee. A non-compete clause must include the following terms:

- The specific scope of the non-compete restriction.
- The duration of the non-compete restriction.
- The amount of the compensation fees and the method of payment.
- Liabilities on breach.

The non-compete clause is automatically terminated if one of the following circumstances occurs:

- the relevant trade secret has been disclosed to the public;
- the trade secret at issue cannot bring an economic interest or competitive advantage to the company;
- the trade secret at issue does not have any practical application;
- the employee has sufficient evidence to prove that the company has failed to implement a relevant government policy, with the result that the engineer or the scientific staff required to preserve confidentiality is treated unfairly; or
- the company violates the non-compete clause and fails to pay or allows undue delay in paying the compensation fees.

Although it is unclear exactly what constitutes competition with the employer, FIEs are encouraged to specify in the non-compete clause the exact manner in which an employee is prohibited from competing. For instance, the employee may be prohibited from actively soliciting business from the employer's customers, dealing with the employer's customers even though they approach the employee first, start a business that directly competes with the company, or joining a company that directly competes with the employer. A non-compete clause must also specify the technology and interests to be protected. Although the Opinions do not require the geographic area to be restricted, FIEs are advised to specify a reasonable territory applicable to the non-compete clause. Identification of the whole of China as a geographic area may be too broad, and may not work to the FIE's advantage. A FIE may limit the geographic scope to the areas where it has business activities or plans immediate business in the future, or where its competitors are located. It might be practical to identify geographical areas city by city or province by province.

China requires employers to pay compensation fees during the non-compete period after the obligated employee's departure. As non-compete clauses are often applicable to senior employees, the mandated compensation fees of not less than 50% of the employee's annual compensation received on his or her last year prior to the departure many in China present a big financial burden to a FIE. But FIEs cannot negotiate to bypass the mandatory fees, if Chinese

[3] Protectable Subject Matter

The protection available under the *Layout Design Regulations* is limited to layout designs of semiconductor integrated circuits, the three-dimensional disposition of the elements, at least one of which is an active element, and two or more of the interconnections of an integrated circuit.

In order to be protected a layout design must satisfy one of the following conditions:

1) it must be an original creation, not a conventional design in the field of integrated circuit technology; or
2) it may be a mask work constituted by conventional designs in the field of integrated circuit technology, however, the constitution itself must be an original creation, not a conventional design.[220]

The idea, process, operating method or mathematic algorithm of the integrated circuit is not protected.

[4] Exclusive Rights

Exclusive rights in layout designs are protected only upon registration with the SIPO. Layout designs that have not been registered are not protected. Upon registration, the registrant enjoys the following exclusive rights:

- to reproduce the whole design or any original part of the protected design;
- to import, sell, or otherwise distribute the protected layout design or an integrated circuit incorporating the layout design or article incorporating an integrated circuit for commercial purposes; and
- to assign, license or chattel mortgage the protected layout design.[221]

[5] Term

The term of protection for exclusive rights in layout designs is 10 years calculated from the date of registration, or from the date of the first commercial use of the design anywhere in the world (whichever is earlier). There is no provision for renewal. Once registered, or commercially used, within 15 years of its creation, a layout design can no longer be protected by the regulations.[222]

[6] Who May File

A Chinese entity, individual or other organisation that creates a layout design may file an application to register it.

Since October 1, 2001, the creator of a layout design of foreign origin who first commercially exploited the layout-design in China may file in China. If

[220] *See* Article 4 of the *Layout Design Regulations*.
[221] *See* Article 7 of the *Layout Design Regulations*.
[222] *See* Article 12 of the *Layout Design Regulations*.

a foreign originated layout design was not first commercially exploited in China, the application for registration could only be filed after December 11, 2001, when China acceded to the WTO. Foreign companies that have no residence in China must designate a China authorized patent agency to file an application for registration.

Applications from Hong Kong, Macau or Taiwan are treated as domestic applications, and could be filed from October 1, 2001 onwards.

[7] Creators of Layout Designs

The creator of a layout design may be a natural person, legal person or any other organisation.

