

TRANSITIONAL REVIEW MECHANISM OF CHINA

Communication from the European Communities

By means of a communication from the delegation of the European Communities, dated 9 October 2007, 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") would like to thank the People's Republic of China (hereinafter referred to as "China") for its participation in the TRM process and look forward to the further clarification of the important matter of IPR protection and enforcement in China.

I. GENERAL

2. The EC welcomes the initiatives taken by China to improve the situation (especially the enforcement) of intellectual property rights.

3. Since the 2006 TRM exercise several developments have occurred in China in the field of IPR, such as:

- The establishment of 50 IPR Complaint Centres throughout China where IPR infringements can be reported (November 2006);
- The Interpretation of the Supreme People's Court on some *Issues Concerning the Application of the Law in the Trial of Civil Cases of Unfair Competition* (December 2006);
- The revised draft Third Amendment of the Patent Law (December 2006);
- The Opinion of the Supreme People's Court *on the Comprehensive Strengthening of Intellectual Property Trials Work and the Provision of Judicial Guarantee for Building An Innovation-oriented Country* (January 2007);
- The Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on *Several Issues in the Concrete Application of the Law in Handling Criminal Cases of IP Infringement* (April 2007);
- China's Action Plan on IPR Protection 2007 which details 276 measures in 10 areas and in which China has included the drafting, formulation and revision of 14 laws, regulations, rules and administrative measures on trademark, copyright, patent and

customs protection as well as seven Judicial Interpretations and guidelines (April 2007);

- A number of public awareness-raising campaigns such as the national "100-Day Campaign against Piracy".

4. However, despite these developments and China's initiatives to address a number of problems in its IP system, the level of counterfeiting and piracy as well as the lack of effective IPR enforcement remain a matter of great concern for the EC. Criminal prosecution remains ineffective. Sanctions against IPR infringements are insufficient (to deter infringers). Civil and administrative procedures against counterfeiting and piracy activities remain expensive and time consuming. The EC therefore urges China to actively pursue its efforts towards an effective intellectual property protection and enforcement system.

5. On the basis of the cooperation established between the EC and China in the context of the EU-China IP Dialogue and IP Working Group and in the light of the above-mentioned developments, the EC would like to take this opportunity to raise a number of questions regarding areas of concern.

II. IPR PROTECTION

1. Patents and technology transfers and protection of confidential data

(a) Use of patented technologies

6. At the Ninth EU-China Summit on 9 September 2006 the EU and China adopted a joint statement by which they expressed the willingness to strengthen exchanges and cooperation on IPR protection in the area of technology and support the contractual freedom between enterprises in the field of technology transfers under the condition of fairness, reason and non-discrimination. How does China envisage to address this issue and to encourage Chinese companies to better respect intellectual property rights and to promote the negotiation of licence agreements when using patented foreign technologies?

(b) Third Patent Law Revision

7. The EC appreciates the efforts of China in revising the Chinese Patent Law and the opportunity to provide comments on the revised draft. The EC takes note of positive developments, such as the inclusion of the offering for sale in the scope of design patent protection. Such a provision will help IPR holders protect against infringing products offered for sale on the internet and in catalogues. However, a number of provisions still raise concerns and require further clarification.

8. Article 4 sets out the obligation to obtain approval from the Patent Office before filing a patent application in a foreign country for a patent for inventions-creations made in China. The EC would like to get clarification on whether this approval requirement will only apply to inventions affecting "*security or other vital interest of the State*", or whether it will apply to all inventions made in China.

9. Article 9 relates to inventions which are generated through scientific research projects funded mainly with Chinese government investment. Under this provision, any invention-creation generated by a foreign entity, in cooperation with Chinese research institutes, will be exposed to the risk of being spread without any compensation. How does China intend to address this issue which is crucial if foreign entities are to continue further investing and co-operating with national research institutes? Paragraph 2 of Article 9 states that the competent departments of the Chinese administration may allow designated entities to exploit the invention. This paragraph appears to apply to all inventions,

including inventions made with the contributions of foreign entities. If so, how does this provision comply with Article 31 of the TRIPS Agreement?

