

TRANSITIONAL REVIEW MECHANISM OF CHINA

Communication from Japan

By means of a communication from the delegation of Japan, dated 23 September 2005, the Secretariat has received the following contribution in the context of the transitional review mechanism under Section 18 of China's Protocol on Accession.

Japan welcomes that, in the fourth year after China's accession, implementation of its commitments on intellectual property has evolved from simple progress into a cruising phase. The transitional review mechanism has been useful for making China's transitional efforts more efficient and productive, and it is a pleasure for Japan to have contributed to this process.

In accordance with Section 18 of the Protocol on the Accession of the People's Republic of China, which states that "China shall provide relevant information to each subsidiary body in advance of the review" and in the spirit of cooperation in rendering the TRM process most efficient and effective, Japan requests China to provide prior to the meeting of the Council for Trade-Related Aspects of Intellectual Property Rights, the responses and relevant information to the following questions and comments.

A. GENERAL ISSUES

1. Please provide names, summaries and dates of enactment or publication of laws, regulations and administrative rulings pertaining to the subject matter of the TRIPS Agreement that were enacted or published after December 2004.

B. COPYRIGHT

2. Japan has requested China to establish the Regulations on Royalty Criteria for Broadcasting and Television Organizations, but as of today the Regulation has not been established. We request China to establish the Regulation immediately and to apply it retroactively to the date of the original implementation of the Copyright Law.

3. We appreciate that the activities of collective management organizations have been standardized through the enforcement of the Regulation for Collective Management of Copyright. We urge China to give further support for establishment and standardization of domestic collective management organizations.

4. We greatly appreciate that the liability of Internet Service Providers is clarified by the establishment of the Regulation for the Administrative Punishment against Infringement Acts on the Internet. Please clarify the actual procedure of "notice and take down" of this Regulation. In particular, please provide detailed information on Articles 8.1 and 8.4.

5. We believe that for effective intellectual property rights enforcement, it is necessary to strengthen civil remedy as well as criminal remedy. Currently, under para. 2, Article 48 of the Copyright Law, the remedy is limited up to Y500,000 for cases where the actual amount of illegal gain cannot be proven. We request China to abolish this upper threshold of statutory damages or to make the amount more appropriate for recovery of actual damages, as well as to make it easier to verify the amount of damages.

6. In relation to Article 9 of the Regulation for Copyright Administrative Punishment, we asked China about the prescription of administrative punishment last year, and received an answer that the prescription is consistent with the Law on Administrative Punishment. However, in order to make administrative punishments fully effective as a deterrent to infringement, we urge China to either extend the duration of prescription or change the starting point of prescription to the date on which the injured party had known or should have known the infringement of its rights.

7. In order to achieve effective deterrence to infringement of copyright, we believe it is requisite that the absolute determination to protect intellectual property rights through criminal punishment be made widely known to the public. In this respect, please explain why the amount of fine for penalties against infringement of copyright is not clearly stipulated in any of the articles of the legislations.

C. TRADEMARKS

Protection of well-known marks

8. We understand that there are four kinds of opportunities to apply for the recognition of a well-known mark: (a) an opposition process at the Chinese Trademark Office (CTMO); (b) a cancellation process at the Trademark Review and Adjudication Board (TRAB); (c) a process of trademark administration (i.e. enforcement) at the administrative authorities for industry and commerce; and (d) a trial by the people's court. Please describe each procedure in brief.

9. Please provide statistics of the above four channels on the numbers of applications, recognitions and rejections of well-known marks by foreign entities (including separate statistics for Japanese entities only if available) and Chinese entities for each year after amendment of the Regulations for the Implementation of the Trademark Law in September 2002.

10. We understand that there are cases where marks are not recognized as well-known marks for the following reasons: (a) an applicant only submits evidence which proves the mark is well-known abroad, whereas Chinese laws require that evidence be submitted which proves that the mark is well-known in China; and (b) the decision of opposition or cancellation can be made without recognizing the mark is well-known. Please provide information on the number of cases and the major reasons for marks not being recognized as well-known even when applications were made through the above-mentioned routes after September 2002.

Highly well-known marks

11. We understand that a pamphlet of "highly well-known marks" is currently being drafted and will be planned for publication in China. Please describe its relationship with well-known marks and provide the schedule for publication.

