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Landmark Intellectual Property Decision

On April 16 1996, the Beijing No 1 Intermediate Court, Intellectual Property Chamber, rendered judgment on behalf of the Plaintiffs Microsoft, Word Perfect and Autodesk against Juren Computer Co, the Beijing branch of the large Zhuhai software developer and software and computer distributor.

Discovery

These three cases, which pursuant to application at the outset of the litigation by plaintiffs' counsel, involve court ordered raids on the defendant's premises and the seizure of computers, software and the books and records of the defendant.

Subsequent to application by the plaintiffs, a court appointed accounting firm examined the books and records of the defendant, to attempt to quantify the infringing acts.

The seized computer software and computers were examined by the parties, including experts of the parties to determine infringement.

Trial

These three cases were tried by a panel of three judges before a very large audience including reporters. Witnesses were called and examined, documents produced and legal arguments made. At the conclusion of the trial the court orally found that the defendant had infringed upon the plaintiffs intellectual property rights, and called for briefing on certain legal matters and damages.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

Judgment

The court judgment, read in open court before a public audience, specified the wrongful arts of the defendant and ordered the defendant:

to cease and desist its infringing acts;

to make a public apology to the plaintiff within thirty days of judgement, said apology to appear in the China Legal Daily and the China Computer News;

and to pay to the plaintiffs damages of over RMB500,000.

In addition to the judgment, the court ordered the defendant be sanctioned, finding that the defendant continued to sell infringing software of the plaintiffs even after the case was filed.

Sanctions

In addition to the judgment, the court ordered the defendant be sanctioned, finding that the defendant continued to sell infringing software of the plaintiffs even after the case was filed (as the plaintiffs had produced such evidence). Therefore, the defendant was fined RMB 80,000 to be paid to the court and the court confiscated all of the defendantsí computers and software that were seized in the court ordered raids.

Conclusion

The judgment in these case, essentially granted each of the plaintiff's applications, and about 70 percent of the damages the plaintiff had requested. Damages prayed for were limited because the books and records of the defendant were found to have not been properly kept to reflect sales of all infringing software. The failure to keep proper books and records subjects the defendant to administrative sanctions.

This case is the leading case in the intellectual property field to date in China. It has involved the most complete discovery and the most comprehensive examination of evidence. This clearly has a salutory effect upon the protection of intellectual property in China.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Hong Kong & Taiwan IP Protection Policy

The recent discussion between Charlene Barshefsky, now acting trade representative of the US Trade Representative Office (USTR), with Chinese officials, focussed on problems of continuing infringing acts, particularly by major CD plants in China. Prior discussions have led to two substantive agreements on IP between the USA and China, and have played an important role in strengthening enforcement of IP laws in China. While Ms Barchefsky and the former USTR, Mickey Kantor have worked very successfully with Wu Yi of MOFTEC to develop a proper IP regime, in a country as large as China, this is not a task that will be completed in a very short time. This is, however, not to deny the very dramatic progress China has made in developing a comprehensive legal framework for protection of intellectual property and enforcement of IP laws.

Comparative Background

To put matters in perspective, it was only a short time ago when Taiwan was economically well developed with a highly educated population that it was the center of counterfeit goods; books, records, patented goods, products with counterfeit trademarks, etc all were produced in great quantities by companies in Taiwan, without the slightest interference from the government. Taiwan was for many years a major producer of pirated products. Similarly, Hong Kong companies, which still operate in the Golden Arcade and elsewhere, selling pirated goods with relative aplomb, while not as egregious as Taiwan, was an important area for piracy. Both Taiwan and Hong Kong have improved greatly in the past several years in protecting intellectual property.

Exports From Other Areas

Nevertheless, businesses based in Taiwan, and Hong Kong are at the forefront of piracy in China. Microsoft's important case of infringement in Shenzhen was in no small way a result of Taiwan parties illicit action. A major American manufacturer of dental products is suffering from patent infringement by Taiwan companies, which have established factories in China. Kongalu, the well-known infringer of Kellogg's products, finally put out of business by the high court in Guangzhou, was established by Hong Kong interests. Many of the illicit CD factories in China are the result of Taiwan counterfeiters moving their assembly plants to China, after using Hong Kong shell operations for their business activity.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

One major affiliate of a Taiwan counterfeiter, with a US district court judgment of more than twenty-four million US dollars against it, operates in Dongguan. Shenzhen and Xixiang are other sites for Taiwan affiliates, importers of counterfeit game chips; another Shenzhen factory affiliated with Taiwan is producing tens of thousands of counterfeit units per month. Taiwan investment in counterfeit activity in China grew in 1995.

Hong Kong continues to be a location where counterfeit goods from Taiwan and Korea are shipped to China. Several of the largest video game manufacturers in China, some allegedly producing product valued at one hundred million US dollars per year, are related to Hong Kong corporations. They export the bulk of their counterfeit products. Some of the major CD manufacturers are of course state-owned industries, one for example based in Tianjin.

In general the role of Taiwan and, to a lesser extent, Hong Kong, in developing counterfeit assembly manufacturing, importing and exporting plants in China has been very substantial.

While it is clear that the Chinese government and its legal institutions are responsible to insure that its laws are obeyed, major players in the counterfeit industry in China are Taiwan affiliates and Hong Kong-related corporations.

Conclusion

While it is clear that the Chinese government and its legal institutions are responsible to insure that its laws are obeyed, major players in the counterfeit industry in China are Taiwan affiliates and Hong Kong-related corporations. Thus, the reduction in counterfeiting in Taiwan has to no small extent been accompanied by moving the counterfeiting facilities to mainland China. Therefore the respective government of Taiwan and Hong Kong also have a responsibility to restrain these illicit acts.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

US and China Cooperating to Protect IP Rights

Relevant discussions between the USTR and the Chinese government on enforcement of the intellectual property ("IP") agreement signed on February 26 1995 have focused on pirated CD factories' production and distribution. As a result of these discussions, the Chinese government agencies (such as the AIC and Copyright Bureau) have taken extensive action to remove pirated discs from markets in China. Under further pressure from the USTR and others, the Chinese government has agreed to close some CD plants permanently; remove their equipment; prosecute a number of persons in authority in these factories; and sentence serious offenders. Whether these acts will suffice to satisfy the USTR and others (so as to avoid the threat of sanctions) remains to be seen. Nevertheless, it is clear that China and the US are once again moving to mutual accommodation on IP issues.

Threats Necessary?

There are those who argue that the numerous threats of sanctions made by the USTR against China are an ineffective and improper means of proceeding. However, the facts appear to sustain the argument that this policy is quite effective in catalyzing China to act to enforce the IP rights provided in Chinese law.

Indeed, there is more to all of this than appears in the newspapers. Mickey Kantor of the USTR and Wu Yi of MOFTEC have worked closely together to develop policies to protect IP rights in China. Of course, the Chinese government has a substantial commitment to develop a body of law and institutions to enforce IP rights, which is the very foundation of the cooperation between the two governments in this field.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

The USTR is subject to pressures by its constituents in the US, namely the trade associations and businesses that have their IP pirated in China. In order to satisfy these constituents, a certain amount of public bluster is deemed desirable. MOFTEC has its own constituents, some of whom are clearly not in favour of rapid action to enforce IP rights. A certain amount of resistance and counter-bluster is important for its constituencies. These are public postures. In private, the USTR and MOFTEC are much more cooperative than one can discern from their public pronouncements.

The USTR and MOFTEC have carefully drafted several agreements on IP enforcement, several provisions of which have been adopted into law in China. Cooperative programs and mutual exchanges of information have also resulted from fruitful discussions. Continual meetings have given both sides an opportunity to understand each other's problems and perspectives, and have led to a focus on real problems and on developing laws and policies to enforce IP rights.

The USTR, in view of the substantial progress that China has made in the IP field, is indeed a proponent of the Chinese government in US political circles. Similarly, MOFTEC has good reason to be supportive of US government action in this field. Thus the public posturing belies a certain political reality.

Conclusion

Both in terms of substantive laws and institutional development, China has made great strides in protecting IP rights. Nevertheless, because of the size of country and the weakness of some of the administrative and judicial institutions in China, IP infringement remain a major problem. Because of the basic willingness of the Chinese government to develop proper IP laws and institutions to enforce IP rights, the USTR has been able to act as an extremely useful catalyst and partner in effecting the relatively rapid development of IP institutions in China.

Nevertheless, there are areas where, irrespective of the mutual endeavors of Chinese and American officials, progress is extremely slow - namely, the strengthening of the institutions that enforce the laws. The development of the judiciary in China, consisting of a well-educated, properly-trained body, with judges of status deciding matters in an objective way, is not a matter that can be solved by meetings. The new Judge's Law will take some years to affect the judiciary. The need to increase remuneration of judges so as to attract some of the best judicial minds is also a problem that cannot be addressed by MOFTEC.

