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Council for Trade-Related Aspects of Intellectual Property Rights

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TRANSITIONAL REVIEW MECHANISM OF CHINA

Communication from the European Communities

By means of a communication from the Delegation of the European Communities, dated 12 October 2009, the Secretariat has received the following contribution in the context of the transitional review mechanism under Section 18 of China's Protocol on Accession.

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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 active participation in the Transition Review Mechanism and look forward to the further clarification of the important matter of IPR protection and enforcement in China.

I. GENERAL

2. The EC notes the initiatives taken by China over the last year aiming at improving the situation regarding the protection and enforcement of intellectual property rights. Since the 2008 TRM exercise several developments have indeed occurred in China in the field of intellectual property, such as for example:

- On 28 December 2008, the promulgation of the Third Revision of the Chinese Patent Law which entered into force on 1 October 2009; on 9 March 2009 draft Implementing Rules were published for comments;

- On 30 January 2009, the signature of an EU-China Customs Action Plan on IPR enforcement; moreover, the EC has noted a reduction in number of EU customs seizures of counterfeit goods coming from China in 2008 (about 54 per cent) compared to 2007 (about 58 per cent); on 3 March 2009 a new set of rules were issued for the Implementation of the Customs Regulations on the Protection of Intellectual Property which came into effect on 1 July 2009;

- In June 2009, the issuance of a new draft of the Chinese Trademark Law revision and the SAIC Opinions on Carrying out the Outline of the National IP Strategy and Implementing the Trademark Strategy; this was preceded, in April 2009, by the issuance of a revised SAIC/TRAB regulation on the Recognition of Well-Known Trademarks concerning detailed internal procedures for the recognition of well-known trademarks and, on 23 April 2009, by the adoption of a SPC Interpretation on Certain Questions in the Application of the Law Relating to the Protection of Well-Known Trademarks in the Adjudication of Civil Disputes Involving Trademark Infringements;

- On 22 April 2009, the signature between OHIM and SAIC of a Memorandum of Understanding on promoting cooperation in the trademark field, and on the same day the signature between OHIM and SIPO of a Memorandum of Understanding on promoting cooperation in the design field;

- On 11 June 2009, the adoption of China's *Action Plan on IPR Protection* 2009 which details 170 measures in 9 areas and in which China has included the revision and formulation of 23 laws, regulations, rules and administrative measures on trademark, copyright, patent and customs IP protection as well as 3 Judicial Interpretations;

- On 1 July 2009, the re-organization by the SPC of the judicial system for handling disputes concerning the granting of patent and trademark rights with the aim of streamlining the Chinese IPR trial system.

3. However, despite these developments and China's efforts to address problems in its intellectual property system, European companies continue facing serious IPR difficulties 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 remain 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. This situation is reflected in the last IPR Survey that the EC has carried out in third countries[1]. The EC therefore urges China to actively pursue and intensify its efforts towards an effective intellectual property protection and enforcement system.

4. The EC is also concerned about official statements and internal notices in China aiming at mitigating the impact of the financial crisis with consequences for the effective enforcement of intellectual property rights.

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, many of which were already raised during the previous TRM exercise without any satisfactory answer.

II. IPR PROTECTION

1. Patent Issues, Technology Transfer and Protection of Confidential Data

(a) Third Patent Law Revision

6. The EC welcomes the revised Chinese Patent Law and appreciates the opportunity to provide comments in the revision process, including on the Implementing Rules. The EC takes note of several positive developments in the new Patent Law. However, a number of provisions continue to be a matter of concern to the EC and require further clarification.