Where a layout design is created at the request of a legal entity or any other organisation and for which the legal entity or other organisation is responsible, the legal entity or the organisation itself is deemed to be the creator. Where a natural person creates a layout-design, the natural person is the creator.[223]

Where two or more natural persons, legal entities or other organisations have jointly created a layout-design, the exclusive rights therein are owned according to what is agreed upon by the joint creators; where no agreement is reached or the agreement is not clear, the exclusive rights are shared by the joint creators.[224]

The ownership of a commissioned layout design is determined in accordance with the agreement between the commissioner and commissionee. If there is no such agreement or the agreement is unclear, the commissionee is deemed to have the exclusive rights in the layout design.[225]

[8] Registration

The SIPO is responsible for layout design registration. The registration procedure includes four phases: application, formality examination, publication and grant. No substantive examination is carried out. On October 1, 2001, the first registration application for a layout design of integrated circuit was received by SIPO. It was application number 01500001.X, a layout design of a FM10088KCPU CLIP Circuit filed by Shanghai Fudan Micro-electronic Corporation Ltd.[226]

To apply for a layout design, an applicant must submit:[227]

- An application form;
- A copy or a drawing of the layout design;

[223] *See* Article 9 of the *Layout Designs Regulations*.
[224] *See* Article 10 of the *Layout Designs Regulations*.
[225] *See* Article 11 of the *Layout Designs Regulations*.
[226] Source: SIPO web site.
[227] *See* Article 16 of the *Layout Designs Regulations*.

[7] Conditions for Granting Variety Rights

The new plant variety for which variety rights have been applied must fall under a botanical genus and species included in the national list of protected plant varieties. The list of protected plant varieties is determined and published by the examining and approving authorities.[238]

a. Novelty

Any plant variety in respect of which variety rights are granted must have novelty. Novelty means that the propagating material of the new plant variety has not been sold prior to the filing date or has not been for sale with the consent of the breeder for more than one year within the territory of China. The propagating material of vines, forest trees, fruit trees and ornamental plants must not have been for sale for more than 6 years in a foreign territory. In the case of propagating material of other plant varieties the limitation period is 4 years.[239]

b. Distinctiveness

Distinctiveness means that the plant variety must be distinguishable from any other plant variety known prior to the filing date.[240]

c. Uniformity

Uniformity means that the plant variety is uniform, subject only to variations that may be expected in its relevant features or characteristics after propagation.[241]

d. Stability

Stability means that the plant variety application at issue keeps its relevant features or characteristics unchanged after repeated propagation or at the end of a particular cycle of propagation.[242]

e. Adequate Denomination

Each plant variety application must have an adequate denomination distinguishable from the denomination for any other known plant variety of the same or similar botanical genus or species. The denomination after registration will be the generic designation of the new plant variety in question. The following denominations must be avoided for new varieties:

1) those consisting of only numbers;
2) those violating social morals; and

[238] *See* Article 13 of the *Plant Variety Regulations*.
[239] *See* Article 14 of the *Plant Variety Regulations*.
[240] *See* Article 15 of the *Plant Variety Regulations*.
[241] *See* Article 16 of the *Plant Variety Regulations*.
[242] *See* Article 17 of the *Plant Variety Regulations*.

3) those that are liable to mislead as to the features or characteristics of the new plant variety or the identity of the breeder.[243]

[8] Application Documents

When applying for variety rights, an application and specification on the prescribed forms and a photograph of the variety must be submitted to the examining and approving authorities. The application documents must be in Chinese.[244]

[9] Examination

Examination of a plant variety application consists of two steps - preliminary examination and substantive examination.

a. Preliminary Examination

Preliminary examination covers the following aspects:

1) whether it is part of a botanical genus or species included in the list of protected plant varieties;
2) whether it conforms to Article 20 of the *Regulations*. Article 20 provides that applications for variety rights filed by a foreigner, a foreign enterprise or any other foreign institution shall be handled under the *Regulations* in accordance with any agreement concluded between the country to which the applicant belongs and the PRC or any international convention to which both countries are parties or on the basis of the principle of reciprocity;
3) whether it meets the requirement for novelty; and
4) whether the denomination of the new plant variety is adequate.[245]

The examining and approving authorities must complete the preliminary examination within 6 months after the variety rights application is formally received. Where the variety rights application is not accepted after preliminary examination, the examining and approving authorities shall publish the decision and serve notice on the applicant to pay the examination fee within 3 months.[246]

b. Substantive Examination

After the applicant has paid the prescribed examination fee, the examining and approving authorities shall conduct a substantive examination of the distinctiveness, uniformity and stability of the variety. If the applicant does not pay the prescribed examination fee the variety rights application is deemed to have been withdrawn.[247]

[243] *See* Article 18 of the *Plant Variety Regulations*.
[244] *See* Article 21 of the *Plant Variety Regulations*.
[245] *See* Article 27 of the *Plant Variety Regulations*.
[246] *See* Article 28 of the *Plant Variety Regulations*.
[247] *See* Article 29 of the *Plant Variety Regulations*.

