

CHAPTER 11.4

**Intellectual Property Rights Protection
in China: Litigation, Economic
Damages, and Case Strategies***

*Alan Cox and Kristina Sepetys***

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** *Alan Cox is Senior Vice President at NERA Economic Consulting. Kristina Sepetys is a senior consultant at NERA Economic Consulting. This chapter appears in the book Economic Approaches to Intellectual Property: Policy, Litigation and Management, edited by NERA economists Gregory K. Leonard and Lauren J. Stiroh.*

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Intellectual property rights (IPR) have not received strong protection in the People's Republic of China (China).^{1/} However, as a result of external pressures and internal economic objectives, China is moving closer to the IPR practices and standards found in Western nations. A growing economy, more sophisticated laws, and increased attention to enforcement have led to IPR infringement cases being brought before Chinese authorities in greater numbers.

However, cases are not yet being brought in sufficient numbers nor are fines and damage awards large enough to deter infringement or compensate IPR owners under existing law. The imposition of administrative penalties by enforcement agencies does not provide adequate incentives to infringers to modify or alter their behaviors and practices. Nor do they adequately compensate for the harm done to the owners of the IPR by infringers. In 2003, total fines imposed by Chinese authorities for violations of trademarks, copyrights, and patents collectively amounted to \$30 million, only 0.05 percent of the estimated sales revenue losses of over \$60 billion suffered by U.S., European Union, and Japanese companies in the same year.^{2/}

In addition to the imposition of administrative penalties, China's IPR laws contain provisions for awarding economic damages to individuals and companies in the event their rights have been infringed. Although the laws have been designed to comport with major international agreements, the laws do differ in certain areas from those found in many Western countries. For example, in some instances, the total damages that may be recovered are capped. Even where they are not capped, in most cases, damage awards and fines are low in comparison with those in other countries. Damages are often computed on the basis of the infringer's unjust enrichment. Since infringers usually sell their illegal copies at a small fraction of the price charged by the IPR owner, such unjust enrichment is often modest compared to the lost profits from lost sales. While capping damages can reduce the risk of excessive damage awards unrelated to economic harm, it can also constrain awards to levels well below the actual economic damages incurred. Caps that are too low impose real economic costs on the economy as well as lack sufficient deterrent value.

China has moved in recent years to develop IPR laws and policy that would strengthen the rights of IPR owners and enforce those rights. However, these policies have yet to be fully implemented. Full implementation would likely provide a higher degree of deterrence to potential infringers.

I. Balancing IPR Protection and Economic Growth in China

Introducing IPR protection in a developing country frequently proceeds through a predictable series of events. Initially, there may be little or no IPR protection and markets characterized by imitation rather than innovation, which may be followed by markets with well-designed and enforced IPR and characterized by higher degrees of domestic innovation. There are, however, conflicts and challenges that may face a country while making the transition to a more mature IPR regime.

A. Weak Protection: Imitation over Innovation

In the early phases of developing IPR protections, there may or may not be laws governing IPR. If there are laws, they may not be well designed or firmly enforced. In the case of technology, imports exceed exports, and imitation, rather than innovation and invention, prevails. Imitation allows for low-cost production and low prices for goods and services. In the short term, this leads to increased production and consumption of goods and services, which benefits the country's consumers and helps to fuel growth in a developing economy. From an economic point of view, it may be optimal (in a social welfare sense) for a government to provide for only weak IPR early in a country's development, given the substantial consumer surplus costs to IPR protection.

Although a weak IPR regime may support technological growth and development in the short run through imitation, it also serves to discourage domestic innovation, which is a long-run driver of economic growth. There are other drags on economic growth created by IPR violations. For example, uncompensated use of intellectual property through piracy or counterfeiting can effect long-term economic growth since such activities increase the cost of doing business in China. A manufacturer that might consider manufacturing products in China or contributing technology to a joint venture may decide that the risk of patent, trademark, or copyright infringement, and the costs associated with that risk, may be too great and opt to locate in another country. The decision for a manufacturer to produce elsewhere means China will lose a source of taxes, wages, and other revenue contributions. Even if the

manufacturer does conduct business, it will do so at a higher cost when IPR protection is weak. Costs will be driven up by restrictions on the use of intellectual property in order to protect the IPR from infringement. The imposition of such constraints will reduce the profitability of using the intellectual property, reducing revenues and tax collections.

B. Benefits of Domestic Innovation and Invention Prevail

There is an extensive literature examining the broader economic effects of intellectual property protection (or lack thereof) on developing economies.^{3/} There is a growing consensus that stronger, properly structured IPR can increase economic growth and improve development processes.^{4/} The effectiveness of IPR laws and regulations in protecting intellectual property and encouraging growth and development depends upon a number of factors, including their design and implementation. A key objective of IPR laws related to economic growth and development is stimulation of invention and innovation. IPR protection can also deepen markets through improved contract certainty, permitting better monitoring and enforcement of activities at all levels of the supply network, which, in turn, may lead to willingness by innovative firms and their distributors to invest in marketing and brand-name recognition.^{5/} In addition, effective IPR enforcement may improve the quality of goods over time and facilitate the domestic and international diffusion of knowledge. In a highly developed economy, consumer surplus costs associated with IPR enforcement may be outweighed by the benefits of increased innovation and invention.