Protection of unregistered well-known marks in foreign countries

12. There are increasing concerns that trademarks, which are well-known in countries other than China and unregistered in China, are improperly filed and/or registered as trademarks by companies in China without the genuine owners' permission. Please explain whether Chinese laws and regulations provide opportunities for the authorities to reject such an application or for the genuine owner to oppose or request invalidation of the trademark.

Disclosure of information on the pendency of trademark examinations

13. We understand that the number of trademark applications in China exceeded 500,000 in 2004, and it is presumed that the pendency of these applications will be extended. Please provide the length of time from the filing of applications to the initiation of examination, final decision regarding examination, opposition by the CTMO and appeal examination by the TRAB.

D. INDUSTRIAL DESIGNS

Display of infringing goods in exhibitions

14. Article 11 of the Chinese Patent Law stipulates, "After the grant of the patent right for a design, no entity or individual may, without the authorization of the patentee, exploit the design, that is, make, sell or import the product incorporating its or his patented design, for production or business purposes." Please clarify whether displaying design-infringing goods in exhibitions is deemed to be a violation of the provisions stipulated in Article 11.

E. INDUSTRIAL DESIGNS/PATENTS

Novelty

15. We understand that the Chinese authorities are considering the amendment of laws and regulations so that inventions publicly used abroad are considered as a bar to novelty in order for the authentic inventors to show probable grounds of invalidation of patents or designs which are filed or registered by third parties in China. Please provide the schedule and content of the amendment.

F. ENFORCEMENT

Statistics on administrative penalties

16. Please provide statistics on administrative penalties for each year since China's accession to the WTO, including: (a) the number of administrative penalties requested by right holders; and (b) the number of administrative penalties imposed, divided by administrative bodies, types of IPR infringed, provinces and types of penalties imposed.

Statistics on criminal penalties

17. Please provide the following statistics related to criminal cases under Articles 213 - 219 of the Chinese Criminal Law for each year since China's accession to the WTO.

- (a) The number of cases submitted by administrative bodies to the procuratorate as deserving criminal prosecution;
- (b) The number of cases dealt with by the procuratorate directly as deserving criminal prosecution;

- (c) The number of cases that the procuratorate actually prosecutes through the courts;
 - (d) The number of cases that the right holder himself/herself prosecutes through the courts;
 - (e) The number of cases where criminal penalties are imposed (sorted by fines, public surveillance, detention and fixed-term imprisonment);
 - (f) The number of cases where major penalties (public surveillance, detention and fixed-term imprisonment) and additional penalties (fines) are imposed together.
18. Please provide the following statistics for the first half of 2005 in addition to the above items.
- (a) The number of cases where the calculation of illegal business volume under the new judicial interpretation is applied, including: (a) the number of cases submitted by administrative bodies to the procuratorate as deserving criminal prosecution, (b) the number of cases dealt with by the procuratorate directly as deserving criminal prosecution, (c) the number of cases that the procuratorate actually prosecutes through the courts, (d) the number of cases where criminal penalties are imposed and the types of penalties.
 - (b) The number of cases where an illegal business volume that would be punishable by 3-7 years of imprisonment (e.g. more than 250,000 RMB for forging registered trademarks by individuals) applies, including: (a) the number of cases submitted by administrative bodies to the procuratorate as deserving criminal prosecution, (b) the number of cases dealt with by the procuratorate directly as deserving criminal prosecution, (c) the number of cases that the procuratorate actually prosecutes through the courts, (d) the number of cases where criminal penalties are imposed and the types of penalties.

Statistics on alcoholic beverage trademarks

19. There are increasing concerns that products of trademark infringing Japanese Sake, whose trademarks are registered in China and Japan, are sold or manufactured in China. Please provide the number of trademark infringement cases for alcoholic beverages in China for the past three years, with detailed information on the laws or regulations applied to, on categories of administrative/civil/criminal cases and on countries of origin of the product that has been infringed.

Interpretation of criminal law

20. Please explain the relationship between an "identical" trademark as stipulated in Article 213 of the Criminal Law and a "similar" trademark as stipulated in Article 52 of the Trademark Law.

21. Please identify whether only administrative penalties are imposed (i.e. no criminal penalty is imposed) in cases where a registered trademark is used on "similar goods" (Article 52 of the Trademark Law) other than "the same kind of commodities" (Article 213 of the Criminal Law) without the trademark owner's permission.

