

TRANSITIONAL REVIEW MECHANISM OF CHINA

Communication from the European Communities

By means of a communication from the delegation of the European Communities, dated 13 October 2008, the Secretariat has received the following contribution in the context of the transitional review mechanism under Section 18 of China's Protocol on Accession.

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

1. The EC notes the initiatives taken by China over the last year aimed at improving the situation regarding the protection and enforcement of intellectual property rights.

2. Since the 2007 TRM exercise several developments have indeed occurred in China in the field of IPRs, such as:

- On 5 June 2008, the publication of a *National Intellectual Property Rights Strategy* which sheds some further light on the efforts China intends to make to protect IPR for the next five years and a second period until the year 2020. Some welcomed topics include strengthening IP protection, including enhancing of the judicial enforcement, cutting down the costs of protection and making infringements more costly;
- On 18 March 2008, the adoption of China's *Action Plan on IPR Protection 2008* which details 280 measures in 10 areas and in which China has included the drafting, formulation and revision of 24 laws, regulations, rules and administrative measures on trademark, copyright, patent, plant variety rights and customs protection as well as five Judicial interpretations;
- On 1 May 2008, the entry into force of the Provisions on the Disclosure of Government Information and their implementation by the State Intellectual Property Office (SIPO) in their own Interim Measures for the Disclosure of Government Information;
- The current revision of Chinese intellectual property laws, in particular the Third Revision of the Patent Law (draft text as issued on 29 August 2008), and the announced upcoming revision of the Copyright and Trademark Law;

- The number and value of items seized on export at the Chinese border rose 83 per cent and 116 per cent, respectively, compared to 2006. Furthermore, the EC has noted a reduction in the number of EU customs seizures of counterfeit goods coming from China in 2007 (about 60 per cent) compared to 2006 (80 per cent). In January 2008, the General Administration of Customs (GAC) issued new measures, which came into effect in April 2008, according to which export companies and customs brokers can be profiled and categorized on the basis of their previous track record of IPR violations;
- Some judicial decisions which illustrate the role of the Supreme People's Court in implementing IPR laws in line with international best practices.

3. However, despite these developments and China's efforts to address problems in its IP system, European companies continue facing serious IPR problems in China, in particular the lack of proper access to the legal system and effective IPR enforcement. Criminal prosecution remains little effective. Sanctions against IPR infringements are insufficient to deter infringers. Administrative enforcement procedures are still subject to discretion in many areas. Civil procedures against infringing activities remain difficult to obtain, often expensive and in comparison to domestic cases more time consuming. The EC therefore urges China to actively pursue its efforts towards an effective intellectual property protection and enforcement system.

4. 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 (many of which were already raised during the 2007 TRM exercise without receiving a satisfactory answer).

II. IPR PROTECTION

A. PATENTS, TECHNOLOGY TRANSFER AND PROTECTION OF CONFIDENTIAL DATA

1. Third Patent Law Revision

5. 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 many positive developments in the latest draft text dated 29 August 2008. However, a number of provisions still require further clarification.

6. New Article 21 states that "any entity or individual may file an application in a foreign country for a patent for invention-creation made in China with an advance confidentiality examination conducted by patent administration department under the State Council". The EC would like to get clarification on the envisaged mechanism and purpose of this provision.

7. New Article 24 states that "any design for which a patent right may be granted shall be substantively different from the prior design or a combination of the features of the prior design". Can China indicate what is deemed to be qualified as "substantively different"?

8. New Article 49(2) in conjunction with New Article 54 states that a compulsory licence is granted for a patent where it is determined through the judicial or administrative procedure that the exercise of the patent is an act that eliminates or restricts competition (New Article 49(2)), with such licence according to New Article 54 not restricted only to supply for the domestic market. Can China give a case example under which circumstances it envisages the requirements fulfilled?

9. Recent filing numbers for utility models and design patents show a strong increase in number, with the vast majority of filers Chinese enterprises. Many companies, including Chinese ones, have voiced the difficulty to enter the Chinese patent system with copies of prior art or non-inventive modifications of previous applications, but later on very costly and lengthy procedures for legitimate right holders to eliminate these copies ("easy to get in, hard to get out"). New Article 62 tries to address this problem by making the enforcement of such invalid rights dependant on a search report. Are there any further mechanisms foreseen to compensate right holders for the sometimes significant costs to get rid of invalid copies, in particular as regards invalidation?

2. Protection of confidential information

10. 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 adopt clear instructions to restrict the disclosure of technical know-how to what is strictly necessary for the required authorisation or approval relating to import of a product, commercialization of a product (e.g. type approval) or the construction of a plant?