10. Articles 72 and 73 limit the rights of the patent holder when an infringer believes that the patent holder does not object to the infringement. The patent holder will not be able to obtain compensation nor to stop the infringing act. How will China ensure that the rights of the patent holder will be respected? Can China explain how Paragraph 2 of Article 72 would be applied in case of continuous infringement? Will the three-year period be calculated from the first day of the two year limitation period? Will this provision apply retroactively? Can China explain whether also Article 73 shall only apply after the two plus three year period stipulated in Article 72 has lapsed? Can China explain the actual scope of application of Article 73, possibly by giving examples?

(c) Protection of confidential information

11. In various sectors, where companies are required to apply for the technical and/or regulatory approval for products or for the authorization to build a plant, such companies are required to entrust Chinese governmental or official agencies or institutes with highly confidential information. In many cases, it is felt that the information required goes beyond what is reasonably needed. Does China intend to address this issue? For example, would China be ready to adopt clear instructions to restrict the disclosure of technical know-how to what is strictly necessary for the required authorisation or approval relating to commercialisation of a product or the construction of a plant?

12. Often, such information is not kept confidential but is made public and, in certain instances, data have been published on the internet before regulatory approval for such a product is granted. How does China intend to address this problem? Would China be prepared to clearly define the obligations of all governmental officers and their related institutes, and enforce the liability and sanctions against those officers who disseminate confidential information without permission?

(d) Protection of test data for pharmaceutical products

13. The EC welcomes the draft Drug Registration Regulation (DRR) of 10 March 2007 and expects that some of the proposed changes will lead to some improvement of the regulatory framework in China. However, the following IPR-related aspects need to be clarified.

14. The regulatory framework in China provides for six marketing authorization categories. Depending on the marketing authorization category, the type and extent of information to be submitted to the registration authority varies. Therefore innovative pharmaceuticals generally fall under the so-called Category 3 ("*Drugs first marketed ex-China*") for which only a limited data set has to be submitted in order to support the new medicine registration. This practice might give rise to the conclusion that the provisions on data protection formally in place in China are nullified by the possibility to refer to less comprehensive data which are often in the public domain. Does China intend to review the six registration categories to ensure non-discrimination and create an environment in line with the spirit of the Chinese legal provision on data exclusivity?

15. With regard to the enforcement of data, current Chinese legislation does not explicitly state that the State Food and Drug Administration (SFDA) must not approve the same product for six years after the originator's approval unless the applicant submits a full dossier demonstrating quality, safety and efficacy containing chemical-pharmaceutical, preclinical and clinical data of the nature required from the originator and the applicant demonstrates that it has generated such data itself. Does China intend to introduce appropriate provisions in this respect? Moreover, existing legislation provides for a subsequent applicant to confirm non-infringement of patents. However, the current system does not enable drug approval authorities to help solve disputes at an early stage of the procedure. Does China

envisage the adoption of a mechanism that would prevent infringements and patent disputes before new drugs are released onto the market?

(e) Protection of products subject to marketing authorisation

16. 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 can not 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). This can be seen as a measure to counterbalance the introduction of the so-called "Bolar exemption" in Article 74 of the revised draft Third Amendment of the Patent Law. Does China plan to grant additional protection – in the form of patent term restoration or supplementary protection certificates – to products that can not be marketed before a specific marketing authorization has been given (such as pharmaceutical products)?

2. Trademarks

17. The EC welcomes the revision of the Chinese Trademark Law, in particular the proposed amendments to limit the preliminary examination of a trademark application to the absolute grounds of refusal and to start oppositions at the level of the Trademark Review and Adjudication Board (TRAB). The EC welcomes the possibility to participate in the consultation process initiated by the Chinese authorities.

(a) Counterfeiting at retail and wholesale markets

18. On 7 June 2006 three major retail markets in Beijing and a coalition of trademarks holders 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 products from the markets. How will the Chinese public authorities support the implementation of this MoU in practice? For instance, does China envisage promoting these clauses in model contracts between landlords and vendors? Can China confirm police and/or Administration of Industry and Commerce's support to ensure that market order is respected when these clauses are implemented by landlords?