22. Please identify whether only administrative penalties are imposed in cases of service mark infringement.

23. We understand that the provision on recidivists stipulated in Article 65 of the Criminal Law is also applied to repeat IPR offenders. Please explain how "heavier punishment" is defined (i.e. how

many times heavier than penalties for first offenders). Please also provide the number of cases of IPR repeat offenders to which Article 65 of the Criminal Law applies, and information on actual cases where "the heavier punishment" was imposed.

Judicial Interpretation

24. The following comments and questions are for the "Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property" enacted in December 2004 (hereinafter referred to "new judicial interpretation").

- (a) There was a "three strike" provision that referred to "not reaching these thresholds, but infringing IPR after having been subjected to the administrative penalty twice before having negative impact" in Article 61.4 and 63.3 of the "Provisions of the Supreme People's Procuratorate and the Ministry of Public Security Regarding Prosecution Standards for Cases involving Economic Crimes" issued on April 2001 ("old guidelines"). But in the new judicial interpretation, there is no such provision. Please explain why the "three strike" provision has been deleted from the new judicial interpretation.
- (b) Please identify whether "subjected to the administrative penalty twice before" is recognized as having a negative impact when deciding if the violator is to be prosecuted. If it has a negative impact, please clarify which laws, regulations and interpretations are applied.
- (c) There was a provision that violators of a well-known trademark could be prosecuted irrespective of the amount of illegal sales or gains in Article 61.3 and 63.2 of the old guidelines. But in the new judicial interpretation, there is no such provision. Please explain which provisions are particularly applied for the prosecution of violators of well-known trademarks under current laws, regulations and interpretations.
- (d) Please explain why the prosecution standard for enterprises is three times higher than that for individuals.
- (e) Please describe any types of crimes other than IPR infringement for which a prosecution standard for enterprises that is three times higher than that for individuals is applied.
- (f) There seems to be some cases where the prosecution standards for enterprises in the new judicial interpretation are higher than that in the old guidelines. Please explain why such a change was made in spite of the commitment under China's Protocol of Accession.
- (g) Please explain how the provisions on "serious nature" (e.g. in Article 1.1.3) and "especially serious nature" (e.g. in Article 1.2.3) in the new judicial interpretation are interpreted and applied in actual cases. Please provide information of actual cases where such a provision is applied for prosecution, if any.
- (h) We appreciate that a new provision was stipulated in the para 2 of Article 11 that "overproduction" is subject to criminal punishment. However, there are concerns that such things as the amount of illegal income or the number of illegally reproduced products still continue to be the criteria for prosecution because it is very difficult for right holders to verify them. Moreover, if the illegal income does not reach the

necessary level, the only thing the right holders can do is to take the administrative or the civil procedure, but it is extremely difficult for them to find the infringers and request compensations for damages on their own. Please describe any plans to stop using the amount of illegal income etc. as the criteria for prosecution.

- (i) Please explain why the threshold of Article 218 of the Criminal Code applied to individuals was not lowered, whereas the threshold in Article 217 was. Does China have any plan to lower it? Even if right holders find that pirated goods are sold at stalls, they may not be able to prosecute because it is difficult for them to prove that the illegal income exceeds Y100,000. It can be foreseen that a prosecution of a seller at a stall may start an investigation that will eventually lead to identify the original producer of the pirated goods. Therefore we would like to urge China to lower the threshold.
- (j) Please clarify whether this new judicial interpretation is applied to related rights.
- (k) We appreciate China's efforts to make infringement acts on the Internet be exposed to criminal liability under Article 11. However especially on the Internet, infringement acts without any illegal gain, such as free file-sharing, may cause more serious damage to right holders than infringement acts conducted for profit. Please clarify whether such infringement acts without any illegal gain would be subject to criminal punishment and explain the reason if the answer is no.

Border Measures

25. It is explained that the storage fee or disposal cost deducted from the deposit of right holders can be compensated by way of repayment from the violator under Chinese laws. However, the Japanese industry has concerns that it is very difficult to seek compensation from the violator for such a fee or cost in reality because the violator often disappears, the cost for civil action to seek compensation usually exceeds the storage fee or disposal cost, etc. We understand that the Chinese Customs realizes that the practice of asking right holders to pay for the storage fee or disposal cost impedes IPR protection and has made some efforts to alleviate the cost burden on right holders. Please describe any plans to minimize the cost burden of right holders in consideration of the abovementioned situation in China.