The additional trained personnel required by the Copyright Bureau (and other institutions that protect and enforce IP rights) is determined by various factors, only some of which can be dealt with by MOFTEC and USTR. Thus, there are numerous matters regarding basic institutional changes that cannot be handled by meetings between the parties.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Examination of Trademark Applications

More than two years have passed since the 1993 amendments to the Trademark Law and the Detailed Rules Implementing the Trademark Law. During this time, the practical experience of those engaged in registration of trademarks in China has helped to develop a body of information on Chinese policies regarding trademark registration. While the Trademark Bureau has not publicly promulgated general rules on trademark examination, the criteria it uses in examining applications for registration may in part be ascertained by the decisions it has rendered.

Conflicting Applications

For example, pursuant to articles 17 and 18 of the Law, within categories of the same or similar commodities, applications for registration of a mark the same as or similar to one already registered must be rejected. Where there are two applicants for the same or similar marks in the same category, the later application shall be denied.

Same Commodities

The initial inquiry by the trademark examination section is whether the goods are the same. This includes examination of a product or services capacity, use, raw materials, sales outlets and customers. Thus all types of clothing will be in the same category, even if the application is for pants it will not prevail over a mark registered under the category clothing. An application for pants also will not prevail if there is already a registration under the category jacket. These decisions deal with the issue of whether the products are the same.

Same Marks

In determining whether the marks are the same, there will be an examination

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

of the difference in the words, design, layout and appearance. For example, the examination of words will generally include the form of the letters as well as their sound and meaning. Where words are the same but the layout is different, this will not suffice to prevent rejection.

Where designs are the same but with some differences in appearance, for example, depicting an outline of a horse in black standing alone, in contrast to one in white in a circle, such marks will be deemed the same marks. This, of course, does not apply to a famous mark, which will be approved even if it is the same as the original mark. Upon approval, application can then be made to cancel the original mark.

Same Layout

With regard to layout, consideration must be given to the words, design and appearance. The fact that a different script is used, or the design is larger or in a slightly different arrangement, will not suffice to permit approval.

Similar Words

In determining whether the words are similar, examination must be made of all words, form, meaning, order, sound, etc. The possibility of ease of confusion must be considered. Thus, if the same language is used and the sounds or meaning are the same but the form differs, that is normally considered a similar mark. Differences in script or form do not suffice to assist the applicant. If some of the letters differ - but the sound is the same, the form of the words are similar and the words have no meaning, causing confusion among consumers - then normally such marks would be considered similar. Thus, Chinese characters where one or more are different but the different characters have the same sound, will be deemed similar. But where the sounds are the same but all characters entirely different, these will not normally be considered similar marks.

Where the same language is used, the meaning is the same, and both marks relate to the same matter - but the sound and style are different and the entire form is substantially different - then such marks will not be regarded as similar.

Where the sounds of certain words are the same - but the layout and the sound of other words differ - then the marks will be considered similar. This is particularly true where the Chinese characters are the same but they have more than one pronunciation and thus the *pinyin* differs - such marks are similar. Similarly, if Chinese characters have been registered as a mark, the *pinyin* version will be found to be similar and a registration denied. Where the *pinyin* of the character is registered or applied for first, this will only prevent the use of the *pinyin* but not registration of the character itself, unless the *pinyin* has a special meaning.

Conclusion

The above are a few examples of the rules that may be ascertained by examining practice in China and the writings of experts. While these guiding principles are not hard and fast, they provide guidance to applicants who wish to register trademarks in China. It is desirable for the Trademark Bureau, under the SAIC, to publicly promulgate a manual explaining its policy for applicants for trademark registration.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Protection of Commercial Secrets in China

The State Administration of Commerce and Industry ("SAIC") issued an Order on November 23 1995 entitled "Regarding Several Regulations Prohibiting Acts of Infringement of Commercial Secrets" ("the Order"), which is based on the Law Against Unfair Competition ("the Law").

Article 2 of the Order defines "commercial secrets" as matters not of public knowledge, having capacity to bestow economic benefit, consisting of useful economic or technical information, for which the rights holder undertakes efforts to maintain in confidence (by entering into confidentiality agreements or by other methods). This is virtually identical to the definition found in Article 10 of the Law, but the Order broadly defines what can constitute a business secret. The scope of protected technical and economic information includes design, procedures, the composition of products, methods of composition, management know-how, client lists, intelligence on supply of goods, sales practices, tender offers information, etc.

Prohibited Acts

Acts prohibited by the Order (and by Article 10 of the Law) include: obtaining commercial secrets by stealing, coercion or inducement; wrongful disclosure, wrongful use or wrongfully permitting others to use secret information by the aforementioned means; violation of contracts protecting commercial secrets; and violating the rights of those maintaining materials in confidence.

Evidentiary Basis

The complainant can apply to the SAIC at the county level or above, producing evidence of infringement. The respondent, those having relations to the matter, and witnesses, must then provide evidence to the SAIC.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

The Order provides a logical manner of proof of infringement of business secrets. If the complainant, having rights to commercial secrets, can evidence that the respondent used identical or similar commercial information and had an opportunity to obtain said commercial secrets, and if the respondents cannot evidence that they lawfully obtained said secret commercial information, then the AIC can certify the infringing acts of the respondent.

Enforcement and Damages

The AIC can seize the software, documents, designs, etc. that constitute the infringing products; order the respondent to cease infringing action; and, pursuant to Article 25 of the Law, sanction the respondent with fines of RMB 10,000 to RMB 200,000. As for compensation, if not determined by mutual agreement, application can be made to the court for a determination. Where compensation is difficult to calculate, the Law provides that damages shall be the profits gained by the infringer during the infringing acts; repayment of investigation fees, etc., shall also be ordered.

Pursuant to Article 29 of the Law, if the complainant objects to the results it can apply to the next higher level of the AIC for reconsideration of the initial decision within 15 days from the date of receipt of the decision. If dissatisfied with the higher-level decision, complainant can apply to the court for review. The complainant can also directly commence proceedings in the court.

The problem with the fines provided in both the Law and the Order is that they are much too small to be meaningful when there is a major violation. As for damages, most infringers - even major Chinese corporations - do not maintain proper books and records reflecting their infringing (or in some cases even their legitimate) activity. The result is that it is quite difficult to prove damages in most of these cases. While in some cases the complainant can determine its own loss of market share, it is very difficult to persuade the court to accept these calculations. This is a problem that can be resolved by much more substantial fines, the cancellation or suspension of infringers' business licenses and the payment to complainants of all costs of litigation or administrative proceedings, including legal fees.

Conclusion

The Chinese government continues to strengthen its law on intellectual property, and recent vigorous action against CD factories evidences China has the political will to close major institutions of infringement. Emphasis on strengthening the institutions of enforcement is now most important, if proper intellectual property institutions are to develop.

The courts, AIC, arbitration institutions, patent bureau and copyright bureau all need very substantial improvement in their work, including better training and compensation for judges and administrative adjudicators. Chinese institutions would benefit greatly from the establishment of an administrative court system, independent of both the local government and of the government institutions whose cases they will handle. As important is promulgation of a law of evidence, still missing in China.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

TRIPS Agreement and Chinese Trade Law

The Agreement on Trade Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods ("TRIPS") is Annex 1C to the General Agreement on Tariffs and Trade ("GATT"). This agreement is designed to set minimum standards for the protection of intellectual property. Developed countries must pass legislation conforming to TRIPS within one year of the Agreement coming into force; a developing country has four years to comply, and a least developed country ten years. China is not yet a member of GATT/TRIPS and the period of time in which it will be required to comply with TRIPS will depend upon the status of Chinese admission. In view of the importance of China in the global market, some have argued that China should only be admitted to GATT/TRIPS as a developed country—though it is likely that some compromise will be reached on China's status upon admission.

Well-Known Marks

While Chinese law generally conforms to international practice, some areas comply with the TRIPS Agreement.

The Paris Convention (Art.6) and TRIPS (Art.16(2)) provide that well-known marks shall be given special protection and marks partially or entirely similar to the well-known mark should not be registered. Furthermore, a well-known mark cannot be challenged five years after its registration, except if registered in bad faith. These provisions also apply to well-known service marks.

