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A COMPARISON BETWEEN THE JUDICIAL AND ADMINISTRATIVE ROUTES TO
ENFORCE INTELLECTUAL PROPERTY RIGHTS IN CHINA

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ABSTRACT

Over the past two decades, a sophisticated intellectual property law system has developed in support of China's transition to economic superpower. In today's global economy, it is crucial that international marketers understand how to navigate this new system to best protect their intellectual property rights. China allows for two distinct procedures by which intellectual property assets may be protected, one judicial and the other administrative. Each choice holds distinct advantages and disadvantages for a party seeking to enforce its rights. Making the best choice involves familiarization with the particulars of each procedure and gauging the likelihood of a successful outcome. The details of these procedures, along with their benefits and drawbacks, are surveyed here to provide a cursory understanding of intellectual property rights in China.

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A COMPARISON BETWEEN THE JUDICIAL AND ADMINISTRATIVE ROUTES TO ENFORCE INTELLECTUAL PROPERTY RIGHTS IN CHINA

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INTRODUCTION

Whether seeking to protect a market for products in China, to reduce competition in its U.S. market from Chinese manufacturers or to avoid liability for the manufacture of goods within China; more and more U.S. companies are getting the opportunity to learn firsthand about the enforcement of intellectual property (“IP”) rights within China, some by choice, others by necessity. It is probably no surprise that, as West meets East, these companies are finding some similarities to U.S. IP enforcement procedures, but many more differences.

One of the most significant differences is that China offers two distinct routes for enforcing IP rights.¹ The route most familiar to U.S. companies is the judicial route, namely the bringing of an infringement action in the courts.² The other route is to bring an administrative action.³ The use of a government agency to enforce intellectual property rights is a somewhat “foreign” concept to most U.S. companies. Nevertheless, as explained below and depending on the circumstances, this may be the best route.

This article examines the judicial and the administrative routes and explains the potential advantages and disadvantages of each.

I. CHINA’S INTELLECTUAL PROPERTY LAWS DEFINING INFRINGEMENT

Since enacting laws for the protection of intellectual property rights almost thirty years ago, the People’s Republic of China has gained more and more sophistication in the creation of and the enforcement of IP rights. China’s first patent office was established in 1980.⁴ Now named the State Intellectual Property

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**** Available at www.jmripl.com.

¹ See generally JIANQIANG NIE, THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN CHINA 217–37 (Cameron May Ltd. 2006).

² *Id.* at 226–34.

³ *Id.* at 217–26.

⁴ SIPO Overview, http://www.sipo.gov.cn/sipo_English/about/basicfacts/overview/200707/t20070723_182116.htm (last visited May 5, 2008).

Office (“SIPO”),⁵ it employs more than 4,000 staff, over half of whom are engaged in the examination and issuing new patents.⁶

In addition to patents, Chinese Law also provides liability for infringement of trademarks and copyrights.⁷ A convenient source to view China’s intellectual property laws is the English version of the web page maintained by SIPO.⁸

A. Patent Infringement

Patent infringement is defined by Article 11 of the Patent Law of the People’s Republic of China:

After the grant of the patent right for an invention or utility model, except where otherwise provided for in this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes.

After the grant of the patent right for a design, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, sell or import the product incorporating its or his patented design, for production or business purposes.⁹

B. Trademark Infringement

Trademark infringement is defined by Article 52 of the Trademark Law of the People’s Republic of China:

Any of the following acts shall be an infringement of the exclusive right to use a registered trademark:

⁵ *Id.*

⁶ *Id.*

⁷ Trademark Law (promulgated by the Standing Comm. Fifth Nat’l People’s Cong., Aug. 23, 1982, effective Mar. 1, 1983), art. 52, *translated in* INTELL. PROP. LAWS & REGS 97 (P.R.C.), *available at* http://www.sipo.gov.cn/sipo_English/laws/relatedlaws/200204/t20020416_34755.htm [hereinafter Trademark Law (P.R.C.)]; Copyright Law (promulgated by the Standing Comm. Seventh Nat’l People’s Cong., Sep. 7, 1990, effective June 1, 1991), arts. 46–47, *translated in* INTELL. PROP. LAWS & REGS 145–48 (P.R.C.), *available at* http://www.sipo.gov.cn/sipo_English/laws/relatedlaws/200204/t20020416_34754.htm [hereinafter Copyright Law (P.R.C.)].