19. In general, despite obvious and widespread infringements occurring on a daily basis, there is a lack of effective and consistent action against retail and wholesale markets. The administrative enforcement agencies claim not to have enough information to act and tackle the problem while the police deny having jurisdiction for lack of proven criminal threshold. Can China indicate which strong measures it intends to take against retail and wholesale markets engaged in the sale of infringing products?

(b) Trademark Office backlog

20. There is an increasingly alarming backlog of cases pending at the Trademark Office (TMO) and Trademark Review and Adjudication Board (TRAB). An application, which takes today an average of two years before it can be published and registered, can be delayed by five to six 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. It is doubtful whether this is compliant with Article 62(2) of the TRIPS Agreement and the generally accepted concept of "*reasonable period of time*". How does China intend to resolve this issue? Does China plan to significantly increase the number of examiners and members of the TMO and of the TRAB in order to keep up with the increase in trademarks applications and related administrative litigation, and to reduce the backlog?

3. Copyright – Market access

21. Foreign suppliers of sound recording distribution services appear to receive less favourable treatment than that accorded to Chinese suppliers of sound recording distribution services. It would appear that any "imported" music (which appears to include music in which certain rights are held by a foreign-owned or foreign-invested enterprise) is subject to content review before digital distribution. However, music in which such rights are held by Chinese enterprises without foreign investment is subject to registration but not prior content review before digital distribution. Consequently, it appears that foreign-owned and foreign-invested sound recording distribution enterprises in China, as well as enterprises that supply cross-border sound recording distribution services, are treated less favourably than like sound recording distribution enterprises that are wholly Chinese-owned. Another problem is the time it takes to clear the censorship process. In the fast-moving music business whoever gets to market first has a big advantage and it would appear that the infringers are often able to supply music months before the copyright holder can. How does China intend to resolve these issues? Does China intend to apply the same censorship requirements to Chinese enterprises as to foreign suppliers? Does China have any plans to streamline the censorship process to allow right holders quicker access to the market?

22. It appears that sound recordings imported into China in physical form but intended for digital distribution must undergo content review prior to distribution within China; domestically produced sound recordings appear not to be subject to this requirement but can instead be digitally distributed immediately. It thus appears that sound recordings imported into China in physical form are treated less favourably than sound recordings produced in China in physical form. It also appears that achieving censorship clearance for a digital work does not mean that the equivalent physical work has also passed censorship and vice versa. How does China intend to resolve these issues? Does China intend to apply the same censorship requirements to Chinese enterprises as to foreign suppliers? Does China have any plans to streamline the censorship process to allow right holders quicker access to the market? Will China ensure that only one censorship application is required for content irrespective of the form that it takes (i.e. digital or physical form)?

III. IPR AND COMPETITION LAW

23. The EC welcomes the recently adopted Chinese Anti-Monopoly Law. This new legislation refers to the concept of "*abuse of intellectual property rights*" in particular in Article 55. Can China clarify what this concept means in practice? Can China confirm that this concept does not go beyond what the TRIPS Agreement considers as abusive practices under Article 31(k) (compulsory licensing) and Article 40 (competition)?

IV. IPR ENFORCEMENT

1. Customs measures

24. Statistics provided by EU customs show a dramatic increase in the number of counterfeit and pirated goods coming from China and entering EU territory. In 2006, 86 per cent of the total counterfeit and pirated goods seized by EU customs authorities came from China. The counterfeiting and piracy problem is growing faster in size and complexity than what the Chinese system, with the methods currently used, is able to deal with. What measures will China take to tackle this problem?

2. Notarization and legalization of Powers of Attorney and evidence

25. 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. Similarly, all documentary evidence (with a recently introduced narrowly interpreted exception for officially published documents of foreign governments) 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 onerous, cumbersome and time consuming and can constitute an obstacle to any urgent proceeding. It is also doubtful that this is compliant with the TRIPS Agreement. Does China intend to simplify these formalities? If so, how?