While there are provisions in Chinese law providing for the protection of well-known marks (for example, US-China IP Rights Agreement; February 1995; Annex I: Action Plan for Protection and Enforcement of IP Rights and in the Law Against Unfair Competition) there are no specific provisions protecting well-known marks in China's Trademark Law, though in practice, well-known marks have received certain protection by the action of the Trademark Agency. China is a member of the Paris Convention, which at least deals with well-known marks applicable to goods, but not to service marks. Therefore it is likely that the Chinese government will have to amend the Trademark Law to conform to the TRIPS Agreement.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

Failing to Use Marks

The TRIPS Agreement (Art.19) permits cancellation of a registered trademark that has, without a valid reason, not been used for a continuous period of three years. TRIPS provides that use of the mark by a third person subject to the control of the owner of the mark, meets the requirements of "use". In Chinese practice, the placing an advertisement during this period would satisfy the requirement, and prevent cancellation. While the TRIPS example may not be meant to be the exclusive definition of "use" in that Agreement, giving the contracting status some latitude to determine their criteria of "use", there may be some question as to whether the Chinese government needs to amend its legislation to conform. Chinese Trademark Law currently does not define "use" as applicable to the criteria for cancellation, and should be clarified by a specific amendment.

Visibly Perceptible Marks

TRIPS (Art.15) permits the registration of visibly perceptible marks which include three dimensional ("3D") marks. Chinese practice does not permit registration of 3D marks. Chinese practice in this area may not violate the TRIPS Agreement, which does not appear to be compulsory, requiring all convention members to permit registration of all visibly perceptible marks, therefore the Chinese Trademark Agencies refusal to permit registration of 3D marks may not be a challenge to the TRIPS Agreement. Nevertheless it probably is desirable for China, to conform to international practice, and permit registration of 3D marks.

Chinese law, broadly conforms to international practice. China is a member of the Paris Convention and most other major international treaties related to IP. China's agreements with the USA on IP matters, have assisted in transforming Chinese law and practice to acceptable international standards. In some cases Chinese law goes beyond the minimum requirements of the TRIPS Agreement. Nevertheless some adjustments in the Trademark Law, mostly minor in nature, will have to be made.

It would help China's entry into the World Trade Organization if it rationalized its IP laws, amending the Trademark Law for example, so as to reflect practice and its Agreements with the USA. China should promulgate detailed rules on trademark practice and the like, to conform to actual Chinese practice and international requirements. This will provide a solid basis by which the international community can readily recognize the strides China has made in developing intellectual property protection laws.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Patent Protection in China: Enforcement Problems

Problems in enforcing patent rights in China have been caused, in particular, by the problem of extensive delays in the Patent Bureau deciding upon matters of infringement. This has affected a patent holder's rights to protection. According to the Detailed Rules for Application of the Patent Law, Art. 79, infringement actions can be commenced at the location of the infringing action or the headquarters of the infringing organization. The Patent Law, Art. 60, also permits commencement of an action in court, for infringement. One common method of creating delay in an infringement suit in China is for a defendant or respondent to apply to have the patent reexamined. Under the Patent Law Art. 48 and 49, any person may apply to the Patent Re-examination Board to have a patent cancelled six months after the issuance of the patent. At the end of 1994, there were 1007 cases still pending at the Board for re-examination and cancellation. This backlog clearly affects those trying to preserve their rights.

Administrative Actions

Furthermore, the respondent can bring an action in court against the administrative tribunal if it believes the decision of the Patent Bureau or Re-examination Board is in violation of law. This adds further delays.

The Patent Re-examination Board has become sensitive to such claims of invalidity of patents, by defendants sued for infringement, and they have stated they will attempt to expedite these cases. In addition, the Board has conducted certain circuit proceedings in several cases, going to the location of the action to determine the issues. These methods are of some help in reducing long delays.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

Under the Action Plan for Effective Protection and Enforcement of IP Regulations in the annex to Michael Kantor's letter to Wu Yi of 26 February 1995, administrative Task Forces were to be established with authority to expeditiously enforce the rights of patent holders. If these Task Forces had been constituted as described in the Understanding between China and the USA, they would be useful in patent infringement cases. However, since that is not the case, they still are of limited use.

Applications and Revocations

The total number of patent applications in China from 1985 is 439,529, and the growth rate of applications is increasing. Utility model applications are growing at an even faster rate than other applications. The total numbers of patents granted in the same ten year period was 223,152. While application for revocations, invalidation or re-examination are still relatively small, nevertheless infringers appear to represent a significant number of such applicants.

Improvements

China has witnessed a spectacular growth in domestic and international patent applications and the issuance of patents. Protection of a patent holder's rights has lagged behind. A defendant's application for a declaration of invalidity of a patent effectively stops administrative infringement proceedings until such application is decided. This, coupled with the availability of actions in court against an administrative decision regarded as wrongful by the infringer, can seriously affect the rights of the patent holder. Substantial work needs be done in China to resolve this problem.

One possibility is to restrict the use and effectiveness of an application for cancellation of a patent and to require the defendant to post a bond if the infringement action is to be suspended. Furthermore, if such an application is made by the defendant in an infringement case, for the first time, the presumption of the validity of the patent should be strong and require the defendant to meet a substantial burden of proof.

The use of circuit court proceedings to hear cases on location and to decide matters promptly can become a regular form of proceedings, and provided only that they are conducted in the same juridical atmosphere as cases in the courts or administrative tribunals, they can be very effective in expediting decisions. Finally, defendants who assert the defence of patent invalidity in infringement actions, and have proceedings stayed until such matters are resolved, should be required to pay the costs of the injured party, including all legal fees, if their claim is found to have no basis in law. It is only with measures such as these, together with strengthening of the work of the Patent Bureau, its various agencies and the courts, will patent rights be properly protected in China.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Leading Copyright Cases in Beijing

Microsoft, Autodesk and WordPerfect commenced separate actions in the Spring of 1994 against Juren Computer Ltd. (a Beijing division of the Zhuhai's Juren High Technology Group) for sale of infringing software. Juren is one of the largest manufacturers and distributors of software and a large distributor of computers in China. Juren's headquarters in Zhuhai were visited by Prime Minister Li Peng recently.

Court Raids

Upon filing of a complaint, the plaintiff's counsel immediately made application on behalf of plaintiff's Microsoft and Autodesk for a court ordered raid on the premises of the defendants, to seize evidence of infringement and property of the defendant. The seizure of this property required the posting of a bond with the court by plaintiffs. The raids were held and several computers and a large amount of software was seized from the defendant, providing evidence of substantial acts of infringement. In addition, books and records of the defendant were ordered seized by the Court in an attempt to quantify damages.

Court Appointed Auditor

Pursuant to the defendant's application to maintain their books and records confidential, the Court appointed an auditing firm to review the books and records for purposes of the issues at trial. The plaintiffs were not permitted to examine the defendant's books and records.

Special proceedings were undertaken by the Court, so that the plaintiffs and their experts, in the presence of the defendant, were permitted to examine the evidence seized by the Court (except the financial books and records). A catalogue of the evidence, which was introduced at trial was prepared by the parties and the auditing firm prepared a report relevant to the allegations in the case.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

Some time after the raids, the plaintiff's found that the defendant, Juren was still selling infringing software.

Trial

The trial was held on October 12 1995, and all three cases were concurrently heard before a panel of three judges led by the Head of the Intellectual Property Chamber. The Court permitted a large number of reporters to be present at the trial.

The defendant chose to attack the credibility of the plaintiff's evidence, and to allege it had certain licences or was the beneficiary of certain licences, which permitted the copying of plaintiff's software. The plaintiff produced legitimate software in court that it had purchased, but plaintiffs were able to show the licence permitted only a single copy be made for each users' own back-up purposes.

The attack on the plaintiff's evidence was by way of having employees of the defendant, who sold the infringing software to investigators, testify alleging that they were induced to make sales. The plaintiff's evidence however was all confirmed by a notary and unassailable.

The Court ruled unanimously from the bench, that on at least three occasions, Juren had engaged in acts of infringement, and unless it provided evidence that it had a licence for other software within fifteen days of the trial, it would be held to have infringed copyrights in numerous other instances.

Conclusion

The relatively straightforward manner in which the *Juren* case has been disposed of thus far, and the fact that the defendant is a substantial and well connected corporation, clearly speaks well of the Chinese judiciary. The main remaining issues are the quantum of damages. Plaintiffs are required to particularize their application for damages and costs within fifteen days from the trial. The problem with these particulars, as in many of these type of cases, is that the books and records of the defendant do not in any accurate way reflect the actual quantum of illegal sales. Nevertheless, there is evidence of illicit sales and presumably the defendant may expect, in view of its illicit acts already decided by the court, that all presumptions as to quantity of damages will be decided in favour of the plaintiffs.

The panel of the Court was headed by Su Chi, one of the experts in the judiciary on intellectual property who is concurrently Head of the IP Chamber of one of the Beijing Intermediate Courts, and one of the Assistant Heads of the entire Court. The other two Judges, Luo Dongchuan and Liu Haichi, as manifested at trial, have clearly developed expertise in intellectual property.