⁸ Chinese Patent Laws & SIPO Regulations, http://www.sipo.gov.cn/sipo_English/laws (last visited May 5, 2008).

⁹ Patent Law (promulgated by the Standing Comm. Sixth Nat’l People’s Cong., Mar. 12, 1984, effective Apr. 1, 1985), art. 11, *translated in* INTELL. PROP. LAWS & REGS 4 (P.R.C.), *available at* http://www.sipo.gov.cn/sipo_English/laws/lawsregulations/200203/t20020327_33872.htm [hereinafter Patent Law (P.R.C.)].

- (1) to use a trademark that is identical with or similar to a registered trademark in respect of the identical or similar goods without the authorization from the trademark registrant;
- (2) to sell goods that he knows bear a counterfeited registered trademark;
- (3) to counterfeit, or to make, without authorization, representations of a registered trademark of another person, or to sell such representations of a registered trademark as were counterfeited, or made without authorization;
- (4) to replace, without the consent of the trademark registrant, its or his registered trademark and market again the goods bearing the replaced trademark; or
- (5) to cause, in other respects, prejudice to the exclusive right of another person to use a registered trademark.¹⁰

C. Copyright Infringement

Copyright infringement is governed by Articles 46 and 47 of the Copyright Law of the People's Republic of China:

Article 46

Anyone who commits any of the following acts of infringement shall bear civil liability for such remedies as ceasing the infringing act, eliminating the effects of the act, making an apology or paying compensation for damages, depending on the circumstances:

- (1) publishing a work without the permission of the copyright owner;
- (2) publishing a work of joint authorship as a work created solely by oneself, without the permission of the other co-authors;
- (3) having one's name mentioned in connection with a work created by another, in order to seek personal fame and gain, where one has not taken part in the creation of the work;
- (4) distorting or mutilating a work created by another;
- (5) plagiarizing a work of another person;
- (6) exploiting by exhibition, film production or any analogous method of film production, or by adaptation, translation, annotation, or by other means, without the permission of the copyright owner, unless otherwise provided in this Law;
- (7) exploiting a work created by another person without paying remuneration as prescribed by regulations;
- (8) rending a work, sound recording or video recording, without the permission of the copyright owner of a cinematographic work, a work created by virtue of an analogous method of film production, computer software, sound recording or video recording or the owner of a copyright-related right unless otherwise provided in this Law.
- (9) exploiting the typographic arrangement of a book or periodical without the permission of the publisher.

¹⁰ Trademark Law (P.R.C.), *supra* note 7, art. 52.

- (10) broadcasting live a performance or communicating the live performance to the public, or recording his performance without the permission of the performer; or
- (11) committing any other act of infringement of copyright and of other rights and interests relating to copyright.¹¹

Article 47

Anyone who commits any of the following acts of infringement shall bear civil liability for such remedies as ceasing the infringing act, eliminating the effects of the act, making an apology or paying damages, depending on the circumstances' and may, in addition, be subjected by a copyright administration department to such administrative penalties as ceasing the infringing act, confiscating unlawful income from the act, confiscating and destroying infringing reproductions and imposing a fine; where the circumstances are serious, the copyright administration department may also confiscate the materials, tools, and equipment mainly used for making the infringing reproductions; and if the act constitutes a crime, the infringer shall be prosecuted for his criminal liability:

- (1) reproducing, distributing, performing, showing, broadcasting, compiling or communicating to the public on an information network a work created by another person, without the permission of the copyright owner, unless otherwise provided in this Law;
- (2) publishing a book where the exclusive right of publication belongs to another person;
- (3) reproducing and distributing a sound recording or video recording of a performance, or communicating to the public his performance on an information network without the permission of the performer, unless otherwise provided in the Law;
- (4) reproducing and distributing or communicating to the public on an information network a sound recording or video recording produced by another person, without the permission of the producer, unless otherwise provided in the Law;
- (5) broadcasting and reproducing a radio or television program produced by a radio station or television station without the permission of the radio station or television station, unless otherwise provided in this Law;
- (6) intentionally circumventing or destroying the technological measures taken by a right holder for protecting the copyright or copyright-related rights in his work, sound recording or video recording, without the permission of the copyright owner, or the owner of the copyright-related rights, unless otherwise provided in law or in administrative regulations;
- (7) intentionally deleting or altering the electronic right management information of a work, sound recording or video recording, without the permission of the copyright owner or the owner of a copyright-related right, unless otherwise provided in law or in administrative regulations; or