Chapter 7: Licensing and Technology Transfer

§7.01 Introduction

Before its entry to the WTO, China imposed numerous restrictions on technology transfer which involved foreign entities. Burdensome prior approval and registration requirements for importing and exporting technology, compounded by inconsistent IP enforcement significantly discouraged cross-border technology transfer to China. The pre-WTO regime also encouraged companies to document offshore technology transactions to avoid, in part, the mandatory regulatory approval and registration requirements and tax liabilities.

Since China signed the agreement to enter the WTO, its laws and regulations governing foreign related technology transfer have been dramatically and continuously modified. The prerequisite step of obtaining prior governmental approval was eliminated for most cross-border transactions. Various restrictions preventing effective technology transfer were also lifted. Although intrusive governmental registration and/or approval requirements still apply in some circumstances, the revised legal framework has generally provided a more liberal technology import and export structure, with less intervention by the Chinese government. The government is well aware that continued deregulation will be essential for shaping a better and friendlier legal environment, and encouraging high volumes of technology import and export in post-WTO China, so continued reform may be expected.

§7.02 Legal Framework after China's WTO entry

China has amended its laws and regulations related to patents, trademarks and copyrights to extend licensing terms from the pre-WTO 10 year maximum to the duration of the validity of the underlying IP right. The recordal requirements for IP exploitation agreements have also been clarified. In addition to the revised laws and regulations on patents, trademarks and copyright discussed elsewhere in this book, the 1994 *Foreign Trade Law* and the *Unified Contract Law* of 1999 and many other newly issued and amended regulations and rules also govern cross-border technology transfer.

On March 25, 2003, the MOFCOM was officially established to replace the former MOFTEC and the State Economic and Trade Commission (SETC), as a result of a government streamlining and restructuring plan adopted by the 10th National People's Congress in March 2003. The newly established MOFCOM is mandated to exercise the former functions of the both MOFTEC and SETC. Therefore the regulating powers regarding technology import and export originally intended to be exercised by MOFTEC and/or SETC are now presumably within the jurisdiction of MOFCOM.

The most recently issued regulations and rules affecting foreign related technology transfer most recently include:

- *The Regulations on Administration of Technology Import and Export* adopted by the State Council on October 31, 2001, which were promulgated on December 10, 2001 and came into force on January 1, 2002;
- *The Measures for Administration of the Registration of Technology Import and Export Contracts* which were issued by the MOFTEC on November 16, 2001 and came into force on January 1, 2002;
- *Catalogue of Technology of Which China Prohibits or Restricts the Import* (First Batch) which were promulgated by the MOFTEC and SETC on December 30, 2001 and came into force on January 1, 2002;
- *Catalogue of Technology of Which China Prohibits or Restricts the Export* which were promulgated by the MOFTEC on December 12, 2001 and came into force on January 1, 2002;
- The *Catalogue for Guidance on Foreign Investment in Industries* issued by the State Development Planning Commission[251], the SETC and the MOFTEC on March 11, 2002 and which came into force on April 1, 2002;
- *The Regulations on Guiding the Direction of Foreign Investment* promulgated by the State Council on February 11, 2002 and which came into force on April 1, 2002;
- *Notice on How to Adjudicate Disputes on Technology Contracts by National Intellectual Property Courts* issued by the Supreme People's Court on June 19, 2001;
- *Notice on Strengthening Patent Administration in Foreign Trade* issued by the MOFTEC and the SIPO on December 20, 2002, and which came into force on January 20, 2003;
- *The Supplemental Notice Concerning Strengthening Administration for Technology Import Contracts and the Sale and Payment of Foreign Exchange* issued by the MOFTEC and the SAFE on March 19, 2001;
- *Patent Licensing Contract Recordal Procedures* issued by the SIPO on December 17, 2001, and which came into force on January 1, 2002;
- *Regulations on Software Protection* promulgated by the State Council on December 20, 2001, and which came into force on January 1, 2002;
- *Regulations on Software Products Administration* issued by the Ministry of Information Industry on October 27, 2000, and which came into force on October 27, 2000; and
- *Trademark Licensing Contract Recordal Procedures* issued and implemented by the SAIC on August 1, 1997 to which, somewhat surprisingly, amendments have not been made in light of the recent revisions of *Trademark Law* and its *Implementing Rules*;