7. Article 10(2) of the revised Patent Law stipulates that transfer of a patent or patent application from a Chinese entity or individual to a foreigner, foreign enterprise or other foreign organisation must be done *"in accordance with other administrative procedures"*. The current draft Implementing Rules to the Patent Law do not contain further rules clarifying the procedure. In particular, it is unclear to what extent under the new regime of technology transfer SIPO will require applicants or patent holders to submit proof of registration or approval by MOFCOM and MOST under the TIER

[1] This survey is available on the DG Trade website at the following address: http://ec.europa.eu/trade/issues/sectoral/intell_property/index_en.htm

system, and thus link two previously separate administrative procedures. If made mandatory, cross-border transfer of patents will be seriously delayed in time and may substantially implicate the process of international innovation chains using China for part of its R&D. Can China clarify the rules applicable in the matter?

8. Article 20 of the revised Patent Law puts in place a new confidentiality examination. It is not targeting explicitly technology export transactions or contracts, but rather all filing for patents abroad for inventions made or completed in China. R&D Centres in China, technology cooperation projects and other business models employing or using Chinese inventors will have to deal with another layer of government control before they are able to use inventions made in China abroad by filing for patent protection outside China. It appears unclear how this system will be applied to inventions where a part of it is researched in China, yet other parts abroad by other team members. This new system will create new questions once implemented. Can China clarify what is regarded as *"substantial part researched in China"*? Can China indicate whether third parties will be allowed to attempt invalidation of patents in China based on an alleged violation of the confidentiality examination?

9. The revised Patent Law strengthened the possibility to grant compulsory licenses, in particular where a patented technology is not sufficiently exploited (Article 48 (1) of the revised Patent Law) or where the *"public interest requires"* (Article 50 of the revised Patent Law). In cases where an injunction would lead to significant imbalance of interests between the parties, harm public interest or otherwise deemed inappropriate to Chinese interests, only compensatory rights should be granted. In essence, such practice would grant automatic compulsory licenses wherever a need is perceived to prevent exclusionary rights. Can China clarify whether this interpretation of the provisions of the revised Patent Law is correct?

10. Recent data on filing of utility models (225,586 utility model applications in 2008) and design patents (312,904 design patents applications in 2008) show a strong increase in number, with the vast majority of filers being Chinese enterprises. Many companies, including Chinese ones, have voiced the difficulty to enter the Chinese patent system as they are confronted with utility models and design patents protecting copies or non-inventive modifications of prior art. Later on legitimate right holders face very costly and lengthy procedures to revoke these invalid rights ("easy to get in, hard to get out"). Article 62 of the revised Patent Law tries to address this problem by making the enforcement of such invalid rights dependant on a search report. Can China indicate whether there are any further mechanisms foreseen to compensate right holders for the sometimes significant costs to get rid of invalid rights, in particular as regards invalidation procedures?

(b) Protection of Confidential Information

11. In various sectors, where companies are required to apply for the technical and/or regulatory approval for services/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 the scope necessary for approval or authorization. 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, commercialisation of a product or the construction of a plant, especially for type-testing, certification (e.g. China Compulsory Certification or certificate from the Office of State Commercial Cryptography Administration - OSCCA) and standardisation?

12. Often, such information is not kept confidential but seems to be leaked to Chinese competitors or even made public and, in certain instances, data have been published on the internet before regulatory approval for such a product is granted. Is China 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?

(c) Protection of Test Data for Pharmaceutical Products

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. Drugs first marketed outside China are normally placed in a category which allows generic products to be registered with only a limited data set, which can include literature instead of test information. 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 sprit of the Chinese legal provision on data exclusivity?

(d) Patent Enforcement

14. With a view to helping patent holders prevent infringing pharmaceutical products from being put on the market the regulatory framework includes 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?

(e) Protection of Products Subject to Marketing Authorisation

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). The revised Patent Law is silent on this point. Does China plan to grant additional protection – in the form of patent term restoration or supplementary protection certificates – to products that cannot be marketed before a specific marketing authorization has been given (such as pharmaceutical products)?