11. 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. 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?

3. Protection of test data for pharmaceutical products

12. 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.

13. 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, generic products for which only a limited data set has to be submitted benefit from a different treatment from innovative products. 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, with the public domain often interpreted in a broad way including data provided by third parties for market approval. This would undermine the objective of an effective data protection. 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?

14. The current system does not enable drug approval authorities to help solve patent disputes at an early stage of the procedure. Some changes were introduced in the final revised DRR of 2007 including the reference to a notification system and the possibility of initiating legal action during registration. Can China indicate if and how this notification system works in practice? Can China also indicate whether detailed guidelines exist to interpret the timing of publication and which details are published?

4. Protection of products subject to marketing authorization

15. 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). 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)?

5. Relations between patents and standards

16. It has been reported that Chinese courts as recent as June 2008, have imposed the granting of compulsory licences in respect of patented technologies identified by right holders who participate in standard setting procedures in China or which are included into a standard in China (without or against the will of patentees), with explicit exclusion of the FRAND basis (fair, reasonable and non-discriminatory) for remuneration. Could China clarify the situation regarding the legal consequences of a patented technique being required for the implementation of a certain standard?

B. TRADEMARKS

1. Trademark Law Revision

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. Can China inform us of the state of play on this consultation process?

2. Counterfeiting at retail and wholesale markets

18. In January 2008 the Beijing Municipality Administration of Industry and Commerce (AIC) issued a model text of a lease contract including the two strike rule into the private lease contracts of vendors in retail and wholesale markets in Beijing. This rule aims at expelling vendors of counterfeit and pirated products from the markets. Can China indicate how it intends to promote this model text? Can China also inform of the practical implementation of this model text? 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. It has been reported that during the Olympic Games the Chinese authorities had conducted raids and the situation in main markets was rather clean in Beijing, in particular the absence of visible fake products from famous brands. This is a welcomed initiative. Can China confirm that it intends to pursue and intensify such action in the long term?

20. Can China indicate which action it intends to take to definitely clean out the markets from counterfeit products, especially in the Beijing Silk Market. Does China agree that police (Public Security Bureau) should be active in pursuing criminal liability for the storage of counterfeit goods in warehouses in order to re-establish market order and enable fair competition? Does China agree that the degree of infringements may require revision of onerous formality requirements for enforcement, in particular by administrative authorities? Does China agree that action by the authorities should not be limited to trademark infringement, but also encompass withdrawal of business licences in case of repeated infringements?

3. Trademark Office backlog

21. There has been 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 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".

22. Recently China announced that more staff (about 400) would be allocated to the Trademark Office and Trademark Review and Adjudication Board in 2008 to deal with the processing of trademark applications and the review of opposition and cancellation actions. Can China confirm this information and inform us of the state of play on this staff allocation?

C. COPYRIGHT

1. Market access

23. 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.

24. 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 say 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?

25. 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)?

2. Tariff rates

26. Article 9(1) of the TRIPS Agreement imposes an obligation to comply with Articles 1-21 of the Berne Convention. Article 11*bis* of the Berne Convention prescribes that at least an equitable remuneration is payable to the author for the broadcasting of their works. It appears that since the amendment of the Chinese Copyright Law in 2001, no remuneration has been paid to right holders for

the use of music in their broadcasts, as the rate of remuneration, or tariff, has not been set by the State Council. What measures will China take to ensure a speedy resolution of this problem? When will the tariff rates be set by the State Council? Will right holders be compensated for the years when their music was being broadcast prior to tariff rates being set?

D. PLANT VARIETY PROTECTION

27. The EC noticed the reduction of costs for the application and testing of new plant varieties' protection in China, as well as the reduction of administrative and technical burdens as from 1 January 2008 concerning some rules for the implementation of its Regulation on the Protection of new varieties of plants (e.g. reduction of the checking period of a novel variety from two years to one year, no more need to work with a representative agency for foreign enterprise who wish to protect their new varieties in China, etc.)

28. Nevertheless, loopholes still remain in the plant variety protection system in China, such as the fact that only a limited number of plant species are protectable in China - patent protection for plants not covered under the Chinese system cannot be obtained - and that the so-called "farmer's exemption" applies also to ornamental and fruit plants. In addition, the system does not cover harvested and processed material neither imported protected material. How does China intend to resolve these issues? Does China intend to accede to the International Convention for the Protection of New Varieties of Plants of 1991 to resolve them?