3. Interim injunctions

26. In China, it is difficult to obtain injunctions in practice. It is estimated that less than 2 per cent of all interim injunction applications actually submitted to the courts are granted. Official statistics do not take into account or give a break down on applications made which have not been "accepted" by the courts, for example due to the lack of notarization and legalization of Power of Attorney. It is doubtful that this is compliant with the TRIPS Agreement. How does China intend to solve this problem?

4. Revision of the threshold system

27. On 4 April 2007, the Supreme People's Court and the Supreme People's Procuratorate adopted an Interpretation on *Several Issues in the Concrete Application of the Law in Handling Criminal Cases of IP Infringement*. This Interpretation aims to reduce the criminal threshold for copyright to 500 units and cancel the distinction between "individual" and "units". Does China intend to re-evaluate the threshold mechanism for criminal prosecution for infringements of other intellectual property rights on the basis of the standards set for copyright infringements?

5. Price evaluation system

28. The calculation method used to determine the "seriousness" of a case (for the application of the thresholds) appears to be inappropriate. Instead of using prices of authentic goods, Chinese authorities rely on prices indicated by the suspect or other opaque means and which do not take into account criteria such as unfinished goods and the various components necessary to complete the infringement process (i.e. bottling/packaging). As a result, large seizures of infringing goods are often considered at an unreasonable low value, which is an obstacle to any serious and effective action. Can China indicate if it intends to clarify this situation?

6. Repeat offenders

29. The Judicial Interpretations insufficiently deter counterfeiters and pirates who have already been caught and punished when repeating their offences. A progressive scale of punishment is crucial to ensure effective deterrence. Is there any intention of introducing stronger punishments in China to deal with repeat offenders?

7. Criminal prosecution for dangerous infringing goods

30. The criminal threshold is applied in cases in which offenders are found manufacturing and/or supplying infringing 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 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 environment?

8. Suspended sentences

31. According to the Chinese Criminal Code (Article 72) the sentence can be suspended for cases punishable by imprisonment up to three years (considered "*serious cases*") under certain conditions. In practice, there have been quite a number of "*very serious cases*" (punishable by imprisonment from three to seven years without possibility of suspension), with large quantities seized, where the final decision was exactly three years, the court taking the opportunity of the ambivalence to grant suspension. Can China indicate which measures it intends to take to prevent suspension in "*very serious cases*"?

9. Information of IPR holders

32. Under the current system in China the IPR holder has no binding legal right to be involved in the proceedings. Once the claim of IP holder has been accepted, most law enforcement agencies are not obliged to inform him of the results of their action. On the other hand, the infringer has the right to defend his case and appeal to a higher authority. Can China indicate (1) how it intends to ensure that IPR holders are adequately informed of the development and results of the enforcement procedure, and (2) if it is intended to give IPR holders a right to be involved in proceedings they initiated?

10. Online piracy

33. 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 that there are endless possibilities to obtain pirated and counterfeited goods via internet portal by phone or mail order. Can China indicate which measures have been or will be taken to remedy this situation? More specifically, can China indicate which kind of measures it has taken to enforce existing laws and regulations against the act of linking to, and the hosting of, websites offering illegal or infringing content?

34. The application of the internet regulations raises many complicated legal questions for the relevant authorities who have been identified as being responsible for their enforcement causing them to hesitate in taking action. This only benefits the infringers and allows piracy to become endemic if not contained at this stage. Can China clarify the issue of the proper jurisdiction for taking action?

35. Right holders, who wish to serve a notice of infringement to a website or to the relevant ISP, in the case where the operator cannot be identified, are currently confronted with overly complicated and burdensome procedures. Can China indicate which measures it intends to clarify and simplify the situation where a website operator or ISP refuses to respond or delete the infringing content, or where they provide a response that does not accept responsibility for the content and subsequently allows for the infringement to continue?

36. The average damages awarded by civil courts for online piracy are too low and getting even lower. For an infringing song they have fallen from Y 3000 in 2005 to Y 900 in a recent case. As a result it makes more business sense for an infringing site to wait to be sued than to take a licence from a record company. Can China indicate how it intends to address this issue?