(f) Relations between IP Rights and Standards

16. Both IP rights and standardisation encourage innovation and facilitate the dissemination of technology. As they contribute to these common objectives by different means, a fine balance needs to be struck which respects the rights of IP holders, ensures an efficient functioning of standardisation processes, and facilitates that standards are open for access and implementation by everyone. Recent developments of the case-law in China aiming at limiting patent rights have raised concerns among the European industry. Can China clarify the situation in China regarding the legal consequences of a patented technique being required for the implementation of a certain standard?

2. Trademark Issues

(a) Trademark Law Revision

17. The EC welcomes the new draft of the revision of the Chinese Trademark Law, in particular the possibility to participate in the consultation process initiated by the Chinese authorities. However, a number of provisions require further clarification.

18. The new draft does not follow up on the previous attempts in the initial drafts to modernise the registration procedure, giving the possibility to abandon the *ex officio* examination on relative

grounds for refusal and leaving space for trademark holders and/or other prior rights holders to directly settle any possible conflicts with new trademark applicants. In practice, the mandatory examination of relative grounds increases the workload of trademark examiners and further delays the registration process. Can China indicate whether it intends to amend its draft on this point?

19. Article 13 relates to prohibition to register and use well-known trademarks. Although this provision is welcome it still maintains some confusion in this very important matter and appears to be inconsistent with the above-mentioned SCP Interpretation of 23 April 2009. More clarity should be introduced in the law. In particular, it should make a clearer distinction between trademark dilution (taking undue advantage, weakening the distinctiveness) and of trademark tarnishing. Does China intend to improve the draft law on this point?

20. Article 34 introduces the concept of bad faith in the law. This is a positive development which will increase the quality of the trademark system and enable trademark examiners to contain malicious applications that may damage the interests of the parties concerned. However, providing a legal definition of bad faith in one or two circumstances may have the indirect adverse effect of exonerating other behaviours, not identical or similar to those defined in the law, and leave them out of reach. Is China ready to clarify the concept of bad faith?

(b) Counterfeiting at Retail and Wholesale Markets

21. Although some improvement has been reported in the retail and wholesale markets – notably thanks to the new guidelines issued by Beijing City aiming at establishing clearer legal obligations on landlords in order to prevent IP violations from occurring – counterfeit products continue being sold on a large scale. 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 licenses in case of repeated infringements?

22. Local administrations of industry and commerce (AIC) have actively explored a long-term mechanism to control trademark infringement. Many markets in Beijing have implemented the "trademark authorization management system." Can China inform of how this programme is being introduced and implemented at the local levels?

(c) Trademark Infringements on the Internet

23. Unauthorized use of IP rights on the internet is becoming increasingly common and widespread in China. In fact, there are many possibilities to obtain counterfeit goods via internet portals by phone or mail order. Right holders are facing a plethora of agencies and ministries both at central and local level that are competent for some part of the enforcement action. In addition, a number of legal and technical issues need to be clarified. For example, the Trademark Law forbids the unauthorized "use" of a registered trademark. The question is whether the mere display of a trademark on a website can be defined as "use" and fall within the scope of infringing acts punishable accord to the law. The scope of ISP liability also needs to be clarified. This situation, combined with complex formality requirements when it comes to IPR enforcement before the courts, makes it difficult for right holders to defend their rights effectively. Can China indicate whether it intends to establish a clear and transparent government structure for administrative enforcement on the internet, clarifying responsibilities and enhancing powers of investigation and seizure as well as powers to cut off websites offering counterfeited goods? Is China ready to enact necessary regulations in order to

define the term "use" of a trademark on the internet? Is China ready to enact necessary regulations defining the responsibility of the ISPs and their obligations to disclose the identity of trademark infringers who are using the internet?

3. Copyright Issues

(a) Tariff Rates

24. Article 9(1) of the TRIPS Agreement imposes an obligation to comply with Articles 1-21 of the Berne Convention. Article 11bis 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?

(b) Online piracy

25. Unauthorized downloads of music, software and literary works are widely available, and that there are endless possibilities to obtain pirated goods notably via the internet. 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?