C. China at the Crossroads

It is interesting to consider that perhaps China is at the crossroads in making the transition from an imitative to innovative economy. IPR laws and enforcement procedures are more or less in place, but embracing them fully may present difficult choices. At present, despite strong laws to protect IPR, in some areas and markets, the promise of short-term gain is strong and continues to compromise the laws' effectiveness and, by extension, long-run growth.

China has traditionally imported more technology than it exports and has maintained a low level of IPR protection and enforcement compared with other industrialized countries. It now appears to seek the benefits of a strong IPR regime. This, however, may involve incurring short-term costs. These may include the high administrative costs of implementation and enforcement, costs associated with labor shifts from infringing

activities to others, and potential for monopoly pricing. These costs may create short-term disincentives for enforcing and upholding IPR laws.

Low-cost imitation of technology and products rather than innovation and invention of new products is common in China. One of the short-term benefits of such practices for a developing country is more production and consumption of goods and services. The country may thus view more stringent IPR as having the potential to compromise its economic production and consumption. If better IPR enforcement translates to higher prices in China and the transfer of royalties overseas, the incentive of Chinese authorities to enforce IPR laws and of citizens to observe them may be blunted.

There are other problems associated with partial or weak enforcement and observation of IPR laws. Partial and potentially inefficient work-around solutions may emerge. For example, to safeguard against the risk of infringement, companies that sell into China products with high levels of intellectual property content may need to impose restrictions on the number of people who have access to those products. Similarly, companies may restrict the number of people who can work on a particular component or the conditions under which it may be serviced. To protect against IPR infringement and abuses, Chinese researchers seeking access to foreign technology in some cases may find that it is only possible to gain access to that technology by taking out licenses and through the intermediation of “intellectual property exchanges,” organizations established to provide controlled access to intellectual property through licensing from foreign vendors.^{6/}

Using exchanges, limiting access to technology, and implementing other techniques to manage the potential for infringement may help to address some of the problems with IPR abuses and violations. However, they are an imperfect solution. While these practices may be privately optimal as a means to curb infringement, in the areas of high technology, pharmaceuticals, medical devices, and a host of other sectors, they may be overly restrictive and constrain the dissemination of important technologies and processes, which may be economically inefficient and socially undesirable.

II. Legislative and Legal Frameworks for IPR Protection in China

Over the past two decades, China has steadily developed an infrastructure to protect IPR, due in some part to pressure from the United States,

the European Union, and other interested parties. China has joined several international agreements to protect intellectual property;^{7/} drafted and promulgated domestic IPR laws; and established specialized courts,^{8/} registration procedures, enforcement processes, and training programs.^{9/} (Detailed descriptions of the patent, copyright, and trademark laws are included in the appendix to this chapter.)

In November 2001, China joined the World Trade Organization (WTO). Since joining the WTO, China has further strengthened its legal framework and amended its IPR laws and regulations in compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The TRIPS Agreement is particularly significant, as it specifies strong minimum standards for the protection and enforcement of copyrights, patents, trade secrets, trade and service marks, and indicators or geographic appellation. The result is an extensive, though not complete, harmonization of national IPR regimes among countries that are party to the WTO Agreement.^{10/} Indeed, China's membership in the WTO may have had a greater impact on IPR enforcement than on any other business issue.^{11/} Although the legal framework is not fully developed compared with those of other industrialized nations, these activities suggest that Chinese IPR institutions and laws may be slowly converging with international standards.

III. IPR Law Enforcement

Despite significant progress in developing a comprehensive legal framework, shortcomings in IPR law enforcement in China continue to limit the law's effectiveness. Various factors serve to compromise enforcement; for example, the desire to avoid the short-term economic costs described in previous sections. Corruption and local protectionism can also handicap enforcement efforts, as can limited or insufficient resources and training available to enforcement officials and lack of public education regarding the economic and social impact of IPR violations.^{12/}

A. Administrative Enforcement

Prosecuting IPR violations and enforcing IPR laws in China can proceed along one of two tracks. The first and most common is the administrative track. In most cases, administrative agencies may not award compensation to an IPR holder. They may, however, fine the infringer, seize goods or equipment used in manufacturing infringing

products, and obtain information about the source of goods being distributed.

Administrative fines are generally low and vary from case to case. Information regarding the amount of fines is usually not made public, making it difficult to assess their effectiveness, though it is generally agreed that they are quite ineffective.^{13/} There are a number of other deficiencies with administrative action. Not only is the IPR owner inadequately compensated, but the fines are too small to deter future infringement or put the offender out of business and an investigation may not be instigated because of local protectionism, lax enforcement, or a lack of resources. A lack of coordination among administrative offices may also make uniform protection of IPR difficult.