E. IPR AND COMPETITION LAW

29. 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)? Can China confirm that the implementing provisions of the Anti-Monopoly Law will clarify this concept?

III. IPR ENFORCEMENT

A. INFORMATION OF IPR HOLDERS

30. Under the current system in China the IPR holder has no binding right to be involved in the proceedings. Once the claim of the IPR holder has been accepted, most law enforcement agencies are not obliged to inform him of the results of the 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 procedures; and (2) if it is intended to give IPR holders a right to be involved in proceedings they initiated?

B. CUSTOMS MEASURES

31. 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 2007, about 60 per cent of the total counterfeit and pirated goods seized by EU customs authorities came from China. While this figure has decreased compared to 2006, the counterfeiting and piracy problem is still growing faster in size and complexity than what the Chinese system, with the methods currently used, is able to deal with. What measures does China intend to take to tackle this problem?

C. CIVIL ENFORCEMENT

1. Notarisation and legalisation of Power of Attorney and evidence

32. 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 notarised and legalised Power of Attorney in favour of a registered practising Chinese lawyer. They also need to notarise and legalise any document justifying their incorporations. Similarly, all documentary evidence produced in administrative or judicial litigation needs to go through the same notarisation and legalisation process when they originate from a foreign country. This is cumbersome and time consuming and can constitute an obstacle to any urgent proceeding. A positive step was made last year with the adoption by the Supreme People's Court of Opinions on the *Comprehensive Strengthening of Intellectual Property Trials Work and the Provision of Judicial Guarantee for Building An Innovation-oriented Country (11 January 2007)* but the provisions relating to notarisation and legalisation of overseas evidence are not clear enough and insufficient.

33. As regards evidentiary requirements, can China indicate whether these requirements are mandatory and systematic or whether the judge has some discretion in the matter? If systematic, would China be ready to simplify the rules and replace the notarisation and legalisation of documents by an optional decision by the court on a case-by-case basis, in particular where there is reasonable doubt regarding the authenticity and/or content of a document? What has been the impact of the above-mentioned 2007 SPC Opinion on the court practice?

34. Regarding representation before the courts, are the rules mandatory or does the judge have some discretion in the matter? If mandatory, does the law foresee the exhaustive list of documents to be provided? Can China confirm that every time an attorney is replaced by a party or his address or the address of the entrusting party changes, the notarisation and legalisation needs to be re-applied, as well as in case of appeal to a case, even where there is no such change?

2. Interim injunctions

36. In China, it is difficult to obtain injunctions in practice. It is estimated that less than two per cent of all interim injunction applications actually submitted to the courts are granted. Official statistics do not take into account or give a breakdown on applications made which have not been "accepted" by the courts, for example due to the lack of notarisation and legalisation of Power of Attorney. How does China intend to solve this problem, in particular to make the injunction system more transparent?

3. Level of damages

35. In China right holders complain that the damages awarded by the courts are inadequate to compensate for losses or to deter further infringement – not even covering the full costs of enforcement. Can China describe the existing criteria to determine the amount of damages to be awarded by the courts? Do they take into account the profits made by the pirate? Does the Chinese law allow the judge to impose damages for each individual copyright infringement, as opposed to being applied to each case (covering a number of infringements)? Can China indicate whether legal fees and expenses (attorney's fees) are taken into account in the determination of damages?

4. Price evaluation system

36. 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?

5. Litigation costs

37. Especially for patents and for criminal procedures, litigation costs are reported to be very high, particularly for foreign right holders which are subjected to complex and costly legalisation requirements and have to engage – officially not even legal – investigation firms to obtain evidence to meet the burden of proof requirements set by Chinese courts. Does China intend to simplify the requirements applicable to foreign entities involved in IPR litigation?

D. CRIMINAL ENFORCEMENT

1. Revision of the threshold system

38. *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". As regards online piracy, can China clarify whether the threshold of "500 units" means making available 500 songs on the website or having to prove download of 500 songs? 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?

2. Suspended sentences

39. 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"?

E. ONLINE PIRACY

40. 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 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?

41. In the run up to the Olympics, China maintained a round-the-clock watch on over 200 Chinese websites in order to stop unauthorised transmissions of Olympic events. A surveillance team was even set up to detect and block all web-casts of events, except those that were authorised by the International Olympic Committee. Can China indicate whether such an action will be pursued in the future and is not only a one-shot initiative? If so, can China confirm that such an action will be applicable to all infringing websites?

42. 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? More specifically, can China clarify which ministry or agency is responsible for shutting down infringing websites?

43. 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 has taken or intends to take 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?