The two Intellectual Property Chambers of Beijing's Intermediate Court are clearly the most active and experienced Chambers in the nation.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

The Status of IP in China

The signing of the agreement in Beijing between the USA and China in January 1995 resulted in the establishment in China of task forces on intellectual property. These task forces, ad hoc organizations with personnel culled from various government agencies involved in intellectual property protection, have not played the role they were designed to undertake, namely, hearing and expediting IP cases. Nevertheless, there has been important IP enforcement activity in China.

Procurator

The Supreme Procurator has issued a Notice Regarding Infringement in Intellectual Property Criminal Cases which are to be Strictly Handled Pursuant to Law.

In 1994, almost 78% of the cases handled by the procurator in the IP area were based on complaints from the public.

Pursuant to national statistics, as of November 1 1994, 2,270 criminal cases were received by procurators involving the wrongful use of registered trademarks, and 1,260 cases were actually filed with the courts. Over the past three years, of the 7,923 cases handled, 2,665 involved some form of criminal punishment and, in addition, RMB 59 million in damages were recovered from these criminal defendants.

In 1995, there was a drive by the procurator to emphasize certain aspects of intellectual property protection, including: illegal criminal acts with regard to registered trademarks; illegal activity exceeding RMB 100,000; wrongful exports of products with illicit trademarks of domestic and international famous marks; illegal production and sale of recordings, books and electronic software, and infringement of copyright with serious result; use of gambling as a means of sales of infringing products; and use of threats to impede legal personnel from handling criminal infringement cases according to law.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

Supreme Court

The meeting of the Adjudication Committee of the Supreme Court approved the Court's explanation regarding the Decision on Criminal Punishment of Infringement of Copyright of the National People's Congress of July 5 1993. The explanation deals with, inter alia, written standards for determining the severity of a case, criteria for punishment. In addition, the application of the Court's Explanation of the Supplementary Regulations for Criminal Punishment for Wrongful Use of Registered Trademarks are presently also being reviewed by the same committee of the Supreme Court and will be issued shortly.

These formal explanations of the law of the Supreme Court are of the greatest importance in China, and they help to flesh out the laws promulgated by the National Peoples Congress. Furthermore, the court often provides carefully drawn interpretations of the law that guide the courts' administrative organizations as well as litigants. These explanations by the Supreme Court or Notices are binding rules upon the lower courts and administrative organizations involved in IP enforcement.

Infamous Recent Cases

Infringement cases handled by the courts from 1989 to November 1 1994 in all of China numbered 7,164, of which 2,166 (almost 30%) were copyright cases. These were mostly domestic cases, but they did include a small number of foreign cases from Hong Kong, Macau and Taiwan .

The most famous instances of criminal infringement in China have been domestic cases, such as the criminal infringement cases in Guizhou Maotai Liquor; Sichuan fertilizer, Yunan Hongtashan Cigarettes; Shanghai monosodium glutamate and Jiangsu agricultural chemicals. Some have resulted in life sentences for the criminal acts.

Some cases are a result of the anti-fake drive throughout China. At times, intense efforts of several agencies are required to solve specific cases, e.g. the anti-fake groups, AIC, and the Bureau of Health.

Similarly in Zhejiang, Pingan county, and Fujian, Fuding county, a serious infringement case involving sales of machinery, with sales over 150 million yuan was resolved after one year of intense efforts by several agencies.

Conclusion

The recognition of the importance of protection of IP in China is most apparent in domestic cases which, not surprisingly, form the largest bulk of all IP cases. Domestic case do not have a similar status to the high profile activities concerning foreign intellectual property, and rather than being handled in a systematic manner are often handled in an ad hoc way based on foreign political pressure.

To protect IP in China, foreign organizations, governments and corporations should look to the existing legal institutions and try to ensure that they are regularly employed, and where they are inadequate, complaints should be made to strengthen the institutions rather than solely pushing for pressure in certain cases. Both Chinese and foreign litigants have a strong vested interest in ensuring that the legal institutions entrusted with enforcing the law are undertaking their responsibilities as directed by law.

David Buxbaum

ARNBERGER, KIM, BUXBAUM & CHOY

Protection of Famous Products and Famous Brands

The General of the Bureau of Commerce and Industry issued an Order on July 6 1995 entitled "Regarding Several Regulations in Unfair Competition with Regard to Prohibiting Counterfeiting of Famous Products' Brand Names, Packaging and Design" ("Order"). This order is designed to elaborate upon and clarify the Law Against Unfair Competition, in particular to clarify the protection of famous product's, brand names, packaging and design that enjoy legal protection, though they are not registered trademarks in China.

The Order, Article 2, makes reference to the Law Against Unfair Competition, Article 5(2), and provides that where there is evidence of famous products, the counterfeit use of the brand name, packaging or design of such products is prohibited, if they will cause confusion, whereby the purchaser will wrongfully assume the famous product was being purchased.

Famous Product

The Order, Article 3, defines a famous product as one that has a reputation in the market, a product known to the relevant public, the packaging, and design is commonly used and the brand name has its own special characteristics. Famous brands are independent of any registered mark, and are clearly separate from the ordinary organic name of the product.

Packaging is defined as the accessory and container of the product for ease of carrying, storage and transportation. Design is defined as words, design, color, presentation and composition, to beautify the product.

Evidence

The Order, Article 4, provides that if someone produces a product with the same or very similar brand name, packaging or design as another product, so that consumers will mistake the copy for the original, then the product will be deemed a famous product.

David Buxbaum is an attorney in the firm of Arnberger, Kim, Buxbaum & Choy

To determine if a product's packaging or design is similar, one is to examine primary characteristics or the overall impression it makes (Art. 5), using the normal consideration of an average consumer.

Thus the determination of the fame of the product is based on someone trying to copy it. The concept being that it is unlikely someone would try to copy a product having no market recognition. This order provides a very strict standard for the Law of Unfair Competition in China, and provides relative ease of proof of what is a famous product so as to receive protection under the Law of Unfair Competition.

Sanctioning Offenders

The Bureau of Administration of Industry and Commerce ("AIC") at the county level and above has authority to determine whether a product is a famous product (Art. 6). Similarly, administrative action against those who infringe the brand name, etc of those having famous products, including fines, confiscation, cancellation of business license, etc is under the authority of the AIC (Art. 6, Law of Unfair Competition, Art. 21). Those who knowingly sell counterfeit famous products, etc or those that they should know are counterfeit can be sanctioned (Order, Art. 9).

Enforcement

These regulations are a further step in clarifying a very important part of the Law Against Unfair Competition, and in protecting famous brands, packaging and design against counterfeiting. The burden of proof of the fame of the product is ingenuous and helpful in enforcement proceedings.

The ease of proof of unfair competition, with regard to famous products provided in this Order, will make the work of the AIC and the intellectual property chambers of the courts much easier.

Urgent Need

The growth of a relatively complete body of law in China related to intellectual property, needs urgently to be implemented by strengthening of the enforcement agencies

In this regard it would be most beneficial for the AIC to establish special administrative tribunals, with legally trained personnel, solely for IP enforcement responsibilities. To properly train and compensate their personnel there is no reason that the AIC cannot have proper fee schedules for the filing of cases and the like, instead of the present ad hoc situation.

If copyright enforcement work is also to be delegated to the AIC, as is enforcement of trademark rights and the rights under the Law of Unfair Competition, the AIC will be the major administrative organization employed in enforcement of IP rights. The extensive breadth of the AIC organization throughout China and their experience in trademark enforcement, makes them a fine organization to undertake this very important work. This work shall not denigrate from the important role the courts, and particularly the intellectual property chambers, must play in IP enforcement, particularly in important cases, but will act as a complement to the courts.

David Buxbaum

CHINA LAW BULLETIN

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Functioning Task Forces

David Buxbaum (left) and **Zhu Yikun** (right) are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy

Pursuant to the Action Plan for Effective Protection and Enforcement of Intellectual Property Rights (hereinafter "Action Plan") of IP Agreement of March 11 1995, China was to establish a central enforcement task force and local task forces to enforce IP laws. In Guangdong (GD) province, the Anti-Fake Products Office was established even before the execution of the foregoing IP Agreement, but in fact to date there is no task force. In both Guangdong and Beijing organization similar to task forces, were established long after the period contemplated by the Action Plan.

Beijing Sub-Central Task Force

Beijing's so called Task Force was established at the Beijing Municipal Science and Technology Commission. The functioning of the Beijing Task Force is still questionable, since it rejected the requests of right holders in defiance of the express provisions of the Action Plan. On June 16 1995, the legal representatives of major software manufacturers filed a "Petition for Investigation and Enforcement Action" with this so called task force. Mr Liu Ruiweng, director of the Commission and Miss Gu Yanfang, chief of the Division of Policies and Law of the Commission received the materials. Unfortunately, Miss Gu informed the legal representatives of the foregoing companies that they would not accept the complaint since it was out of their authority. The legal representatives objected to the groundless refusal on the same day. However, the Beijing Task Force did nothing.