B. Judicial Enforcement

Companies can pursue judicial (civil actions) in the local people's court. Though small companies may continue to prefer to pursue administrative action, the number of IPR cases pursued through the court system is likely to increase as a result of recent changes to the laws designed to strengthen them and provide more guidance and transparency to those pursuing such remedies.^{14/}

At present there is no U.S. style of discovery; documents and evidence available for building a case are usually quite limited. Reliance upon damages experts — accountants, economists, and other analysts — is permitted by law to both plaintiff and defendant, although it generally does not occur. Damages claimed are typically the result of relatively simple, straightforward calculations. For example, the IPR owner may be awarded the amount of revenue the plaintiff would have earned in the infringement period based on previous sales or the amount the infringer earned as a result of the illegal sale. Generally, courts will award some portion of case-related costs to a successful plaintiff, but it is unlikely that full costs of pursuing the case will be recovered. It is extremely rare for a defendant who is successful in defending his or her action to recover costs.^{15/}

Both fines and economic damages claimed and awarded, even at the extremes, are low compared to those found in the United States and other industrialized countries. In many cases, these damages provide little deterrent and are merely considered a cost of doing business. Table 1 (located before the appendix) lists several cases and damages awarded that are representative of the damages being awarded in larger cases.

As decided in a notable recent ruling by a Standing Committee of the National People's Congress, beginning in May 2005, lay judges (or juries) may be used in civil and criminal cases, including IPR cases.^{16/} This ruling gives lay judges, also known as "people's jurors," equal standing with judges in executing their duties in courts. A panel of both professional judges and lay judges (typically on a three-member bench) will determine first-instance cases with significant social influence or upon the request of litigants. Lay judge candidates must have a junior college degree or higher, and judges must serve for a term of at least five years. They are entitled to appropriate payment from the courts for attending hearings. People's jurors have been part of China's legal system since 1954. However, before 2005, there were no rules or guidelines explaining their role. Thus, although jurors are not new to China's legal system, their roles and functions until now have not been clearly defined, which inhibited their ability to contribute to the quality of the judicial assessments or decisions.

While criminal prosecutions, including imprisonment, are possible under IPR law, they are not yet commonplace.

IV. Growing Commitment among Chinese Companies to Improving IPR Protection

As more intellectual property owners seek protection for their ideas through the Chinese system and experience the benefits of protection and enforcement firsthand, they may conclude that it is in their interest to have IPR laws strongly enforced and to uphold those laws themselves.

A. Chinese Companies Challenge Foreign Company Patents

A closely watched case involves the pharmaceutical company Pfizer Inc. and the distribution of its drug ViagraTM in China.^{17/} In July 2004, the State Intellectual Property Office of the People's Republic of China (SIPO) invalidated Pfizer's Chinese patent for ViagraTM. The case is significant for several reasons, not least of which is the fact that it marks perhaps the first time that Chinese companies have pursued legal remedies to challenge a Chinese patent owned by a foreign company.

In this case, the competing companies successfully petitioned the regulatory authority to cancel Pfizer's patent for its failure to demonstrate, in accordance with Chinese law, that a particular ingredient was indeed novel and thereby eligible for protection. Pfizer appealed, and the

Chinese patent office has not yet released its final decision on this case. The decision will be important as an indicator of the government's willingness to uphold international IPR laws, as well as an indicator of support for imitative, rather than innovative, research. Whatever the final outcome, the case may suggest to Chinese companies that IPR laws may be used to their advantage. Perhaps encouraged by the ViagraTM case, a number of Chinese companies attacked GlaxoSmithKline PLC's Chinese patent for its diabetes drug AvandiaTM./18/

In another prominent case, Netec Technology Company, a Chinese company, sued Sony Electronics for USB flash memory disk patent infringement, claiming Sony copied their patented movable storage technology./19/ If successful, this case may also serve to reinforce the value and importance of a strong IPR system to domestic companies in China.

B. IPR Laws Benefit Companies in Domestic Disputes

In a recent trademark case, China National Cereals, Oils & Foodstuffs Corporation (COFCO), one of China's top 500 companies, initiated judicial proceedings for trademark infringement against two domestic enterprises, Beijing JiaYu Wine Company Ltd. (JiaYu) and JiangXi Happy Wine & Foodstuffs (collectively, the defendants)./20/

In 1974, COFCO registered a series of trademarks, including the words *Chang Cheng* (Great Wall) together with a unique image of the Great Wall. In 2004, Great Wall held an 18.46 percent share of the Chinese wine market, the largest of any one brand./21/ In 2002, COFCO discovered that the defendants had not only used the term *Chang Cheng* as a trademark on their wine products, but they had also copied the plaintiff's registered Great Wall image and were actively selling their product in large volumes throughout China. COFCO requested that all infringement activities be brought to an immediate stop, that a public apology be made, and that damages totaling U.S. \$12,106,537 (the exact amount of the illegal revenue generated from sales by JiaYu) and expenses of U.S. \$36,320 be paid./22/

In April 2005, the Beijing Municipal Superior People's Court ruled in favor of COFCO. The court ordered the defendant to immediately cease producing and selling products using this trademark and ordered the defendants to pay COFCO U.S. \$1,876,050 in damages./23/ COFCO claimed that the court reasoned that since COFCO has used the Great Wall logo for many years on its wine products and the trademark had

become well known in China's wine market.^{/24/} COFCO's trademark rights were entitled to legal protection. "JiaYu Great Wall" was too similar to "Great Wall," and the defendant, therefore, had to accept legal responsibility for the trademark infringement. No further information was provided regarding how the damage amount was determined. Although the plaintiffs were awarded significantly less than what they claimed, the amount is still quite significant by Chinese standards. Moreover, as noted, it is important because it indicates a willingness on the part of Chinese companies to rely upon the IPR system.

