

**TRANSITIONAL REVIEW MECHANISM OF CHINA**

Communication from the European Communities

By means of a communication from the delegation of the European Communities, dated 2 October 2006, the Secretariat has received the following contribution in the context of the transitional review mechanism under Section 18 of China's Protocol on Accession.

1. The European Communities (hereinafter referred to as the "EC") wish to thank the People's Republic of China (hereinafter referred to as "China") for its commitment to the TRM process and appreciate the efforts deployed by China to answer the questions during the previous TRM exercises. The EC is transmitting comments and questions in advance of the meeting of the TRIPS Council, in order for the Chinese authorities to reply to and complete any outstanding information.

2. Since the 2005 TRM exercise some positive developments on IP have occurred in China, such as:

- the adoption of a National Action Plan on IP (2006) – released on 8 March 2006, in which China has included some legislative revisions and the adoption of measures that would aim to help in enhancing the fight against counterfeiting and piracy. In this respect, the launch of the Third Revision of the Patent Law, in consultation with the foreign community, is also a positive way forward;
- the adoption of Regulations for the prompt transfer of criminal cases of IP infringements to criminal prosecution on 26 January 2006 that aim at improving co-operation between administrative bodies in charge of IP enforcement and the police/prosecutors;
- the free online access to the trademark database, allowing easy checks on the trademark registry data. This is in particular interesting for Administrations for Industry and Commerce that now have means to refuse the registration of a trade name on the basis of pre-existing trademarks;
- the publication of judicial decisions on a website.

3. However, despite these positive developments and China's initiatives to address a number of problems in its IP system and to reduce counterfeiting and piracy levels, IPR infringements in China remain a matter of great concern for the EC. European companies operating in the Chinese market continue to suffer from weak IPR enforcement. Furthermore, sanctions often lack deterrence, and procedures against counterfeiting and piracy activities remain expensive and time consuming. At the border, controls should be more effective in order to prevent the export of counterfeit and pirated products.

4. On the basis of the co-operation established between the EC and China in the context of their IP Dialogue and IP Working Group and in the light of the above-mentioned developments, the EC would like to take the opportunity of the TRM 2006 to complement its information on the Chinese IP regime and ask questions on some of the remaining sources of concern.

## **I. IP PROTECTION**

### **A. PATENTS AND TECHNOLOGY TRANSFERS AND PROTECTION OF CONFIDENTIAL DATA**

#### **1. Patent exploitation**

5. The EC welcomes China's support for the contractual freedom between enterprises in the field of technology transfers under the condition of fairness, reason and non-discrimination as expressed at the Ninth EU-China Summit on 9 September 2006. The EC expects China to encourage Chinese companies to play by market rules for the use of other companies' technologies.

#### **2. Approval procedures for technology transfer**

6. The Patent Law requires that approval be granted by MOFCOM for the transfer of patents or technology to non-Chinese entities. Additionally, complex and cumbersome approval and registration formalities are required by the Technology Import and Export Regulations (TIER) governing cross-border technology transfer and the assignment of patents. Contradictions and duplication in administrative procedures arise frequently, with practices varying from city to city within China. Can China explain how it intends to clarify and simplify these procedures?

#### **3. Protection of test data for pharmaceutical products**

7. The implementation of the principle of data exclusivity in Chinese law is a source of concern, in particular the lack of clarity as regards the scope of products covered by this protection, including the definition of new chemical entity referred to in Article 35 of the Implementing Regulation of the Drug Administration Law adopted in 2002. Does China intend to clarify these concepts in order to give companies guarantees as to how the test data will be handled by regulatory authorities? If so, can China indicate how and when this will be done?

#### **4. Additional protection for products subject to marketing authorization**

8. As some specific products require long additional periods for their development and in order to obtain marketing authorizations, a number of countries have decided to compensate for these periods during which the patent cannot be exploited by an additional protection mechanism (e.g. in the EC with the creation of Supplementary Protection Certificates for pharmaceutical products and for plant protection products). Does China plan to grant additional protection – in the form of patent restoration or supplementary protection certificates – to products that cannot be marketed before a specific marketing authorization has been given (such as pharmaceutical products)?

### **B. TRADEMARKS**

#### **1. Counterfeiting at retail markets**

9. On 7 June 2006, three major retail markets in Beijing and a coalition of trademarks owners signed a Memorandum of Understanding (MoU) which includes an agreement to insert specific clauses related to selling of counterfeit goods into the lease contracts between landlords and vendors in retail markets. These clauses aim at expelling vendors of counterfeit and pirated goods from the markets. Can China indicate how Chinese public authorities intend to support the implementation of

this MoU on the ground? For instance, does China envisage promoting these clauses in model contracts between landlords and vendors? How much police or the administration of industry and commerce support will be granted to ensure that market order is respected when these clauses will be implemented by landlords?