26. Please provide the number of cases of confiscation by Chinese Customs, and volumes of goods confiscated, for the last three years, and provide the number and volume of each confiscation resulted in (a) transfer to a public welfare utility, (b) transfer to IPR owners in return for adequate compensation, (c) auction of goods after removing the infringing characteristics, and (d) destruction, as stipulated in the Regulation of People's Republic of China on Customs Protection of Intellectual Property Rights.

27. Please provide Chinese Customs seizure statistics for the last three years, separately by nature of IPR, countries of export (import seizure), and countries of destination (export seizure).

Localism

28. Please describe any efforts made or planned to promote IPR protection in local areas and educate local authorities in China.

Others

29. We have heard that there were some cases where relevant organizations rejected to apply immediate administrative punishment or asked the victim of copyright infringement to submit information on the infringer because of staffing shortage. We would like to urge China to provide for appropriate staffing for relevant organizations so that they can react more quickly.

30. We request China to strengthen the cooperation among relevant organizations when multiple intellectual property rights such as copyright, industrial design and trademark are simultaneously infringed as in the case of character goods. We understand that according to the law, when infringement on trademark simultaneously infringes upon copyright, the organization in charge of the infringement on trademark is to notify the National Copyright Administration, but in reality it is not implemented in that way. Therefore, we request China to change the system where, when the right holder requests for administrative procedure against infringement on trademark, the notification be made to the National Copyright Administration so that both types of infringements are appropriately taken care of.

G. OTHERS

Protection of trade names

31. Please explain which laws or regulations are applied to cancellations, injunctions, claims for damages or demands for crackdowns by administrative bodies in cases where trade names similar to internationally well-known marks are registered abroad without the genuine owner's permission and in cases where those trade names cause confusion with the registered trademarks of Japanese enterprises in China when used in China.

Protection of indications of source

32. Please describe what laws, regulations or penalties are available to control unlawful indication of sources (i.e. false "Made in Japan" labelling on Chinese products).

Law to Counter Unfair Competition

33. In the last TRM at the TRIPS Council, China stated that it was considering to start drafting an amendment to the Law to Counter Unfair Competition. Please provide the details and current status of the amendment.

Licensing regulations

34. Please explain the relationship between "Bulletin of the IPR Case Meeting by National Courts on Several Issues Concerning the Application of the Law in the Trial of Technology Contract Disputes" circulated in 2001 (hereinafter "2001 Bulletin") and "Interpretation of the Supreme People's Court on Several Issues Concerning the Application of the Law in the Trial of Technology Contract Disputes" issued in December 2004 (hereinafter "2004 Interpretation"). We understand that there are a considerable number of problematic provisions such as (a) provisions existing in the 2001 Bulletin, but not in the 2004 Interpretation, (b) similar provisions existing in both the 2001 Bulletin and the 2004 Interpretation whose relationship is, however, not clear. Please describe any efforts planned, such as completely abolishing and invalidating the 2001 Bulletin, to solve such legal opacity or uncertainty arising from the coexistence of the 2001 Bulletin and the 2004 Interpretation.

35. Japanese industry has concerns that Chinese local authorities usually examine the contents of technology import/export contracts when applications for registration are made under Article 17 of the

Regulation on the Administration of Import and Export Technology. Please confirm that the authorities will not examine the contents of contracts with regard to free import/export technology.

36. Please clarify whether the provision "Where the exploitation of a technology given by a transferee in accordance with the terms of the contract infringes upon the legitimate right and interests of others, the transferor shall be liable" under Article 24 of the Regulation on the Administration of Import and Export Technology is mandatory or discretionary. In other words, please confirm whether the liability of the transferor can be waived by agreement between the parties concerned, as allowed by the provision of Article 353 of the Contract Law.

37. In terms of aforementioned provision of "liability for third party's infringement" stipulated in Article 24 of the Regulation on the Administration of Import and Export Technology, China explained that the laws on transfer of technology in many countries had similar provisions and such provisions are consistent with international practice. However, we understand that many countries have already abolished such a "liability for third party's infringement" provision. Please clarify whether China has any plans to revise this provision in light of the international trend.