C. Preemptive Patenting

China follows a first-to-file system for patents, which means patents are granted to those that file first, even if the filers are not the original inventors. This practice is consistent with activity in other parts of the world, including the European Union, but differs from that in the United States, which recognizes the first-to-invent rule. Using the first-to-file aspect of the law to their advantage, some Chinese companies are preemptively patenting foreign inventions that have been patented outside of China. Foreign companies will presumably attempt to challenge such patents and will, in the future, take steps to patent in China in a timely manner. In the meantime, these preemptive patenters have developed an interest in maintaining a strong IPR protection regime in China.^{/25/}

At the same time, Chinese firms seeking to export into foreign markets, particularly within the European Union, may find themselves challenged by first-to-file claims. Foreign firms in countries where these rules pertain are also pursuing preemptive patenting, trademarking, and copyrighting to head off the threat of competition from Chinese companies and products in their home markets. European multinational companies have preemptively registered the trademarks of major Chinese enterprises in their respective countries. This can effectively block potential Chinese competitors from using their own brand names when they begin selling in markets outside of China. For example, in a case in German court between the German company Bosch-Siemens and the Chinese company Hinsense, parties settled out of court after Hinsense reportedly agreed to pay Bosch-Siemens approximately U.S. \$6.5 million to use its own brand name in the European market.^{/26/}

V. Strategies for IPR Protection in China

A. Legal Action in China

Despite the difficulty and cost of pursuing legal action in IPR cases in

China, many companies, both Chinese and non-Chinese, are choosing to do so. In most cases, fines and damages have not been sufficient to compensate the party being infringed or even to offset the costs of pursuing the case. Nevertheless, although awards are trivial in comparison with those found in the United States and other Western nations, many Chinese and non-Chinese firms are opting to pursue cases through the Chinese system. Their reasons for doing so are varied. In many cases, the IPR owner may at least obtain an injunction against further infringement. But even if neither an injunction nor damages are available, there may be other strategic reasons for pursuing action.

In a recent example, the U.S. chipmaker Intel Corporation sued the Chinese network equipment maker Shenzhen Donjin Communication Technology Company Ltd. in January 2005. Intel accused Donjin of illegally including Intel software in its products. Analysts have speculated that one reason for Intel bringing the suit is to keep Donjin Technology out of the computer technology integration market. Intel said its losses due to Donjin's infringement have reached U.S. \$7.96 million and is claiming the same amount in compensation. The sum is equal to Donjin's annual revenue.²⁷ Donjin countersued, accusing Intel of engaging in illegal monopolistic practices.²⁸ Donjin alleged that Intel software was so closely tied to its hardware, it prevented customers from using the software in third-party hardware. Donjin's suit seeks a ruling forcing Intel to end allegedly monopolistic practices.

B. Legal Action Outside China

Given the difficulties in pursuing cases, large companies may be reluctant to file IPR cases in China, where the laws are new, courts may lack experience handling such cases, costs to prosecute are high and unrecoverable, and enforcement is unreliable. As one alternative strategy, non-Chinese companies are filing lawsuits in their home countries. Technology companies and other multinationals are using their own court systems to bring cases against Chinese firms for IPR violations. Presumably, they hope that the desire on the part of the Chinese companies and the Chinese government to export into Western markets will be sufficiently strong that they will be willing to comply with Western standards. As China's export of machinery and products into foreign markets increases, facing an IPR lawsuit in those markets may be an unattractive proposition. It could mean an injunction to stop exporting products to the United States and the threat of potentially high damages.

In a recent example of such a case in the United States, in 2003, Cisco Systems brought suit against Huawei Technologies and its subsidiaries, alleging that the Chinese telecommunications equipment maker infringed its patents and illegally copied source code.^{/29/} Cisco's suit, filed in the U.S. District Court for the Eastern District of Texas, alleged that Huawei violated several Cisco patents and copied Cisco's source code. The companies settled. Huawei agreed to change its command line interface, user manuals, help screens, and portions of its source code to address Cisco's concerns.^{/30/}

VI. Conclusion

IPR violations may ultimately have negative effects on the broader Chinese economy by discouraging investment and imposing costs upon those companies attempting to offer goods and services. As China becomes a major player in the world economy, it will likely strengthen its commitment to upholding and enforcing international IPR. Chinese laws and regulations are converging with international standards. Patent, trademark, and copyright applications are being filed in growing numbers and damages and fines are increasing. However, violations continue to be widespread.^{/31/} Work remains to be done if China is to accord with other major economic powers in the area of IPR protection, particularly in the area of enforcement and damages.