Many of the laws and regulations regarding technology transfer promulgated in 1985, 1988 and during the 1990s have been abolished or substantially

[251] The State Development Planning Commission, a key department under the State Council in charge of macroeconomic planning, was recently restructured into the State Development and Reform Commission in an effort to improve its macroeconomic control system.

of the catalogues have not been made available. Foreign companies are therefore strongly advised to consult the most up to date Chinese language catalogues when undertaking technology transfer with a Chinese party. This should be done prior to drafting a technology contract.

§7.05 Approval

The approval procedures are only applicable to importing or exporting of restricted technology. Since most technology transactions are intended to transfer or license technology to China, the scope of import restricted technology is more relevant to foreign companies than that of export restricted technology. Before importing restricted technology, the importer must file an *Application for Importing PRC Restricted Technology* with the MOFCOM. The importers could be assignees, licensees, joint venture parties or any other entities. Recipient importers do not have to possess foreign trading rights. Upon receiving the application, the MOFCOM must examine and make an approval or rejection decision within 30 working days.

The MOFCOM examination covers both trade and technology aspects. The criteria for examining trade aspects are whether:

- the importation of the restricted technology will conform to China's general foreign trade policy, and
- the importation will comply with China's foreign trade commitments.

The criteria for examining technology aspects are whether importation:

- will jeopardize national security or the public interest;
- will endanger the life and health of Chinese people;
- will destroy the ecological environment, and
- will be consistent with national industry development policy and social development strategy, and promote China's technological progress and interests.

These criteria are broadly and vaguely drafted, and may prove difficult to uniformly implement and consistently interpret. If a targeted technology falls within the restricted category, as a rule of thumb a foreign company should review whether the importation would be politically correct and economically sound for Chinese people.

Upon approval, the importer will be issued with a *Proposal for Technology Import License of the PRC*. The importer can sign the technology import agreement upon receiving the *Proposal*. After signing the technology import agreement, the importer must submit the *Proposal*, a copy of the agreement and related appendices, and certificates of the parties' legal status to the MOFCOM for issuance of a license for technology import. The MOFCOM must examine the signed technology import agreement within 10 working days of receiving the application materials. The MOFCOM also must examine the technology to be imported within 30 working days, and an approval or rejection decision must be made within 30 working days after

submission of the relevant documents. If the restricted technology is approved for importation, the importer will be issued with a *Technology Import License for the PRC*.

The underlying agreement then takes effect on the date of issue of the *Technology Import License*. The *Technology Import License* is only valid for the specified technology. Should the parties decide to modify the imported technology, they must apply for approval all over again. The importer must subsequently arrange for foreign exchange, banking, tax and customs clearance by presenting the *Technology Import License*.

§7.06 Registration

Registration is applicable to both permitted technology import and export agreements, as well as restricted technology import and export agreements. Under the new system, the registration does not affect the validity or effectiveness of the underlying technology agreement for importing or exporting permitted technology. The technology import registration application form, which will eventually be online at http://info.ec.com.cn, requires the title of the contract, name of supplier, name of technology user, and name of technology recipient. Registration may be done online when the above website is activated. At the time of writing this book, the registration website was still under construction. It only takes 3 working days to complete the registration, as a result of the post-WTO streamlining reforms.

A contract that contains the following prohibited terms is not registrable:

- Requirements for the transferee to accept conditions on the imported technology, including the purchase of unnecessary technology, raw materials, products, equipment, or services.
- Requirements for the transferee to pay for, or undertake obligations related to, an expired or invalidated patent.
- Restrictions on the transferee improving transferred technology, or using the improved technology.
- Restrictions on the transferee acquiring competitive or similar technology from a third party.
- Unreasonable restriction of the transferee's channels or sources for purchase of raw materials, parts and components, products or equipment.
- Unreasonable restriction of the quantity, variety or price of products produced by the transferee.
- Unreasonable restriction of the export channels for products produced by the transferee employing the imported technology.