¹¹ Copyright Law (P.R.C.), *supra* note 7, art. 46.

(8) producing or selling a work where the signature of another is counterfeited.¹²

II. JUDICIAL ROUTE FOR ENFORCEMENT

A. China's Court System

The court system in China is called the People's Court.¹³ The People's Court has four levels: (1) County or District Courts, (2) Intermediate Courts, (3) Higher Courts and (4) The Supreme People's Court.¹⁴ Because they are typically complex, civil disputes arising from patent and trademark infringement are usually brought in the first instance to the Intermediate Courts situated in the capital cities of the provinces, the autonomous regions, and the municipalities directly under the control of the central government.¹⁵

Overall, there are approximately fifty Intermediate Courts and over thirty Higher Courts as well as the Supreme People's Court, all having jurisdiction over intellectual property-related civil disputes and patent litigation.¹⁶ In practice, however, the thirty-one Intermediate Courts of the cities where the regional government is located,¹⁷ the Intermediate Courts of the five Special Economic Zones,¹⁸ and the Intermediate Courts designated by the Supreme People's Court from the cities of Dalian, Qingdao, Wenzhou Foshan, Yantai and Huludao,¹⁹ have first-instance jurisdiction over patent cases.²⁰

In the Chinese system, the court has the power to issue preliminary and permanent injunctions and to determine the amount of damages.²¹ A party not satisfied with a judgment issued by the IP tribunal of an Intermediate Court may

¹² *Id.* art. 47.

¹³ XIAN FA art. 123, § 1 (1982) (P.R.C.), available at <http://english.people.com.cn/constitution/constitution.html>.

¹⁴ Organic Law of the People's Courts (promulgated by the Standing Comm. Fifth Nat'l People's Cong., July 5, 1979, effective Jan. 1, 1980), art. 2, translated in LEGISLATIVE AFFAIRS COMM'N, STANDING COMM. OF THE NAT'L PEOPLE'S CONG. (P.R.C.), THE LAWS OF THE PEOPLE'S REPUBLIC OF CHINA 71, available at http://www.novexcn.com/organic_law.html [hereinafter Organic Law (P.R.C.)].

¹⁵ Lin Yasong & Marco T. Connor, *An Overview of the Judicial Protection of Patents in China*, 3 J. INTELL. PROP. L. & PRAC. 163, 170 (2008); see also Several Provisions of the Supreme People's Court on Issues Relating to Application of Law to Adjudication of Cases of Patent Disputes (promulgated by the Adjudication Comm. Supreme Jud. Ct., June 22, 2001, effective July 1, 2001), art. 2 (P.R.C.), available at http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=2118&col_no=117&dir=200603 [hereinafter Issues Relating to Application of Law (P.R.C.)] (noting the jurisdiction of the intermediate people courts).

¹⁶ Yasong & Connor, *supra* note 15, at 170.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.* Hong Kong and Macau are not included as they each have their own Supreme Courts. *Id.* n.21.

²¹ Patent Law (P.R.C.), *supra* note 9, art. 61; see generally Samir B. Dahman, *Protecting Your IP Rights in China: An Overview of the Process*, 1 ENTREPRENEURIAL BUS. L.J. 63, 80–82 (2006) (stating that both preliminary injunctions and damages are available as remedies in the Chinese legal system).