ENDNOTES

- /1/ See, for example, International Intellectual Property Alliance (IIPA), "2004 Special 301 Report: People's Republic of China"; Graham J. Chynoweth, "Reality Bites: How the Biting Reality of Piracy in China Is Working to Strengthen Its Copyright Laws," *Duke L. & Tech. Rev.* 3 (2003); Charles L. Miller, "A Cultural and Historical Perspective to Trademark Law Enforcement in China," 103 *Buffalo Intell. Prop. L.J.* 2 (Summer 2004).
- /2/ U.S. Department of State Bureau of International Information Programs, "Trade Official Urges China to Punish IPR Violators Forcefully," at <usinfo.state.gov/eap/Archive/2005/Apr/14-581627.html>.
- /3/ See, for example, Carsten Fink and Keith E. Maskus, eds., *Intellectual Property and Development: Lessons from Recent Economic Research* (World Bank and Oxford University Press, <www.worldbank.org/research/IntellProp_temp.pdf 2005>); Robert E. Evenson and Larry E. Westphal, "Technological Change and Technology Strategy," in *Handbook of Development Economics*, vol. 3A, ed. Jere Behrman and T.N.

- Srinivasan (Amsterdam: North-Holland, 1997); Keith Maskus, "The Role of Intellectual Property Rights in Promoting Foreign Direct Investment and Technology Transfer," *Duke J. Comp. & Int'l L.* 9 (1998): 109-161; and Carlos A. Primo Braga, Carsten Fink, and Claudia Paz Sepulveda, "Intellectual Property Rights and Economic Development," discussion paper, Washington, D.C., World Bank, 1998.
- /4/ Keith E. Maskus, Sean M. Dougherty, and Andrew Mertha, "Intellectual Property Rights and Economic Development in China," in Fink and Maskus, *Intellectual Property and Development*, 297.
- /5/ *Id.*, 301.
- /6/ Mike Clendenin, "Piracy Battle on Silicon Sea," *EE Times*, Aug. 23, 2004.
- /7/ China has joined nearly all major international IPR conventions, including the World Intellectual Property Organization, in 1980; the Paris Convention, in 1984; the Madrid Protocol and the Washington Convention, in 1989; the Berne Convention and the Universal Copyright Convention, in 1992; the Geneva Phonograms Convention, in 1993; and the Patent Cooperation Treaty, in 1994. China also adheres to several other conventions governing specific industries or disciplines, such as the revised International Convention for the Protection of New Varieties of Plants.
- /8/ China has established special IPR courts in several provinces and cities to ensure that experts familiar with IPR laws and regulations may hear and preside over the cases. For more information, see <www.chinaiprlaw.com/English/courts/fujian.ht>.
- /9/ Training sessions for staff in various IPR-related agencies have been conducted. Several major universities have established IPR training programs for judges, lawyers, government IPR officials, and business people. See, for example, <www.sipo.gov.cn/sipo_English/ndbg/nb/ndbg2003/t20041214_37380.htm>.
- /10/ La Croix and Konan, "Intellectual Property Rights in China," 20.
- /11/ See, for example, one survey conducted by the U.S.-China Business Council, "Membership Priorities WTO Survey, Sept. 7, 2004," at <www.uschina.org/public/documents/2004/09/wtosurveyfindings.pdf>.
- /12/ For further discussion, see Maskus, Dougherty, and Mertha, "Intellectual Property Rights and Economic Development in China," 296; and La Croix and Konan, "Intellectual Property Rights in China."
- /13/ IIPA, "2004 Special 301 Report: People's Republic of China," 40.
- /14/ In its recent report, the IIPA remarks upon the growing sophistication and effectiveness of the IPR courts throughout China and the fact that Chinese and U.S. rights holders are using the civil system more frequently. See their "2004 Special 301 Report: People's Republic of China," 43.
- /15/ Alison Wong, "The Life Sciences Patent Battle," *Managing Intell. Prop.*, Feb. 2004.
- /16/ Alexandra Harney, "Jurors to Judge Copycat Trials," *Fin. Times*, Mar. 1,

- 2005; Liu Li and Cao Li, "Jurors to Help Decide Court Verdicts," *China Daily*, Apr. 25, 1995.
- /17/ Samson G. Yu and Ying Zhang, "Lessons from the Viagra Case," *Managing Intell. Prop.*, 2004, supplement, "China IP Focus 2005."
- /18/ Greg Mastel, James B. Altman, and Daniel P. Wendt, "Protecting IP Rights Overseas: Local Courts Are Just One Tool in a Box of Remedies Available to U.S. Companies Seeking to Protect Themselves in Foreign Locations," *IP L. & Bus.*, Sep. 2004 (<www.iplawandbusiness.com>).
- /19/ "Flash Memory Disk Market Under Fire," *China Daily*, Feb. 28, 2005.
- /20/ China National Cereals, Oils & Foodstuffs Corporation (COFCO), "Great Wall Wine Succeeds in Trademark Suit," press release, Apr. 21, 2005.
- /21/ Statistics cited from the China Association of Commerce and China National Commercial Information Center, April 3, 2005, as cited in COFCO, "Great Wall Wine Succeeds in Trademark Suit."
- /22/ Rouse & Company International, *China IP Express*, No. 244 (Feb. 25, 2005), at <www.iprights.com/publications/chinaipexpress/ciex_244.asp#1>.
- /23/ COFCO, "Great Wall Wine Succeeds in Trademark Suit."
- /24/ COFCO claimed that over the years the Chinese government recognized the brand as a "famous Chinese brand." In November 2000, the China State Administration for Industry and Commerce recognized "Great Wall" as a famous trademark; see COFCO, "Great Wall Wine Succeeds in Trademark Suit."
- /25/ Brad Spurgeon, "Pirates File Patents to Beat the System: The New Chinese Counterfeit Game," *Int'l Herald Trib.*, Nov. 15, 2004.
- /26/ "Firms Awake to Fact They Must Protect Trademarks," *China Daily*, Apr. 7, 2005.
- /27/ "Intel Launches Legal Battle Over IPR," *China Daily*, Jan. 25, 2004.
- /28/ Reuters, "Chinese Firm Sued by Intel Hits Back with Own Suit," Apr. 5, 2005.
- /29/ Cisco, "Cisco Files Lawsuit Against Huawei Technologies," news release, Jan. 23, 2003; In the U.S. District Court for the Eastern District of Texas, *Cisco Systems Inc. and Cisco Technology Inc. (Plaintiffs) v. Huawei Technologies Co. Ltd. et al.* Complaint and Jury Demand.
- /30/ Matt Hines, "Cisco, Huawei Suspend Patent Suit," *C/Net News*, Oct. 1, 2003.
- /31/ For example, piracy rates remain above 90 percent across copyright industries; IIPA, "2004 Special 301 Report: People's Republic of China," 31.