It is therefore advisable not to draft an agreement that obviously contains these prohibited terms. However, under the new system, the registration agency is not required to conduct a substantive review. Thus, the hurdle to registration is substantially lowered, so long as these prohibited terms are not detected through a normal formality review. However, the specific terms will have to be contested and interpreted in later dispute proceedings, without the safeguard of the registration.

No. 982802X	Computer network technology
No. 982803X	Information processing technology
No. 982804X	Computer general-purpose software programming technology
No. 982805X	Computer application technology

Registration of software export contracts is required under the *Measures of Software Exportation and Statistics* jointly issued on October 25, 2001 by the Ministry of Science, MII and the State Statistics Bureau. The software export enterprise must record the contract after its effective date with the so called Administrative Center for Software Export Contact, on line at http://www.scrcentre.gov.cn.

[6] Measures for the Administration of Software Products

The *Measures for the Administration of Software Products* were adopted at the 4th ministry affairs meeting of the MII on October 8, 2000, and went into effect on October 27, 2000.

a. Scope of Application

The *Measures* apply to the sale, distribution, and administration of software products[258] within the PRC, including both domestically manufactured software and imported software. They do not apply to software developed by an entity or an individual for use by that entity or individual, or to software that has been commissioned for personal use. The *Measures* provide for a compulsory software registration system and set out various requirements and conditions which must be complied with for the manufacturing and sale of software.

b. Prohibited Software Content

No one may develop, manufacture, sell, import or export software which infringes IP rights, contains viruses or content which is prohibited by relevant regulations, potentially threatens the security of computer systems, or which does not comply with China's software standards or specifications.[259]

c. The Registration and Recordal System

Software products that have not been registered or recorded may not be sold in China. Although the exact application procedures vary slightly depending on whether the software is domestically manufactured or imported, in both cases samples of the software, proof of IP rights, and a copy of the enterprise's business license will be required. The China Software Industry Association handles registration applications for imported software. The

[258] "Software products" are defined as essentially computer software provided to a user, including software embedded into information systems or equipment. The term also covers computer software provided in the course of technical services such as computer information systems integration. "Domestically manufactured software" refers to software developed and manufactured in China. "Imported software" refers to software developed outside China, but manufactured and/or handled in China.

[259] *See* Article 3 of the Measures for the Administration of Software Products.

registration of software products is independent and differs from the software copyright registration with the CCPC discussed above.

d. Manufacturing of Software Products

A manufacturer of software products must have legal person status and the production of computer software (including the development of software technologies or the manufacturing of software products) must be within the scope of their business license. They must also have the technical ability, appropriate production facilities, and adequate mechanisms to guarantee software quality. The manufacturer must hold the relevant copyrights or be authorized by the copyright holder.[260]

Manufacturers are responsible for inspecting software content and for ensuring that the development and manufacturing comply with state laws and security standards. They may not produce software that has not been registered and recorded, that has prohibited content, or that is pirated or that is for decoding purposes.[261]

The packaging must be marked with the name of the software, the version number, the copyright holder, the software product registration number, the date of production, the name of the software manufacturer (or importer) and the address.[262]

Software products must be supplied with complete instruction guidelines, user manuals, and other relevant information, in Chinese. Contact details for obtaining technical services must also be provided.[263]

e. Sale of Software Products

Software developers and manufacturers may directly sell their software products. Where software is sold through an agency arrangement, an agreement must be signed between the parties, and must clearly set out the agent's scope of authority, territory, terms, technical services, and other necessary aspects specified by MII. The agent must display its agent qualification including the authority, duration, territory and level in a visible place at its place of business. Advertising and marketing activities must be consistent.[264]

If software products are licensed, the licensee must enter into a written license agreement with the manufacturer. The licensee must advise the user to read the license agreement and indicate whether or not he or she accepts the terms.[265]

[260] *See* Articles 13 and 14 of the *Measures for the Administration of Software Products*.

[261] *See* Articles 15, 16 and 20 of the *Measures for the Administration of Software Products*.

[262] *See* Article 17 of the *Measures for the Administration of Software Products*.