appeal to the IP tribunal of the Higher Court in that province.²² A party dissatisfied with a decision from the Higher Court may also request an appeal to the IP tribunal of the Supreme People's Court.²³ However, the Supreme People's Court may or may not hear that appeal at its own discretion.²⁴ The Supreme People's Court's IP tribunal is mainly responsible for interpretations of the Chinese Patent Law and the Implementing Regulations of Chinese Patent Law, in addition to monitoring local IP tribunals.²⁵ Also, if the Supreme People's Court's IP tribunal identifies an erroneous decision made by a local IP tribunal, it can review the case at its discretion and/or remand the case back to the local IP tribunal.²⁶ In some cases where the patent litigation is of great economic significance, the Higher People's Court's IP tribunal may act as the trial court and the Supreme People's Court's IP tribunal will act as the appellate court.²⁷

Patent-related lawsuits brought before the different IP tribunals are grouped into two categories: (1) patent civil lawsuits and (2) patent administrative lawsuits. Patent civil lawsuits usually involve two private parties, e.g., A suing B for infringing A's patent. Patent administrative lawsuits are always between a private party and SIPO or a local Intellectual Property Office ("IPO").²⁸ For example, a private party may bring a judicial action to object to a compulsory licensing decision issued against its patent by SIPO.²⁹

B. Judicial Enforcement Procedure

The plaintiff may institute IP infringement proceedings directly with the People's Court in the location of the infringer's domicile or where the infringing act took place.³⁰

The places of infringement include: where the accused counterfeit products are produced, utilized, offered for sale, sold, or imported; or where the use of a patented method can be confirmed based upon the use, sale, or import of the products acquired with the patented method.³¹ In emergency circumstances, where the plaintiff believes that any delay to stop the infringing act may cause irreparable damage, the plaintiff may request the People's Court to issue a preliminary injunction before officially filing a lawsuit.³²

²² Yalei Sun, *United States: A Comparative Study of the Chinese Patent Law Practice*, MONDAQ BUS. BRIEFING, Dec. 6, 2006, http://www.mondaq.com/i_article.asp_Q_articleid_E_44612_A_rss_E_11 (noting the rules for appealing a decision rendered by an Intermediate People's Court's IP tribunal).

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ Dahman, *supra* note 21, at 68.

³¹ Yasong & Connor, *supra* note 15, at 170 n.24 (discussing the courts' interpretation of the places an infringement can occur); NIE, *supra* note 1, at 228–29 (noting the different views regarding where an infringement can occur)

³² Patent Law (P.R.C.), *supra* note 9, art. 61; NIE, *supra* note 1, at 227.

The infringement procedure is initiated entirely by the plaintiff. There is no evidentiary discovery system in China.³³ Each party must produce evidence to support its assertions and claims.³⁴ The plaintiff should present evidence to the authority handling the case that attests to the ownership and validity of the intellectual property right as well as evidence showing the infringement of that right. The evidence that the plaintiff presents must establish that the defendant has done or is doing the alleged infringing act.³⁵ Evidence may include the defendant's product, promotional material, product samples, and sales contracts.³⁶ Information retrieved from the Internet can be used as evidence if it is first notarized or certified.³⁷ Witness testimony can also provide evidence, but the witness must first be cross-examined before the court to develop the authenticity and acceptability of witness testimony.³⁸ When it is objectively difficult or unfeasible for the plaintiff to attain evidence, a request may be made for the court to assemble evidence.³⁹ When evidence is expected to be lost or destroyed, the plaintiff can request evidence preservation.⁴⁰

The plaintiff must also produce evidence to support its assertion of the amount of damages. The plaintiff may compute damages based on one of the following: the plaintiff's losses, the defendant's benefits, multiplication of the reasonable license fees or royalties, or the statutorily allowed amount, not exceeding RMB 50,000 (about \$7,100 U.S.D. at the time of writing).⁴¹ If the 2006 Draft Revisions of the Patent Law are enacted, this number will be increased to RMB 1,000,000 (\$143,000 U.S.D.).⁴² The defendant may present evidence of the actual production and sales of the accused product to repudiate the amount the plaintiff is claiming.⁴³

In practice, statutory damages are often asked for in the greatest possible amount because the plaintiff frequently finds it difficult to prove the amount of plaintiff's losses, defendant's benefits, or license fees or royalties.⁴⁴ Nevertheless, it

³³ Dahman, *supra* note 21, at 80.