Table 1. Examples of Recent Damage Awards in Intellectual Property Cases in China

Type of Case	Companies	Violation Description	Damages Awarded	Source
Copyright	Taiwan-based Fineart Corp. (DEFENDANT) Beijing Hamwang Technology (PLAINTIFF)	Defendant copied Hamwang's software and sold online	US\$361,000	"Hamwang's IPR Legal Victory Comes Late," <i>China Daily</i> , 14 March 2005
Copyright	Shanghai Zhongle Film & Television (DEFENDANT) Canadian company Discreet, a division of Autodesk (PLAINTIFF)	Defendant used and exploited software without authorization	US\$60,000 (US\$120,824 claimed)	Qu, Z., "Protection of Copyright: Another Year of Hard Battle," chinacourt.org, 2 January 2003
Copyright	Beijing Central Press Union Technology and Tianjin Minzu Culture CD (DEFENDANTS) Microsoft (PLAINTIFF)	Defendants, neither of which are underground operations, made 59,000 CDs containing pirated version of Windows XP	Beijing paid \$9,600 fine and "illegal turnover" of \$1,250. Tianjin paid \$1,200 and \$70, respectively.	http://www.sipo.gov.cn/sipo_English/gxfz/zyhd/t20050205_40166.htm (2004)
Patent	Huaqi and Fuguanghui (DEFENDANTS) Netec Technology Co. (PLAINTIFF)	Defendants infringed Netec's USB flash memory drive patent, resulting in millions of dollars in alleged losses	US\$120,000 (US\$490,000 in damages claimed)	"Flash Memory Disk Market Under Fire," <i>China Daily</i> , 28 February 2005
Trademark	Beijing JiaYu Wine Co. Ltd. (JiaYu) and Jiangxi Happy Wine & Foodstuffs (DEFENDANTS) China National Cereals, Oils & Foodstuffs Corp. (COFCO) (PLAINTIFF)	Defendants used COFCO's trademarked brand and image on their wine products	US\$1,876,050 (US\$12 million claimed)	"Great Wall Wine Succeeds in Trademark suit," press release from China National Cereals, Oils & Foodstuffs Corp., 21 April 2005.
Trademark	Bonneterie Garment (Shenzen) Co., Yiwu Xinyipai Garment Co. and Li Zupeng (DEFENDANTS) French firm Bonneterie Cevenole SARL (PLAINTIFF)	Violation involved trademark infringement over the name Montagut	US\$93,000	<i>China Daily</i> , 26 April 2005
Trademark	Beijing Metals and Minerals Import and Export Co. (DEFENDANT) Nike (PLAINTIFF)	Defendant attempted to export more than 100,000 imitation Nike clothing items to Russia	US\$20,000	"State Firm Sued Over Fakes," <i>China Daily</i> , 21 April 2005

APPENDIX**Patent, Trademark, and Copyright Laws in China**

In this section, we describe the laws that protect patents. We also extend the discussion to trademark and copyright, where there are substantial differences.

I. Patents**A. Laws and Legislation**

China's first Patent Law was enacted in 1985 and has been amended twice (in 1992 and 2000) to expand the scope of protection.^{1/} To comply with TRIPS, the latest amendment extended the duration of patent protection to twenty years from the date of filing a patent application. In 1994, China became a member of the World Intellectual Property Organization Patent Cooperation Treaty (PCT).^{2/} As a result of this membership, the China Patent Office may now receive international applications filed by entities in any contracting state of the PCT.

B. Application and Registration Procedure

To protect its IPR in China, a company must register its patents and trademarks with the appropriate Chinese agencies and authorities. Patents are filed with China's State Intellectual Property Office (SIPO) in Beijing,^{3/} while SIPO offices at the provincial and municipal levels are responsible for administrative enforcement.

C. Compensation and Damages**1. Administrative Action**

An injunction or mediation is usually the first course of administrative action in patent disputes. Parties may also pursue cease-and-desist orders, product and equipment may be confiscated through raids, and illegal earnings may be confiscated. A penalty may also be imposed. The infringer may be charged a fine of not more than three times illegal earnings or, if there are no illegal earnings, a fine of not more than U.S. \$6,000.^{4/}

2. Judicial Action

If administrative actions prove insufficient or unsatisfactory, parties may institute legal proceedings in the people's court in accordance with the Civil Procedure Law of the People's Republic of China.^{5/} Patent holders whose rights have been violated may pursue civil litigation within two years from the date they become aware of infringing activity (or should have become aware).