[263] *See* Article 18 of the *Measures for the Administration of Software Products*.

[264] *See id.*, Article 22.

[265] *See id.*, Article 23.

Chapter 11: Intellectual Property Litigation

§11.01 Introduction

After China joined the WTO in December 2001, the Supreme People's Court issued a number of judicial interpretations to clarify and unify the law and practice relating to IP litigation in China. Most importantly, detailed evidentiary rules and procedural rules were formalised for the first time. Post-WTO, litigating in China has become a viable option as opposed to traditional administrative enforcement mechanisms and arbitration for foreign business. Foreign litigants should refer to the following judicial interpretations if they want to enforce their IP rights through litigation in China:

1) *Interpretation on Several Issues regarding Applicable Law in Adjudicating Trademark Civil Disputes* issued on October 16, 2002.

2) *Interpretation on Several Issues regarding Applicable Law in Adjudicating Copyright Civil Disputes* issued on October 15, 2002.

3) A reply regarding the *Allocation of Patent and Trademark Cases after the Patent Law and Trademark Law* are amended, issued on September 7, 2002.

4) *Interpretation on Applicable Law regarding Pre-suit Preliminary Injunctions against Infringing Registered Trademark Rights and Evidence Preservation* issued on January 22, 2002.

5) *Interpretation on Jurisdiction and Applicable Law regarding Adjudication of Trademark Cases* issued on January 22, 2002.

6) Reply on questions regarding *Property Preservation and Enforcement of Trademark Rights* issued on January 15, 2002.

7) *Notice of Commencing Adjudicating Work relating to Semi-conductor Layout Designs* issued on November 28, 2001.

8) Meeting minutes on adjudicating disputes of technological contracts and national IP adjudication meeting issued on July 23, 2001.

9) *Interpretation on Several Issues regarding Applicable Law in Adjudicating Computer Network Domain Name Civil Dispute Cases* issued on July 25, 2001.

10) *Several Provisions on Applicable Law in Adjudicating Patent Disputes* issued on July 2, 2001.

11) *Several Provisions on Applicable Law regarding Pre-suit Preliminary Injunction of Patent Cases* issued on June 24, 2001.

12) *Interpretation on Several Issues regarding Adjudicating Plant Variety Cases* issued on February 20, 2001.

13) *Interpretation regarding Property Preservation on Registered Trademark Rights* issued on February 6, 2001.

14) *Interpretation on Several Issues regarding Applicable Law in Adjudicating Computer Network Copyright Disputes* issued on December 25, 2000.

§11.02 Pre-Litigation Considerations

In most cases, an IP holder starts the process of enforcing its rights by initiating an investigation of the infringer. An investigation can be made either through the IP holders' own resources or by professional investigator. A successful investigation will determine the scope and level of infringement, and provides the evidence required for filing a complaint. Investigations help to determine (1) whether the potential infringer actually manufactures and/or sells the allegedly infringing products; (2) the volume of infringing products produced/sold; (3) the possible location of the inventory. Based on the evidence obtained, an IP holder then determines whether to proceed and how, with a cease and desist letter, raid action or by filing a lawsuit. Pre-litigation consultation is important because an experienced IP counsel can design an effective enforcement roadmap for the IP holder.

[1] Cease and Desist Letter

A cease and desist letter usually demands that infringers immediately stop the production and sale of any and all infringing products already produced or distributed. It normally also seeks an undertaking not to infringe in the future, an agreed amount of liquidated damages if breached, and compensation for past infringement. The primary goals of a cease and desist letter are to notify the accused party of the allegation of infringement and demand its cessation, and to further investigate the alleged infringement. Before issuing a cease and desist letter, the IP holder must take into account the possibility of concealment and destruction of evidence by the recipient. Therefore, depending on the circumstances, a cease and desist letter may not be necessary, if it has proved difficult to obtain evidence and the potential risk of the accused infringer destroying evidence is high.

Based on the response received from the accused infringer, the IP holder can either seek a settlement or commence administrative, civil or criminal proceedings against the accused infringer.

[2] Administrative Enforcement

Administrative enforcement bodies including of the SIPO and its local bureaux, the SAIC and local AICs, local TSBs, the PSB, the Copyright Office and its local offices, and the General Administration of Customs (GAC) and its local offices are designated to separately or jointly enforce IP rights,