³⁴ *Id.*

³⁵ Civil Procedure Law (promulgated by the Standing Comm. Seventh Nat'l People's Cong., April 9, 1991, effective April 9, 1991) art. 64, *translated in* WEI LUO, *THE CIVIL PROCEDURE LAW AND COURT RULES OF THE PEOPLE'S REPUBLIC OF CHINA* 57 (P.R.C.), *available at* [http://www.lawinfochina.com/Law/display.asp?id=6459&keyword=\[hereinafter Civil Procedure Law \(P.R.C.\)](http://www.lawinfochina.com/Law/display.asp?id=6459&keyword=[hereinafter Civil Procedure Law (P.R.C.)) ("A party shall have the responsibility to provide evidence in support of its own propositions."); *see also* Zhaoyang Li, *Patent Enforcement in China: Civil Remedies*, SQUIRE SANDERS & DEMPSEY L.L.P. INTEL. PROP. UPDATE, Summer 2006, at 5, 7, *available at* http://www.ssd.com/files/tbl_s29Publications%5CFileUpload5689%5C9720%5CIPSummer2006.pdf.

³⁶ Civil Procedure Law (P.R.C.), *supra* note 35, art. 63 (detailing the categories of acceptable evidence).

³⁷ *Id.* art. 67 (noting the requirements regarding notarization of evidence).

³⁸ *Id.* arts. 66, 70 (describing the rules pertaining to witnesses).

³⁹ *Id.* (noting that the court may order for certain evidence to be collected).

⁴⁰ *Id.* art. 74 (detailing the rules pertaining to a court's ability to preserve evidence if there is a likelihood that such evidence will be destroyed).

⁴¹ Patent Law (P.R.C.), *supra* note 9, arts. 59, 60.

⁴² Charles C.Liu & Jeanne J. Liu, *Waves of Changes in Chinese Patent Law and Regulations-Part III*, CHINABIO TODAY, January 24, 2008, *available at* http://www.chinabiotoday.com/articles/20080124_2.

⁴³ Li, *supra* note 35, at 7.

⁴⁴ Patent Law (P.R.C.), *supra* note 9, art. 60 (noting the ability of a plaintiff to claim more damages for a patent infringement when actual damages are difficult to calculate); Trademark Law (P.R.C.), *supra* note 7, art. 56 (discussing the court's ability to determine damages when actual

is possible to obtain large damage awards using the judicial route. In September 2007, Chint Group, China's leading manufacturer of low-voltage electrical products, won a patent infringement lawsuit against its rival, a Chinese affiliate of Schneider Electric of France.⁴⁵ The Wenzhou Intermediate People's court awarded Chint an amount equivalent to \$44.3 million (U.S.D.), based on successfully showing a like amount of profits to Schneider (on sales of only \$117 million (U.S.D.) as a result of its infringing activity. The amount of compensation awarded is believed to be the highest on record in China to date. Prior to the court ruling, SIPO had determined that Chint's patent, claiming a miniature circuit breaker, was valid and enforceable.⁴⁶ It is reported that Schneider has appealed the decision on the patent's validity and the decision on infringement and damages. At the time of writing, these appeals are still pending.⁴⁷ Naturally, this is a case that western companies doing business in China are watching closely.

Chinese courts have adopted a principle of fault-presumption,⁴⁸ which to a U.S. lawyer seems to be a reverse burden of proof. In particular, the Chinese law in a patent suit favors the plaintiff by assuming that the accused activity is similar to or the same as the patented subject matter.⁴⁹ Responding to the plaintiff's evidence, the accused infringer must prove that it did not infringe the patent by pointing out and explaining the distinction between its activities and the patented subject matter.⁵⁰

Chinese Patent Law also provides for criminal sanctions for infringement.⁵¹ Compared to civil litigation, criminal litigation is shorter, there are no fees, and it leads to higher penalties.⁵² Criminal procedure is seldom used by patent owners, but still deserves mention because it is subject to stricter conditions of admissibility.⁵³ The law regulates the proceedings related to crimes against patents that are investigated and prosecuted by public security authorities and the procurator, which

damages are difficult to determine, thus implying that a plaintiff is entitled to plead the highest damages possible); Copyright Law (P.R.C.), *supra* note 7, art. 48 (detailing the provisions in place when copyright damages are difficult to calculate); *see also* J. Benjamin Bai, Peter J. Wang & Helen Cheng, *What Multinational Companies Need to Know About Patent Invalidation and Patent Litigation in China*, 5 NW. J. TECH. & INTELL. PROP. 449, 461–62 (2007), *available at* <http://www.law.northwestern.edu/journals/njtip/v5/n3/4/Bai.pdf> (noting that there are no statutory limits on damages when actual damages are difficult to calculate).