Compensation for patent infringement damages is based upon the losses suffered by the patentee or the profits which the infringer has earned through the infringement. The patent owner may select either of these two methods. Loss suffered by the patent owner is generally calculated by multiplying the loss in sales of the patent owner's products by the reasonable profit which can be attributed to the sale of each product. If the loss in sales is difficult to calculate, the volume

of sales of the infringing products may be used instead. Gains received by an infringer can be calculated by multiplying the infringer's sales volumes by the reasonable profits of each infringing product. The infringer's profit for this calculation should generally be its operating profit, unless the whole of its business is based on the infringement of the patent.

If the patent owner's loss or the infringer's gain is difficult to calculate, one to three times the relevant reasonable patent license fee is one approach that has been considered. If there is no patent license fee for reference or if the patent license fee available is clearly unreasonable, compensation may generally be set between U.S. \$605 and U.S. \$36,000, but preferably not more than U.S. \$60,500, depending upon the situation. Courts may also award compensation for investigation and enforcement costs.^{/6/}

II. Trademarks

A. Laws and Legislation

China's Trademark Law was adopted in 1982.^{/7/} The law was revised and expanded in 1993 and again in 2001.^{/8/}

B. Application and Registration Procedure

The State Administration of Industry and Commerce (SAIC) Trademark Office maintains authority over trademark registration, administrative recognition of well-known marks, and enforcement of trademark protection. The Trademark Review and Adjudication Board (TRAB) is responsible for handling trademark registration disputes. A litigation division has been established to represent TRAB in appeal cases. As of 1995, TRAB received approximately 250 cases each year. By 2003, the number of cases had risen to approximately 10,000 a year.^{/9/}

To obtain exclusive rights to the use of a trademark, applicants must file an application with China's Trademark Office. As with patents, China relies upon a first-to-file system that does not require applicants to provide evidence of prior use or ownership. The term of protection is ten years from the date registration is granted.

C. Compensation and Damages

1. Administrative Action

Trademark disputes generally begin with an administrative investigation. Typically, an administrative investigation will issue an order to the infringer to immediately cease the infringing acts. The authority may also confiscate and destroy the infringing means of production, and fine the infringer. Under the revised Trademark Law, administrative authorities may no longer award compensation to the party whose rights have been infringed. Although authorities were able to do so under the old law, in practice, the right was rarely exercised and trademark registrants seeking compensation generally had to go to the people's courts. Administrative authorities now encourage settlement through

mediation, though it may be possible for brand owners to obtain compensation from infringers through negotiated settlements.

The Implementing Regulations have increased the maximum fines that may be imposed against infringers. Authorities are now able to levy fines equal to up to three times the infringer's illegal business amount. In addition, regulations provide for discretionary fines up to approximately U.S. \$12,000 in cases where it is impossible to ascertain the illegal business amount. There is little guidance to administrative authorities for imposing fines, particularly regarding minimum fines that may be imposed against repeat offenders or infringers involved with counterfeiting.^{10/}

2. Judicial Action

Civil litigation against trademark infringers in the people's courts has always been an option, but in the past, trademark owners have avoided pursuing litigation for a variety of reasons. These include the cost of lawyers and investigators, conservative attitudes of courts in compensation calculation, the lack of access to preliminary injunctions, and delays in the issuance of decisions.^{11/} In recent cases, foreign plaintiffs have had to wait more than a year for Chinese courts to issue a decision, much longer than the six months which is the maximum period for disputes involving domestic litigants.^{12/} Revisions to the Trademark Law have resulted in provisions that may increase the number of cases filed in the people's courts. Preliminary injunctions are now an option for cases involving infringements of registered trademarks, patents, and copyrights.^{13/}

According to the Trademark Law, in the event of infringement, damages are calculated as the profit that the infringer has earned during the infringement period; the benefits gained by the infringer or the losses suffered by the party whose rights have been infringed. Plaintiffs may choose the method to calculate compensation for losses, either through assessing the infringer's profits or the plaintiff's own losses. If the infringer's profits are impossible to determine, the profit margin for the plaintiff may be used as a reference. Where the plaintiff elects compensation for its losses, these losses may be calculated by reference to the reduction in sales caused by the infringing product or by multiplying the sales amount of the infringing product by the unit profit of the genuine product. Where neither the plaintiff's damage nor the infringer's profits may be determined, the Trademark Law provides for the payment of statutory damages up to U.S. \$60,000. Trademark owners may be compensated for enforcement-related costs.

Under the revisions to China's Criminal Code that took effect in October 1997, certain acts of trademark counterfeiting may be considered criminal, provided that the circumstances are "serious" or involve "relatively large" sales.

III. Copyrights

A. Laws and Legislation

China's Copyright Law was established in 1990 and amended in October

2001./14/ China grants protection to persons from countries belonging to copyright international conventions or bilateral agreements of which China is a member.