The action of the Beijing task force violates the provisions of the Action Plan. It provides that the task force has all necessary legal authority and will use its resources to initiate and carry out investigation of any suspected infringement. According to the Action Plan, right holders are entitled to submit a petition, and once received, they should forward such petition to administrative authorities in charge of the IP for management of the case. Further, the Action Plan requires that petitions shall be accepted according to published, uniform criteria that are limited to determining whether there is reason to believe that the petitioner is the right holder and there is reason to suspect that a right has been or may be infringed. If rejected, they are required to give written reasons for rejection. Clearly, Beijing Task Force violated the foregoing express standards.

Central Task Force

The Central Task Force was established in the State Science and Technology Commission. The Central Task Force is functioning more effectively than the Beijing Task Force. In a petition filed for Investigation and Enforcement Action with the Central Task Force on June 23 1995 Mr Duan Ruichun, head of the Department of Policies and Laws of the Commission received the petition. On June 26 1995, the legal representative also filed the same petition with Mr Wang Hanbo, chief of the division of laws of the Central Task Force. On July 3 1995, Mr Wang informed the legal representatives that they had accepted the petition. They said they had also designated a particular person to handle the case. On July 5 the legal representatives of the copyright owners received a written reply from the Central Task Force. According to the Reply, the Task Force referred the case to the State Copyright Administration ("SCA") for disposal.

GD Anti-Fake Products Office

The GD Anti-Fake Products Office is as close to a task force as required by the Action Plan, but they deny they are a task force. The Guangdong ("GD") Provincial Government organized the Leadership Group of Anti-Fake Products in January 1995 so as to strengthen IP enforcement and curb fake products. The Group consists of 27 GD government agencies, including GD AIC, GD Copyright Bureau, GD Public Security Bureau, GD High Court, GD Procuratorate. The director of GD TSB concurrently is the head of its executive office. The Anti-Fake Products Office powers and function defined by the GD Provincial government include being responsible for the routine work, organizing and coordinating the annual plan for actions, handling or assisting competent government agencies, inspecting progress, accepting complaints against fake and substandard products, and directing anti-fake products work in the whole province and reporting to GD government.

So far, the GD Anti-Fake Products Office is active in cracking down on IP infringement. The central task of Anti-Fake Office is to investigate and dispose of fake and substandard goods. Nevertheless, it has failed to respond to complaints made by legal representatives of a foreign food manufacturer on May 30 1995, within the time specified in the Action Plan. In addition on June 6 the legal representative of a foreign sports shoes manufacturer filed complaint with said TSB. So far, they have failed to provide written response.

Conclusion

To date the Action Plan has not been implemented by China as contemplated by the Plan. While various localities have been active in enforcement, almost no locality has established the Task Forces that were contemplated by the Action Plan and undertaken enforcement action as prescribed in that plan. This is a matter of some concern.

David C. Buxbaum & Zhu Yikun

CHINA LAW BULLETIN

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BUXBAUM & CHOY

Recent IP Cases in China

A number of IP cases which were pending in the Beijing Intermediate Court have been disposed of in May 1995. These cases provide intellectual property owners with some expectation as to the judicial process in IP cases in China.

David Buxbaum and **Zhu Yikun** are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy

David Buxbaum

Prentice Hall v Anhui Science & Technology Press

A suit was lodged last year against Anhui Science & Technology Publishing Houses by Prentice Hall and Harcourt Brace for copyright infringement. On May 25, 1995, said case was concluded by settlement after litigation. Under the settlement, the Anhui Science & Technology Publishing House and the Beijing based book stores including Beijing Xidan Foreign Language Book Store, Beijing Foreign Reference Book Store, Beijing Xinghua Book Store, Wangfujing Store and Beijing Foreign Languages Book Store, agreed to pay compensation to the US publishers.

The compensation covers virtually all losses of copyright royalties, including those incurred before the 1992 MOU between China and US, for three books, the copyrights of which are owned by Prentice Hall and Harcourt Brace. The foregoing defendants also agreed to reimburse evidence-gathering expenses, communication fees and legal fees of the US publishers. The actual court costs have been borne by the defendants pursuant to the settlement.

The aforesaid compensation for losses and various expenses was paid to the US publishers within five days of settlement. The defendants also agreed to destroy all the remaining copies of infringing books and associated materials, and guaranteed that they would not infringe any copyright belonging to Prentice Hall and Harcourt Brace in the future.

In the joint statement concerning copyright infringement made by the foregoing plaintiffs and defendants, the defendants admitted the infringement and proferred a public apology.

Walt Disney v Beijing Children's Press

This suit was commenced in 1993 in the IP Chamber of the Beijing Intermediate Court. Nine months ago, said court issued a preliminary decision, but not a final ruling, according to which Beijing Children's Publishing House, Beijing Publishing House and New China Book Store Distribution Centre were preliminarily considered to have infringed upon the copyright of the US Walt Disney Company. On May 18, 1995, the defendants agreed to pay Disney US$27,360 as damages for unauthorized use of valuable characters of Disney, including Mickey Mouse, Cinderella, Peter Pan and Snow White.

Microsoft v Beijing Gao Li Computer Co

After the effective date of the Sino-US MOU of 1992, Beijing Gao Li Computer Company still reproduced and sold software whose copyright is owned by the US Microsoft Corporation, Autodesk Inc., Novell Inc., Wordperfect Corporation and Lotus Development Co Ltd. The suit against Gao Li was initiated by these plaintiffs in 1994. It was concluded by settlement after prolonged litigation.

Part of the litigation included court raids on the defendant's premises, pursuant to application of plaintiff's counsel, where the court seized infringing software, computers and the books and records of the defendant. Thereafter a court appointed accountant commenced examination of the financial books of the defendant to calculate illicit sales.

This procedure was very helpful in pressing the defendants to pay substantial damages, by Chinese court standards, to the plaintiffs. The settlement provides that Beijing Gao Li Computer is to pay compensation for damages to the US software owners. In addition, the defendant agreed to reimburse the foregoing plaintiffs for all expenses of litigation and investigation including notarization fees, evidence gathering fees, enforcement fees, investigation fees, auditing fees and property preservation fees.

By the settlement court costs are also to be assumed by the defendant. The aforesaid damages and costs were to be paid to the US software owners within five days from settlement, and have been deposited in court, pending dismissal of the case.

Under the settlement, Beijing Gao Li Computer Company promised not to again infringe on any software of the foregoing plaintiffs, and agreed to provide legally-acquired software to meet all legitimate needs in timely fashion and in sufficient quantities for all their computers, comply with all licensing or purchase terms regarding the use of any software they employ, and enforce strong internal controls to prevent the making, selling or using of unauthorized software copies, including effective measures to verify compliance with appropriate standards, and to undertake appropriate disciplinary action for offenders.

Conclusion

These cases illustrate that defendants, who infringe upon foreign copyright may well be subject to proper civil action in certain courts in China. This development is clearly a positive one for protection of intellectual property in China.

Enforcement of Sino-US IP agreement

Minister Wu Yi, of China's Ministry Foreign Trade and Economic Cooperation and Michael Kantor, Trade Representative of the US, signed an agreement on intellectual property on March 11, 1995, after 9 rounds of bilateral negotiations. The Chinese government formulated an Action Plan for Effective Protection and Enforcement of IP Rights ("Action Plan"), which was included as an annex to the Sino-US IP Agreement. The Action Plan sets forth both immediate and long-term projects for the enforcement of IP rights through the exercise of existing and expanded institutions. China agreed to launch a special enforcement period over a six-month period commencing on March 1, 1995, during which urgent action would be taken to investigate and punish infringement of IP rights. targeting areas with a high level of infringement. Action will be taken against the manufacture, reproduction and distribution of infringing goods.

Working Conference

According to a recent meeting of the State Council Working Conference on IP Rights, 22 provinces, directly administered municipalities and autonomous regions including Guangdong, Shanghai, Beijing Tianjing, Wuhan, Nanjing, Shenzhen, Jiangsu, Zhejiang and Fujian have established sub-central working conferences on IP. They will organize and carry out activities within their respective jurisdiction at the direction of the State Council Working Conference. The central Working Conference requested sub-central working conferences to: (1) immediately formulate and carry out enforcement plans, and report the results of inspection once every week; (2) investigate and punish piracy in the copyright area so as to cleanse the market; (3) supervise and rectify local LD and CD production lines, including products list, authorization and licences, infringement records and inspection results, and (4) popularize the law and hold professional training programs.