⁴⁵ Song Shutao, *Chinese Law Firm Wins Patent Lawsuit Against Schneider*, CHINA VIEW, Sep. 29, 2007, *available at* http://news.xinhuanet.com/english/2007-09/29/content_6814576.htm.

⁴⁶ *Firm Wins IPR Lawsuit Against Schneider*, CHINA DAILY, Sep. 29, 2007, *available at* http://www.chinadaily.com.cn/china/2007-09/29/content_6146686.htm. The plaintiff is Chint Group Co. (Chint). *Id.* The defendants are Schneider Electric Low Voltage (Tianjin), Co. (Schneider) and Leqing Branch of Star Electric Equipment, Co.(Leqing). *Id.* The first instance court is Wenzhou Intermediate People's court. *Id.* The appeal court for infringement verdict is Zhejiang High People's Court, the appeal for invalidation is in Beijing No. 1 Intermediate People's Court. *Id.* The date of sentence is September 29, 2007, but we don't know if it was the date of decision. *Id.*

⁴⁷ *IP Dragon*, October 5, 2007, *available at* <http://ipdragon.blogspot.com/2007/10/did-schneider-electric-infringed-its.html>.

⁴⁸ YaSong & Connor, *supra* note 15, at 171.

⁴⁹ *Id.*

⁵⁰ *Id.*; *see also* Patent Law (P.R.C.), *supra* note 9, art. 57.

⁵¹ *See* YaSong & Connor, *supra* note 15, at 173; *see also* Patent Law (P.R.C.), *supra* note 9, art. 58.

⁵² YaSong & Connor, *supra* note 15, at 172–73.

⁵³ *Id.* at 173.

are defined precisely.⁵⁴ On the other hand, proceedings related to minor infringement brought privately by a patent owner, though theoretically possible, are not defined precisely. Thus, it is very difficult for both the patentee to initiate an action, and for the court to accept the case. After the police and procurator have been involved in such cases, public prosecution will take place and neither party has the right to withdraw the case unilaterally.⁵⁵ There are no mediations or deals made within public prosecution cases, such as *General Motors Daewoo U.S. v. Chery Automobile*,⁵⁶ discussed *infra*.⁵⁷

III. ADMINISTRATIVE ROUTE FOR ENFORCEMENT

A. Administrative Offices

As mentioned above, when utilizing administrative proceedings, a patent holder requests administrative action in front of an IPO.⁵⁸ Established in the designated cities, independent regions, and the provinces, the local IPO's are overseen by SIPO.⁵⁹ This marks a difference between the United States Patent and Trademark Office ("USPTO") and SIPO. Whereas SIPO supervises the local IPO's which have authority to enforce IP rights throughout the country, the USPTO only has authority to examine and issue patents.⁶⁰

Bestowing on an administrative agency, such as the local IPO's, quasi-judicial authorities, which would be highly unusual in the United States, is reportedly very common in China.⁶¹ One theory posited is that China has traditionally not embraced the concept of "separation of power," which is a fundamental concept in the U.S. system.⁶² In any case, although granted the authority to judge patent disputes, the local IPO's often take a mediation approach, rather than adjudication.⁶³ This appears to be consistent with the theory that the Chinese traditionally prefer to resolve disputes privately.⁶⁴ As such, a neutral and detached government agency like a local IPO can be involved as a mediator to thereby facilitate opposing parties in making concessions and compromises towards a settlement.⁶⁵

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*: see generally Luigi Russi & Oliver Mirsch, *General Motors v. Chery: A Judicial Lesson for Foreign Operators in China*, 8 WAKE FOREST INTELL. PROP. L.J. 39 (2007), available at <http://ipjournal.law.wfu.edu/documents/articles.8.1.39.pdf> (discussing litigation between GM and Chery and how western industries who want to operate in China may run into problems securing protection for their car designs).