## **2. Duration of procedures**

10. There is an increasingly alarming backlog of cases pending at the Trademark Office (TMO) and Trademark Review and Adjudication Board (TRAB). An application, which today takes an average of two years before it can be published and mature to registration, can be delayed by many years in the case of a dispute. In certain cases, such lengthy litigation results in a denial of justice, and is detrimental to all parties concerned. How does China intend to resolve this issue? Is it considering to increase the number of examiners and members of TRAB and/or to review the detailed organization of the procedures in the context of the revision of the Chinese Trademark Law?

## **3. Opposition procedures**

11. Article 30 of the Chinese Trademark Law allows any party, without limitation, to file an opposition against a trademark application, even those who have no substantiated grounds for taking such action. Sophisticated infringers frequently oppose preliminary granted and published trademarks to threaten applicants with a full opposition procedure. These have the potential to last three years or force a withdrawal of the opposition for payment. This has led to some applicants opposing their own marks and withdrawing at the last minute to keep others from doing the same. Does China plan to clarify the situation in the context of the revision of the Trademark Law?

## **4. Refusal to accept trademarks cases where an administrative procedure is pending**

12. According to a recent draft Judicial Interpretation of the Supreme People's Court, the Courts should not accept a trademark infringement case when an administrative dispute is pending before the Administrative Authority. Such refusal deprives the plaintiff of the possibility of seeking provisional remedies and/or of assessing and claiming financial compensation from the outset. Given the excessive duration of administrative procedures, this may represent a denial of justice. Can China explain how it intends to solve this issue?

# **II. IPR ENFORCEMENT**

## **A. LEGALIZATION OF POWERS OF ATTORNEYS AND DOCUMENTARY EVIDENCE**

### **1. Legalization of powers of attorneys**

13. At present, foreign companies which wish to initiate legal proceedings in China but do not have a registered branch office or an investment presence in China are required to produce a notarized and legalized power of attorney in favour of a registered practising Chinese lawyer. They also need to notarize and legalize any document justifying their incorporations. This is onerous, cumbersome and time consuming and can constitute an obstacle to any urgent proceeding. Can China explain how it intends to simplify these formalities?

### **2. Legalisation of documentary evidence**

14. At present, all documentary evidence produced in administrative or judicial litigation needs to go through the same procedure of notarization and legalization when they originate from a foreign country. This is not only time consuming and costly, but also seems to be an unnecessary administrative routine. How does China intend to solve this issue?

**B. CRIMINAL PROSECUTION OF IP INFRINGEMENTS: LOWERING THRESHOLDS**

15. Prime Minister Wen publicly announced on 6 September 2006 that China would continue to improve the relevant laws and regulations, and lower the thresholds for prosecuting IPR-related offences. Can China give further details on its intention with regard to the lowering of criminal thresholds deriving from 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 of December 2004 ("the Judicial Interpretation")? On this matter, the EC would like to highlight in particular the following questions.

**1. Price evaluation system**

16. Despite the existence of the current Judicial Interpretation, most administrative enforcement agencies apply other price evaluation systems. As a result, large seizures of counterfeit goods are often considered at an unreasonable low value, which is an obstacle to any serious and effective action. These problems arise from confusion and lack of clarity of the Interpretation. Can China indicate whether it intends to clarify the situation?

**2. The three-time rule**

17. The Judicial Interpretation maintains the rule that the threshold should be three times higher for a unit than for an individual. This leads to encouraging infringers to collectively invest and set up companies, rather than work as individuals, thereby increasing the economies of scale of their unlawful activity. This approach is difficult to understand in particular as such entities tend to have a greater production capacity than individuals, and thus, cause more damage. Does China plan to delete the distinction between unit and individual (as is already provided for in Article 140 of the Criminal law of the PRC, with respect to fake and shoddy goods)?

**3. Repeat offenders**

18. The Judicial Interpretation does not provide sufficient deterrence to counterfeiters already caught and punished by an administrative agency or civil court from repeating their offences. A graduation of punishment is key to effective deterrence. Can China indicate whether it intends to implement a system specifically designed to deal with repeat offenders?

**4. Criminal thresholds for manufacturing and/or supplying of dangerous counterfeit goods**

19. The criminal threshold is also applied in cases in which offenders are found manufacturing and/or supplying counterfeited goods that represent a danger to health, public safety and/or the environment. The EC consider that cases in which infringers are found manufacturing or supplying counterfeited goods that represent a risk to health, public safety and/or the environment should immediately qualify for criminal prosecution irrespective of the volume of goods provided, amount of sales or illegal profit. Does China intend to remove the criminal threshold for those manufacturing counterfeit products that pose a threat to health, public safety and/or the environment?

**C. RIGHT OF INFORMATION**

20. Whether the action against an infringer is taken at the administrative or at the criminal level, the IP owner under the current system in China has no binding legal right to demand participation in the enforcement of their IP rights. How does China intend to improve the participation of the right holders in the proceedings?

D. IP INFRINGEMENTS ON THE INTERNET

21. Unauthorized use of copyright and trademarks on the Internet is becoming increasingly common and widespread. Unauthorized downloads of music, software and literary works are widely available, and there are endless possibilities to obtain pirated and counterfeited goods via Internet portals by phone or mail order. Can China indicate which kind of measures it intends to take to remedy this situation?

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