David Buxbaum

Arnberger, Kim, Buxbaum & Choy

Infringement by government

Infringement of computer software is strictly banned under the Copyright Law of China and Software Protection Regulations promulgated by the State Council. To ensure effective enforcement against infringement of computer software, the General Affairs Bureau of the State Council recently instructed all government department agencies, institutions and enterprises not to use illegal software. This is an important step by the Chinese government to honour its commitment under the Sino-US IP agreement and the Action Plan.

No task forces

The Action Plan provides that China will organize an Enforcement Task Force, consisting of the National Copyright Administration (NCA), State Administration of Industry and Commerce (AIC), the Patent Office, customs and police at the national, provincial and city level. Each enforcement task force is to have all necessary legal authority and use its resources to initiate and carry out investigations of any suspected infringement of IP rights. Given that there are numerous government departments at the central and sub-central level to administer IP laws and regulations, the enforcement task force is a constructive means to enforce IP rights. However, there are no reports about the establishment of any central or sub-central enforcement task forces, nor has there been any publication of any contact person and phone number of the enforcement task force. As provided in the Action Plan, IP right holders still feel it difficult to provide information and obtain action from the government departments. Despite the time limits provided in the Action Plan imposed on the authorities to make decisions as to whether the IP right holders' application has been accepted, the authorities in Guangdong Province are moving very slowly in handling trademark infringement and anti-unfair competition cases. Some new institutions have been delegated authority in some provinces for exampled the Guangdong Bureau of Technical Supervision, is empowered to deal with counterfeiting problems, but it is moving slowing to establish its authority.

Administrative action denied

Another big problem is that the Chinese government departments still deny IP right holders' request for administrative action, if they had a lawsuit pending in China's law court. The administrative authorities insist IP right holders can undertake one action only, though the Chinese government agreed in the Action Plan that injured parties can employ both, administrative and judicial actions concurrently.

Since China's Civil Procedure Law fails to set forth a time limit for courts to decide cases involving foreign interests, foreign IP right holders' judicial actions may be indefinitely delayed. Therefore it is quite common that the defendant loses the lawsuit but pays little or no compensation. In a prolonged judicial process, the defendant continues to manufacture and market infringing goods. Should IP right holders employ both judicial and administrative action, this defect may be eliminated.

***David Buxbaum and Zhu Yikun** are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy.*

Judge's Law enhances IP enforcement

China has established a reasonably comprehensive regulatory framework for IP protection over the last 16 years. However, the biggest problem in implementing these laws have been the weakness of the judiciary and the administrative organization that enforce the laws. Judges play an extensive role in IP Protection and enforcement, which include: (a) securing evidence through pre-litigation raids and post-litigation raids; (b) hearing IP-related cases and rendering binding decisions; (c) reviewing IP-related appeals; (d) handling IP-related criminal cases; and (e) enforcing court decisions and rulings of administrative tribunals.

Notwithstanding this important judicial role, IP owners find it difficult to protect and enforce IP rights in China. One of the major problem is that many judges have insufficient legal knowledge, particularly knowledge of IP law, and also many suffer from local influence. These problems may be ameliorated by the newly-promulgated Judge's Law of China adopted by the National People's Congress on February 28, 1995 - should the said Law be effectively enforced.

Education & training

The Judge's Law sets a minimum educational threshold for admission to the judicial branch. Apart from basic political and physical requirements, the Judge's Law expressly provides that legal education and legal knowledge are mandatory requirements for judge's admission to the judiciary. To become a judge, a candidate must satisfy one of the following: (i) receive legal education in an institution of higher learning and complete two years work; (ii) receive higher education in non-legal fields, but also possess legal knowledge and complete two years work; (iii) obtain a bachelor degree in law and complete one year's work; or (iv) obtain a master's or doctor's degree in law. The Judge's Law further provides that existing judges in courts failing to satisfy any of the aforesaid mandatory requirements, must meet one of these thresholds within a prescribed time, by participating in training programs.

David Buxbaum

David C Buxbaum & Zhu Yikun

When this requirement of legal knowledge is properly implemented, the problem posed by judges ignorant of the law can be reduced. Unfortunately, however, the Judge's Law still does not provide for a national examination for all judges, as is required of lawyers, which is the preferred means of ensuring legal knowledge (although assistant judges will have to participate in a national examination).

The Judge's Law employs an advancement system targeted at improving the quality of judges. According to said law, judges are classified into 12 levels, with the chief-justice of the Supreme Court at the highest level. Each court will establish a judges examination and screening board ("Board") consisting of five to nine members. The president of each court is the ex-officio chairman of the said board. The Judge's Law vests the authority to hold training programs and assess judges with the Board. Assistant judges are selected by a national uniform examination held by the Board of the Supreme Court. Those failing the exam are barred from the court. This should turn out to be conducive to improving judicial quality.

Further, the state will hold training programs for judges in a planned manner, pursuant to Article 24 of the Judge's Law. Training may be held by state judges colleges or other judges training organizations. The marks and appraisal of judges during training is one of the bases for promotion. Thus continuing education can provide an incentive for judges to advance, as well as a means of upgrading the quality of judges.

Compensation & local influence

The Judge's Law may mobilize the initiative of judges. Some judges are reluctant to work actively and some may be involved in corruption, simply because they are not sufficiently paid. The Judge's Law provides a basis to resolve this issue. According to Articles 25 and 34 of the Judge's Law, the state shall formulate the salary standards appropriate to the character of adjudication work. Judges are entitled to regular pay rises and those having extraordinary merit and performance will be entitled to higher pay rises. If salary standards can be raised to levels that are attractive to judges, incentive and initiative can be enhanced and corruption curbed.

A problem that seriously affects Chinese judges is local pressure and administrative intervention. In China, this is a political issue. In a legal sense this problem has been resolved, since the Constitution, and the Criminal Procedure, Civil Procedure, and Administrative Procedure Codes empower judges with the authority to handle and decide cases independently. However, these provisions are not sufficient. The Judge's Law reiterates that judges, in adjudicating cases, are entitled to the necessary powers and working conditions compatible with their responsibility, and that they should be free from intervention by administrative departments or individuals.

The Judge's Law will help to resolve the dual questions of judicial expertise and independence to some degree; however, until judges are made independent of local governments, who provide their housing, income and other benefits, they will not be free from intervention. The Law is a step forward, but it fails to meet the high standard of its earlier drafts, which provided that judges of chamber heads and above could not sit in their native districts, which required a national examination for judges, and which more substantially raised their salaries.

David Buxbaum and Zhu Yikun are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy.

China ★ Intellectual Property

Action plan to avert trade war

On February 26, 1995 the Chinese government announced an 'Action Plan for Effective Protection and Enforcement of Intellectual Property Rights' pursuant to agreement between the USA and China, thereby ending a threatened "trade war" and providing a comprehensive plan of enforcement to step-up protection of IP rights in China.

China's agreement to vigorously enforce its already comprehensive laws on intellectual property may be a unique commitment; and if effectively implemented bodes well for the development of the rule of law in China. While the agreement does not deal much with the strengthening of the judiciary and administrative bodies normally invested with enforcing the law in China, it is hoped and expected that the Chinese government, fully cognizant of the need to undertake such action, will do so on its own.

Task Forces

Existing organizations such as the State Council Working Conference on Intellectual Property and the Enforcement Task Forces under the Conference - the latter composed of the National Copyright Administration (NCA), State Administration for Commerce and Industry (SAIC), Patent Office, police, and custom officials - will help ensure effective enforcement of the law. The task forces will have authority, where infringement is reasonably suspected, to enter and search premises, review books and records for enforcement evidence, seal suspected goods and materials and implements used to make them; and where infringement is found, to impose fines, order production be put to an end, revoke permits, and cause forfeiture and destruction of infringing goods and the implements used to make them.

Task forces will publish the phone numbers of contact persons, accept petitions by rights-holders without the need to go through Chinese intermediaries, notify the petitioner within 15 days of acceptance of the petition or give written reasons for its rejection. Acceptance or rejection of a petition will not affect the right of the complainant to seek judicial relief.

David Buxbaum

Arnberger, Kim, Buxbaum & Choy

There will be a Special Enforcement Period commencing March 1, 1995. For six months the State Council Working Group will direct Enforcement Task Forces to ensure the elimination of piracy, counterfeiting and other infringement of intellectual property rights. By July 1, 1995 the Task Forces will complete their investigation, and those found to be engaged in infringing activity will be punished through seizure, forfeiture, fines and the requirement to pay compensation. Before October 1, 1995 a report on investigation and punishment will be sent to responsible departments. Repeat offenders will lose their business licenses and broad publicity will be given to cases of serious infringement.