26. 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?

4. Plant Variety Protection

27. The EC welcomes the improvements in the plan variety protection system in China. However, loopholes still remain 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?

5. IPR and Competition Law

28. The EC welcomes the new 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 Rules of the Anti-Monopoly Law will clarify this concept? Internal SAIC guidelines on the concept of abuse of IP rights and the

application of the Anti-Monopoly Law would be in preparation? Can China explain how this concept is addressed in these guidelines? Does China intend to publish them?

29. The Anti-Unfair Competition Law does not contain any provisions prohibiting the slavish copy of the shape of a product. Does China consider issuing a SPC Opinion stating that copying slavishly the shape of a product may be considered as an unfair act, in the same way as copying its packaging or decoration? Where is China with the revision process of the Anti-Unfair Competition Law?

III. IPR ENFORCEMENT

1. Information of IP Right Holders

30. Under the current system in China the IP right holder has no binding right to be involved in the proceedings. Once the claim of IP right 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 IP right holders are adequately informed of the development and results of the enforcement procedures, and (2) if it is intended to give IP right holders a right to be involved in proceedings they initiated? Is China ready to issue internal instructions to administrative, public security and judicial enforcement authorities, authorising the IP right holder as a "*concerned party*" to participate in all stages of the procedure, from the raid to the decision concerning the disposal of the seized goods?

2. Customs Measures

31. Statistics provided by EU customs show that the majority of counterfeit and pirated goods entering the EU territory come from China. In 2008, about 54 per cent of the total counterfeit and pirated goods seized by EU customs authorities came from China. While this figure has decreased compared to 2007, counterfeiting and piracy remains a common challenge that needs to be addressed effectively. The issuance of a new set of rules for the Implementation of the Customs Regulations on the Protection of Intellectual Property as well as the signature of an EU-China Customs Action Plan on IPR enforcement are positive signals towards better customs enforcement of IP rights. What other measures does China intend to take to tackle this problem?

3. 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 for foreign right holders and can constitute an obstacle to any urgent proceeding. Can China indicate whether it intends to simplify the rules of representation before the courts as well as evidentiary requirements?

4. Level of Fines

33. There are wide disparities in the value of fines imposed by the Administration of Industry and Commerce (AIC) between different cities and different regions. In many cases, local protectionism results in very low fines. As a result, it is very difficult for the right holders to rely on administrative

sanctions as an effective deterrence tool. Does China intend to adopt instructions in order to better harmonise the approaches of cities and regions when applying fines?

5. Calculation Methods

34. The existence of three possible calculation methods for the criminal thresholds creates uncertainty and lengthy discussions with local authorities. This delays and makes it difficult to transfer cases from the administrative authorities to the police. In particular, the artificial distinction between the criminal thresholds for "producers", based on the "value of the goods", and of the criminal thresholds for the "sellers", based on "sales revenues", makes it practically impossible to implement the law when counterfeit goods are seized in shops or warehouses. These goods are not considered by the authorities as relevant for the purpose of establishing the illegal "sales revenues". This is an obvious loophole. A retailer / seller / distributor should be just as guilty as a "producer / manufacturer". The "value of the goods" should be the only means to calculate the criminal threshold. Can China indicate whether it intends to revise the SPC and SPP Interpretation on thresholds in order to simplify the calculation methods along the above-described lines?

6. Case Transfer

35. The transfer of cases between administrative authorities and the Public Security Bureau (PSB) is often delayed because the administrative authorities often insist on first handing out an administrative sanction, and then transferring the case to the police. By the time the case is finally transferred, it has gone 'cold' and the counterfeiters have disappeared. Does China intend to instruct the local administrative authorities not to issue an administrative penalty when the criminal threshold has been reached but rather to immediately transfer the case to the PSB? Is China ready to create an efficient and quick procedure for raising difficulties relating to the transfer of cases to the higher administrative echelon or the central authorities?

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