

Intellectual Property Enforcement in China: Courts, IP Bureaus, and Customs

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The historic rise of China's modern economy and its impact has been recognized worldwide. Although once a mere economic projection, the fact of China's preeminent place is now a reality. In the second quarter of 2010, China surpassed Japan to become the second largest economy in the world. By 2027, it is projected to be the world's largest economy.

The state of China's IP has also reflected this growth. For example, with China's patent system implemented in April 1, 1985, it took 15 years before it received its first one million patent applications. However, in 2009 the Chinese patent office had received almost one million applications for that year alone. US originated applications represented about one quarter of these 2009 filings. These statistics are even more interesting in light of China's relatively young and still maturing patent and intellectual property system.

However, filings alone are meaningless unless there is sufficient protection to enforce granted patents and trademarks. Accordingly, the decision on whether US or other foreign businesses file in China is very much linked to whether it is believed acquired Chinese IP can be properly enforced. Such a decision should be considered in view of the efforts of the Chinese government to strengthen IP, as well as the growth of China's economy.

In navigating IP in China, the avenues for enforcement should be understood along with the costs and benefits. For example, China provides for enforcement through both administrative as well as judicial functions. The most striking differences with the US system are largely due to China's governance structure and design.

Administrative

One track for enforcement of IP is through administrative proceedings. China has local administrative offices, or IP bureaus, at the province, municipality and city level. The role of these IP bureaus is not only for Intellectual Property Rights (IPR) enforcement but additionally for building regional IP strategy, awareness and promotion.

A party having an infringed patent can go to an IP bureau and request an infringement proceeding. In order to begin a proceeding, the requesting party generally needs an identification of your organization, proof of IP right (i.e. patent), identification of the infringement along with evidence. Based on the evidence provided, a decision will be made whether to conduct an investigation. Shortly thereafter arguments will be requested for filing and a hearing held. Also during this process mediation is encouraged. Although administrative, the decision is appealable to a court in which the IP bureau takes part as a defendant.

However, one of the limitations of the administrative proceedings is that no money damages are available, only injunctive relief. Accordingly, such proceedings are generally useful for lower cost disputes.

IPR enforcement is not the IP bureaus only function. They also engage in “IP promotion” by staging public events in order to try improve awareness of IP issues. For example, the Shanghai IP administrative office conducted IP awareness week prior to the World Expo’s arrival in China. With the basis of patent law enshrined in its constitution, the US has over 200 years of history with IP as part of the culture. However, as in China the patent laws and economic changes more recent, the government takes deliberate action through its local administrative offices to raise public awareness of IP issues.

With respect to Trademark enforcement, the administrative authority for industry and commerce (AAIC) has authority. This agency is able to order cessation of infringing activity, destruction of goods carrying infringing marks, however if money damages are desired, proceedings should be filed instead with the courts.

China Courts

If money damages are desired, Infringement suits can be filed with the Chinese Courts. The Chinese court system is divided into several tiers. The court of highest jurisdiction and court of last resort is the Supreme People’s Court. Unlike the US where the Supreme court has 9 justices, the Supreme People’s court has several hundred judges. Further, the court has a dedicated intellectual property division (established in 1993) for hearing IP matters.

The lower tier courts include the High People’s Court which is the court for the Province level, the Intermediate People’s court at the capital and city level, and finally the Primary people’s court at the local county level. Each of these lower tier courts have dedicated Intellectual Property divisions. For example, as of 2008, the local courts had a total of 298 separate intellectual property divisions.

Along with its economy, the Chinese courts have seen growth in the number of intellectual property cases. For example, 2009 saw a 25% year over year increase in the number of first instance IP civil cases filed in the local courts, with a total of 30,626 cases (4,422 of these were patent and 6,906 were trademark). Court Mediation is heavily encouraged, with over 50% of the cases being settled through these means.

With respect to damages, they have been historically small, in the lower 100,000’s RMB. For example, the maximum statutory penalty (awarded in the absence of proven actual damages) for patent damages was 500,000 RMB. With the changes to the Chinese patent law in 2009, this was increased to 1 million RMB.

While the burden of proof is stringent for obtaining actual damages, there are notable instances of success. For example, in 2007 a judgment was rendered against the French company Schneider in favor of the Chinese company Chint Group Corp for patent infringement in the amount of 334 Million RMB (later settled in 2009 in mediation on appeal for 157 Million

RMB). This was the largest damages award in IP up to that point. Accordingly, large judgments are possible in China and with the increased filings and experience of the Chinese Courts, these could grow more common.

Customs

In addition to administrative and Court avenues, IP rights can be enforced through Chinese Customs. Similarly to section 337 Actions the US International Trade Commission (ITC), Chinese customs can prevent offending product from entering or exiting the country. Due to China's well known manufacturing base, generally much emphasis is placed on preventing export of infringing product.

Chinese customs is divided into districts with Shanghai customs seeing the most business (accounting for 23% of China). While customs conducts its own policing, IP rights owners aware of offending product can file to prevent export of the goods. If a rights owner is aware of counterfeit product which is about to be imported or exported, the right owner can file an application with proof of ownership to Customs. The right owner is also required to provide a deposit equal to the value of the goods.

Customs will detain the goods and the patent owner is given 20 working days to file with the courts. If Customs does not receive notice from the Courts within the allotted time, then the goods are released.

Accordingly, under certain circumstances enforcement through customs may be very effective for protecting one's IP rights.

US and China

Additionally, in view of the above, a comprehensive strategy may include IP rights in both the US and China. For example, companies having US and Chinese patents and whose products are the targets of knock-offs manufactured in China can have multiple options for enforcement depending on the most useful and cost effective. Accordingly, such right holders can enforce in the US courts, including the ITC to prevent importation, and may additionally have action in China, through the judiciary or administrative processes as well as customs.

With China having one of the largest economies and still growing, businesses have had to deal seriously with that impact. Now with the growth of intellectual property and the steps China has made to develop its intellectual property laws, US attorneys should consider the best ways to take advantage of these additional options and whether any benefits can be gained. This way the full menu of choices will be available for attorneys and clients goals can be leveraged to the full extent.