B. Application and Registration Procedure

The National Copyright Administration of the People's Republic of China (NCA)/15/ has responsibility for copyright administration and enforcement. The NCA also investigates infringement cases, administers foreign-related copyright issues, develops foreign-related arbitration rules, and supervises administrative authorities. Local copyright bureaus are responsible for administering copyrights in their own administrative districts. Unlike patents and trademarks, copyrighted works do not require registration for protection, although it may be helpful as evidence of ownership in enforcement actions.

C. Compensation and Damages

The parties to a copyright infringement suit may request administrative remedies or may institute proceedings directly in a people's court in the absence of a written arbitration agreement between the parties. In addition, the copyright owner may apply to the people's court for an injunction to restrain an infringer or a potential infringer from infringing the owner's rights. Owing to a chronic lack of personnel, the NCA generally encourages complainants to pursue their claims through the people's court system.

Certain copyright activities are considered criminal, and various criminal penalties have been established. These apply in situations where the amounts of illegal income are "relatively large" or constitute a "huge amount" or where other "serious factors" exist. Prosecutors and police have a broad discretion regarding whether or not to pursue criminal actions. Criminal prosecutions are still fairly rare.

1. Administrative Action

The Implementing Regulations now permit administrative authorities to impose fines of up to three times the illegal gain of an infringer if they determine that the infringement has caused "harm to social and public interests," or up to U.S. \$12,000 in those cases where illegal gain cannot be easily determined./16/

2. Judicial Action

As with trademark litigation, copyright litigation through the people's court system may be pursued more frequently with the introduction of stronger measures such as preliminary injunctions and the availability of statutory damages./17/ In the event of a copyright infringement, infringers are required to pay damages based upon the actual losses of the copyright owner. Where the actual losses are "difficult to calculate," the damages paid may be based upon the illegal income earned by the infringer. The damages paid to the owner of the rights shall also include the reasonable expenses incurred by the owner of the rights in halting the infringing act, including legal and investigation costs. In cases where the rights owner's damage or the infringer's profits cannot be deter-

mined, the current law provides for the payment of statutory damages up to U.S. \$60,000. Courts may also impose fines against infringers commensurate with those assessed by administrative authorities: up to five times the illegal gain or in cases where it is difficult to determine the amount of illegal gain, up to U.S. \$12,000./18/

ENDNOTES

- /1/ Patent Law of the People's Republic of China, "Adopted at the 4th Meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984. Amended in accordance with the Decision of the Standing Committee of the Seventh National People's Congress on Amending the Patent Law of the People's Republic of China at its 27th Meeting on September 4, 1992. Amended again in accordance with the Decision of the Standing Committee of the Ninth National People's Congress on Amending the Patent Law of the People's Republic of China adopted at its 17th Meeting on August 25, 2000." See <www.sipo.gov.cn/sipo_English/flfg/zlflfg/t20020327_33872.htm>.
- /2/ Full text of the Patent Cooperation Treaty may be found at <www.wipo.int/pct/en/texts/pdf/pct.pdf>. More information and background is at <www.wipo.int/pct/en/>.
- /3/ China State Intellectual Property Office (SIPO), at <www.sipo.gov.cn>.
- /4/ Patent Law of the People's Republic of China, Article 58 (<www.sipo.gov.cn/sipo_English/flfg/zlflfg/t20020327_33872.htm>).
- /5/ *Id.*, Article 57.
- /6/ *Id.*, Article 60.
- /7/ Trademark Law of the People's Republic of China, "Adopted at the 24th Session of the Standing Committee of the Fifth National People's Congress on 23 August 1982." See <www.sipo.gov.cn/sipo_English/flfg/xgflfg/t20020416_34755.htm>.
- /8/ Trademark Law of the People's Republic of China, "Revised for the first time according to the Decision on the Amendment of the Trademark Law of the People's Republic of China adopted at the 30th Session of the Standing Committee of the Seventh National People's Congress, on 22 February 1993, and revised for the second time according to the Decision on the Amendment of the Trademark Law of the People's Republic of China adopted at the 24th Session of the Standing Committee of the Ninth National People's Congress on 27 October 2001." *Id.*
- /9/ Yang Yexuan, "Keeping a Check on Trade Marks in China," *Managing Intellectual Property*, 2005, supplement, "China IP Focus 2005."
- /10/ Baker & McKenzie, "China Intellectual Property Guide," 2004.
- /11/ *Id.*
- /12/ *Id.*
- /13/ *Id.*
- /14/ Copyright Law of the People's Republic of China, "Adopted at the Fifteenth Session of the Standing Committee of the Seventh National People's Congress on 7 September 1990, and revised in accordance with

- the Decision on the Amendment of the Copyright Law of the People's Republic of China adopted at the 24th Session of the Standing Committee of the Ninth National People's Congress on 27 October 2001." *See* <www.sipo.gov.cn/sipo_English/flfg/xgflfg/t20020416_34754.htm>.
- /15/ National Copyright Administration of the People's Republic of China (NCA), at <www.ncac.gov.cn>.
- /16/ Baker & McKenzie, "China Intellectual Property Guide."
- /17/ *Id.*
- /18/ Copyright Law of the People's Republic of China, Articles 46-48. <www.sipo.gov.cn/sipo_English/flfg/xgflfg/t20020416_34754.htm>.