Additional Administrative Actions

All administrative departments under the authority of the central government in China must institute Intellectual Property Rights protection and put into place enforcement systems against infringing enterprises that manufacture or sell software, books, or engage in trademark printing.

Administrative departments shall only register agencies that are law-abiding; those who have committed more than one infringing offense will have their audio-visual permits revoked. Serious infringers will have their business licences revoked for three years by the SAIC.

Monitoring systems for serious infringement cases will be instituted and administrative procedures are to be standardized.

During the special enforcement period customs will intensify border-protection for the import and export of CDs, LDs, CD-ROMs and trademarked goods. Customs shall detain suspect goods; if found to be infringing they will be destroyed and those responsible punished. New customs regulations shall be published on July 1, 1995 and come into force by October 1, 1995 to make it known that infringing goods cannot be imported into or exported from China. Copyright or trademark owners, or their authorized representatives, may apply to customs to enforce their rights.

Omissions

While the Action Plan is excellent, there are certain things that have not been achieved by it. For example, there is no arrangement to have the SAIC take over administrative action in the copyright area. There is also no clear amendment to the Law of Civil Procedures providing for foreign civil cases to be treated by the same rules as Chinese infringement cases and to be completed in six months, although this is implied. Other shortcomings include: the lack of emphasis on distributors, translators and importers of infringing books and periodicals (though the publishers and printers receive important emphasis) and insufficient emphasis on the strengthening of the judicial and administrative organizations charged by law with enforcement.

Remarkable Commitment

Nevertheless, the commitment found in the Action Plan is remarkable for its scope and direction. The Chinese government deserves great credit for having the strength and will to agree to carry out this plan; the government of the USA is to be commended for the intelligence by which it formulated and conducted successful negotiations with China on this very important subject. This is clearly a positive step towards effective protection of intellectual property rights in China.

***David Buxbaum and Zhu Yikun** are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy.*

China ★ Intellectual Property

Scope of trademark protection extended

The State Administration of Industry and Commerce of China ("SAIC") promulgated the Rules Concerning Registration and Administration of Collective Marks and Certification Marks (hereinafter "Registration Rules") in January 1995. Registration Rules contain twenty articles, setting forth in detail the definition, registration requirements, assignment and revocation of collective marks and certification marks. Registration Rules will be put into effect on March 1, 1995.

Collective marks refer to trademarks or service marks used by all members of an industrial or commercial society, association or group. They demonstrate that manufacturers or service suppliers using said mark come from the same group. Certification marks refer to trademarks or service marks used on commodities or services, where certain organizations capable of testing and supervising said commodities or services, own and control, while entities other than said organizations use said marks. Their primary function is to indicate the origin of commodities or services, their materials, processing methods, quality, purity or other information.

Only entities having the status of a legal person can apply for collective marks and certification marks. Individuals and other entities without legal person status are barred from registering the above marks. In applying for collective marks and certification marks, the applicant shall submit a written application and various documents to the Trademark Bureau of the SAIC. In addition to the materials as required for registration of ordinary trademarks or service marks, applicants shall file their articles of association for said collective marks or certification marks, with the Trademark Bureau of the SAIC.

Official signs or inspection marks provided for by laws and regulations, are not registerable, unless otherwise approved by competent Chinese government authorities.

Members of certain groups are entitled to use collective marks provided that they have completed the necessary formalities.

David Buxbaum

Arnberger, Kim, Buxbaum & Choy

Non-members are not allowed to use collective marks.

Any entities other than the organizations applying for certification marks, are entitled to use certification marks, provided that they meet prescribed requirements and have completed the necessary formalities. Certification marks shall be open to all eligible manufacturers and service suppliers and certification marks owners are barred from precluding entities having met prescribed requirements from using said marks.

Collective marks are not assignable. Certification marks are assignable provided that the assignee can produce a certificate issued by competent Chinese authorities, stating that said assignee has the capability to test and supervise certain qualities of certain commodities or services. Should owners of certification marks fail to discharge their duties, whereby certification mark users' commodities or services cannot meet prescribed standards, and consumers' interests are injured, owners shall compensate consumers for losses and damages to consumers.

The articles of association of an associating employing collective marks shall be formulated and adopted by members of said association. Any amendments to the articles of association shall be subject to the approval of the Trademark Bureau of the SAIC. If approved, the Trademark Bureau of the SAIC will announce said amendments.

Protection of well-known marks

China has approved only 14 well-known trademarks to date, on a case by case basis. These marks include Tongrentang Medicine in Beijing, Butterfly Sewing Machines in Shanghai, Maotai Spirits in Guizhou Province, Fengfang and Forever Bicycles in Shanghai, Qingdao Beer in Shandong Province, etc.

The authority to administer trademarks registration and administration is vested with the SAIC pursuant to Article 2 of Trademark Law of China adopted by the National People's Congress on August 23, 1982 and revised on February 22, 1993. On January 5, 1994, the State Council expressly authorized the Trademark Bureau of the SAIC to approve well-known trademarks in China.

Article 6 of the Paris Convention for the Protection of Industrial Property dated March 20, 1883 provides that the countries of the Union undertake ex-officio, if their legislation so permits, or at the request of an interested party to refuse to register or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion of a mark considered by the competent authority of the country of registration or use to be well-known in that country, as a mark entitled to the benefits of this Convention, provided copy, etc of the well known mark is used for identical or similar goods.

In China, the competent authority to handle this is the Trademark Bureau of the SAIC. Said Bureau organized a Committee for Approval of Well-Known Trademarks. In approving a well-known trademark, said committee shall hear and consider the opinion of the local administration for industry and commerce.

China has yet to issue express regulations on approval of well-known trademarks. However the Trademark Bureau of the SAIC has some internal guidelines and principles.

David Buxbaum and Zhu Yikun are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy.

China ★ Intellectual Property

A program for IP rights enforcement

The threat of trade sanctions by the United States against China, should China not manifest a willingness to enforce its laws on protection of intellectual property, and the threat by China of retaliation against the US should such threatened sanctions be actually undertaken, has led to tension between these two nations.

Failure to enforce laws

China, with a well-developed statutory framework for the enforcement of intellectual property law, has appeared remiss in enforcement of its regulations. Factories producing compact discs, businesses selling infringing software, factories producing goods with infringing trademarks, violation of the rules of unfair competition, seem quite relevant to American and European firms doing businesses in China. The failure of the Chinese government to act in a pro-active way against blatant pirates, coupled with the failure of the courts and administrative tribunals in China to regularly enforce the law, has seriously upset foreign businesses.

The reasons for failure to enforce the laws protecting IP rights are several:

- the laws are new and not fully understood by the Chinese business community;
- the level of legal knowledge of the judicial and administrative personnel entrusted with enforcement is inadequate;
- the tendency of localities to protect local interests remains high;
- certain factories have a high level of investment by persons well connected in the political bureaucracy and there is reluctance to take action against these factories; and
- the rampant nature of piracy and failure to vigorously enforce the law gives rise to indifference to the law by the pirates.

Enforcement activities

These many negative conditions belie the fact that the Chinese government has expended great effort to publicize and enforce the laws which pertain to intellectual property protection. For example, in the trademark area, the State Administration of Commerce and Industry ("SAIC") undertakes numerous raids each month to close down pirate factories. There are also periodic pro-active raids by the government to close down infringing organizations. Continued government pronouncements on the need to protect intellectual property have helped raise public awareness of the rights to such property.

David Buxbaum

Arnberger, Kim, Buxbaum & Choy

Problems and solutions

The reality is that in a country as large and diverse as China, where the writ of the state has been circumscribed, without substantial strengthening of the judicial and administrative system, the greatest of good will and intentions will not prevent rampant piracy.

Foreign businesses and governments should be able to expect that the Chinese government will act consistently, directly and forcefully against notorious infringers, even if they are well connected. This is a minimum expectation.

More importantly for long-term protection of intellectual property rights, is the need to strengthen the judiciary by passing the Judges Law, and by turning over the administrative enforcement of copyright and unfair trade practices to the SAIC.

The Judges Law will require judges to take an examination, thereby improving the quality of judges; it will also substantially increase their remuneration, reducing temptation, and it will restrict heads of the courts and chambers from sitting in their native locations, helping to reduce local protectionism. The Judges Law will hopefully restrict interference in judges' work so that government and party officials, not parties to an action, will be restrained from approaching the judiciary. If the Judges Law is passed in this form, it will be a great benefit to China's legal development.

The copyright agency is very small, underfunded, and without much authority. The SIAC, which has been enforcing trademark infringement by administrative action for some time, is a major national organization, with branches throughout China. It can easily develop an institution for administrative enforcement of all types of intellectual property infringement actions including copyright, patent and unfair competition. In order to do this successfully, the SAIC will have to develop professional administrative judges, and to help finance this charge fees, albeit more modest ones than the courts, for the administrative enforcement action it undertakes. It should also prohibit administrative judges from sitting in their native localities.

The strengthening of the SAIC's enforcement institutions by training, proper remuneration and insulation from local protectionism will be of great assistance to enforcement. These are matters that the Chinese government, with the assistance of foreign governments, businesses, and professional organisations (in providing training and information), can rightfully be expected to undertake to protect foreign and domestic intellectual property rights.

With a program as described above, the Chinese government can truly hold itself out as having committed itself to the enforcement of the fine laws on intellectual property it has enacted. ❦

David Buxbaum and Zhu Yikun are attorneys in the firm of Arnberger, Kim, Buxbaum & Choy.

China ⋆ Intellectual Property

by David Buxbaum

Enforcing IP rights in China

The most serious problem in intellectual property protection in China is the weakness of the enforcement agencies. The Copyright Bureau, understaffed and under-financed, is clearly the weakest agency involved in enforcement. The local bureaus of commerce and industry, responsible for trademark infringement actions on an administrative level, though uneven in enforcement, is a strong national organization and plays a most significant role in intellectual property enforcement actions. The patent bureau is very active in handling a variety of patent disputes, as is the Trademark Bureau with regard to trademarks.

The procurator, when willingly involved in enforcement, is clearly the strongest agency handling enforcement actions, but despite the recent criminal penalties imposed by legislation in the software and trademark areas, criminal enforcement, of necessity, remains a small but, at times, very effective part of the enforcement activities. The economic chambers of the intermediate courts are clearly quite important throughout China in enforcement activities, though some suffer from pressures of local protectionism, and some lack sufficiently trained judicial personnel.

The intellectual property chambers of intermediate and high courts in places such as Beijing, Guangzhou, Haikou and Shanghai are new, their judicial personnel still learning about IP enforcement and civil procedure. These chambers need strengthening and are few in number, but if properly trained may play in important role in enforcement in the future.

Customs acting

As a result of recent Chinese government decisions - in particular, The Decision Regarding Progressive Strengthening the Work of Intellectual Property Protection, effective as of September 15 1994 - the Customs Bureau is a more effective tool for IP rights enforcement. This decision, applicable to trademarks, patents and copyright, prohibits the import and export of infringing products; permits Customs to require importers or exporters to produce

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evidence of their rights to intellectual property; and restricts the import and export of products where such evidence is lacking. In some recent cases, Kowloon Customs discovered goods coming from Shenzhen containing infringing trademarks and returned the said goods to Shenzhen. CD's are being more carefully inspected by Customs and, on November 1, Customs confiscated several thousand infringing CD's. The Customs Bureau has had meetings with US Customs in Beijing and international Customs organizations in Qingdao, to learn from foreign experience and upgrade enforcement activities. The activities of the Customs Bureau appear to be a promising addition to enforcement activities.

While Su Chi, head of the Intellectual Property Chamber of the Beijing Intermediate Court, has been quoted as stating that the compensation received by some plaintiffs in IP rights enforcement actions is less than the legal fees (*People's Daily*, September 27 1994, page 5), in fact the courts and administrative tribunals have authority to provide adequate compensation to parties if such authority is properly utilized.

Clout available

Courts have the authority, pursuant to the Code of Civil Procedure, to seize property and evidence prior to the commencement of litigation, and subsequent to the commencement of suit. Courts can seize books and records of defendants and calculate the quantum of infringing acts. While rules of discovery are very weak and incomplete in the Code and there is as yet no code of evidence - though the Code of Civil Procedure contains some provisions on the law of evidence - nevertheless, there are sufficient provisions to permit a vigorous court to calculate damages for the plaintiff. Administrative agencies can also sanction defendants in addition to court determinations of compensation. Seized property can be used to ensure payment of damage claims. Administrative authorities and courts can order the seizure and confiscation of property and destruction of equipment used to manufacture infringing products, and criminal sanctions are available, in a fairly large range of cases. So if the personnel of the courts and administrative tribunals were properly trained to calculate damages and enforce the law, even with weak discovery rules, vigorous enforcement under present legal rules in China, is quite possible. The need to strengthen the law of discovery and the rules of evidence, is clear, however, as important, is the need to train judges in the courts and administrative tribunals to enforce the law now in effect. Because of lack of proper training, the inclination of both the courts and administrative tribunals in too many cases is to make small awards on damage claims.

Lacking resolve

The epidemic of infringing goods being produced in China shall only subside when there is vigorous enforcement of the law. IP laws and regulations are quite complete. The historical reasons for the lack of resolve of judicial and administrative personnel are well known; judicial personnel were not trained prior to and during the Cultural Revolution. Judicial personnel are under-trained, not having passed the vigorous national examination lawyers must now pass. They are underpaid and some government agencies feel little constraint at interfering in the activities of the courts. The present Judge's Law, now in draft form, once passed, will address a number of these problems.

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China★Intellectual Property

CHINA LAW BULLETIN

by David Buxbaum

Recent developments in IP protection

A regulatory framework regarding intellectual property ("IP") rights has gradually taken shape over the last few years. Intellectual property law is now part of the rapidly developing legal system in China.

China has turned its attention to the enforcement of laws since the beginning of 1994. On July 5 1994, the National People's Congress adopted the Decision Concerning Cracking Down On Copyright Infringement Crimes ("NPC Decision"), so as to deter copyright violations through criminal punishment. In June 1994, China promulgated a white paper entitled China's State of Intellectual Property Protection, ("the White Paper") describing the legal system of IP and channels to obtain legal redress in China. In July 1994, the State Council promulgated the Decision Regarding Strengthening the Work of Intellectual Property Protection ("State Council Decision"), prescribing 11 specific measures to tighten law enforcement. These include the regular examination and supervision of the enforcement of IP laws by relevant departments, particularly the influential and major IP infringement cases, and the establishment of Executive Conference for Intellectual Property Protection in the State Council and all localities to put the work of IP protection on their agendas.

Audio video action

In response to the demands of tackling rampant copyright violations in the sound and video recordings markets, the State Council promulgated a special regulation entitled Regulations Regarding the Administration of Sound and Video Recordings ("Recordings Regulations"), on August 25, 1994. The publication, reproduction, import, wholesale, retail, lease and display of sound and video recordings are subject to licence control pursuant to Article 5 of the Recordings Regulations. The name of the copyright owner must be

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indicated in a prominent position on the sound and video recordings and their package, and the sample, which is to be deposited with the State Deposit Library within 30 days from publication pursuant to Article 12 of Recording Regulations. Offenders are subject to warning, cessation of publication, reproduction, wholesale, retail, lease or display of the sound and video recordings, confiscation of all illegal sound and video recordings and illegal revenues depending on the seriousness of the offence. In addition, they will face a fine of between five and 10 times the illegal revenues. If the case is serious enough to constitute a crime, criminal punishment will be imposed on the offenders.

Seizure and statistics

China will formulate regulations on stopping and seizing infringing goods at borders according to the aforesaid State Council Decision. The State Council requests the customs bureau to enforce measures strictly at borders to strengthen intellectual property protection. Regarding the import of sound and video recordings for the purpose of reproduction, copyright matters shall be registered with the State Copyright Administration under the State Council pursuant to Article 28 of Recording Regulations.

Up to the end of 1993, China's courts accepted and concluded 3,505 intellectual property cases, of which 1,168 were copyright cases, 1,783 patent cases and 544 trademark cases. From 1992 to 1993, the courts in Guangdong province accepted 743 trademark criminal cases of which 731 pieces were concluded and 566 violators were detained or imprisoned.

Following the establishment of the first intellectual property chamber in Beijing High Court and intermediate court in July 1993, high courts in Fujian province, Guangdong province, Hainan province and Shanghai city and intermediate courts in major cities have created the same tribunal to handle all IP-related cases. These chambers are all new and without experience. Some of the judges have no intellectual property experience and these chambers are struggling to meet the needs of the plaintiffs. The Beijing IP chamber has many cases and is moving very slowly.

Notwithstanding the aforesaid achievements, infringement of IP rights is a serious problem in China. With a view to strengthening law enforcement, China's Supreme Court issued a circular on October 7, 1994, calling on courts of each level to ensure implementation of national IP statutes. The Supreme Court exhorted intermediate courts in large and media-sized cities where violations are serious to set up specialized intellectual property cases. The Supreme Court also requests judges to carefully study science and technology regarding IP rights and the international conventions China has joined so as to improve the quality of judicial adjudication. The Supreme Court has pointed to the greatest weakness in IP rights infringement, and the need to strengthen the work of the judicial institutions. ❦

David Buxbaum, partner, Lewis, D'Amato, Brisbois, Bisgaard, Buxbaum & Choy