⁵⁷ See *infra* text accompanying footnotes 122–28.

⁵⁸ Sun, *supra* note 22.

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

The local IPO's do not have an established appeal procedure. Thus, if one of the parties is dissatisfied with the decision of the local IPO, that party would have to bring an infringement action in the People's Courts to change the result.⁶⁶

B. Administrative Procedure

The Measures for Administrative Enforcement of Patent, promulgated by SIPO in 2001, govern the procedure for a patent enforcement action before a local IPO.⁶⁷ In order to initiate such a proceeding, a patent holder must file a written request to the administrative authorities for patent affairs to handle an infringement dispute.⁶⁸ The patent holder must clearly identify the respondent and the matter at issue and certify that it has not instituted court proceedings in the People's Court in respect to the specific infringement dispute.⁶⁹ The patent holder may request the relevant administrative authorities at county-level and above at the place of the infringer's domicile or location of the infringing act to handle the case.⁷⁰ The patent holder should also submit proof of his right and evidence of the infringing act. If an agent is appointed to submit the request, an authorization letter should also be furnished.⁷¹

The administrative authorities responsible for handling IP disputes will make a decision whether a complaint will be processed within a fixed time upon receipt of the request and inform the applicant of its decision.⁷² The time is seven days for patent actions and fifteen days for copyright actions.⁷³ A written explanation will be given to the applicant if the decision is negative.⁷⁴

Upon receipt, the IPO will forward the request to the respondent, i.e. the accused infringer, within fourteen days from receipt of the request.⁷⁵ The respondent

⁶⁶ *Id.*

⁶⁷ Measures for Administrative Enforcement of Patent (promulgated by St. Intell. Prop. Off., Dec. 17, 2001, effective Dec. 17, 2001), art. 1 (P.R.C.), *available at* <http://www.chinaiprlaw.com/english/laws/laws12.htm> [hereinafter Patent Enforcement Measures (P.R.C.)] (providing the procedural and remedial measures available under the administrative track for the enforcement of patent rights).

⁶⁸ *Id.* art. 5.

⁶⁹ *Id.* This provision thus precludes simultaneous judicial and administrative actions. *Id.*

⁷⁰ Implementing Regulations of Patent Law (promulgated by Decree No. 306 St. Council, June 15, 2001, effective July 1, 2001) rule 81, ¶1 (P.R.C.), *available at* <http://www.qbpc.org.cn/en/about/LawsandRegulations/Patent/Implementingregulationsofpatentlaw/ImplementingregulationsofpatentlawEN/file>.

⁷¹ *See, e.g.*, Patent Law (P.R.C.), *supra* note 9, art. 19 ("Where any foreigner . . . applies for a patent . . . he or it shall appoint a patent agency designated by the patent administrative organ under the State Council to act as his or its agent."); Trademark Law (P.R.C.), *supra* note 7, art. 18 ("Any foreign person or foreign enterprise intending to apply for the registration of a trademark or for any other matters concerning a trademark in China shall appoint any of such organizations as designated by the State to act as its or his agent.").

⁷² Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 8; *see also* NIE, *supra* note 4, at 226 (describing civil procedure in China and the judicial model for patent enforcement).

⁷³ Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 8; *see also* NIE, *supra* note 1, at 223 (discussing the timeframe for copyright actions).

⁷⁴ Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 13 (providing the guidelines for what information must be included in the administrative authorities Resolution Decision).

⁷⁵ *Id.* art. 9.

then has only fifteen days to submit a written defense.⁷⁶ If the respondent fails to answer within the given time, the action will proceed without its participation.⁷⁷ The IPO generally issues a decision within a few months.⁷⁸ If the agency decides that infringement has been proven, the IPO may issue an order to cease manufacturing and selling the infringing products, and to destroy all existing infringing products.⁷⁹ The IPO may also confiscate illegal earnings based on the illicit income earned by the infringing party.⁸⁰ However, the IPO is not to award money damages to the plaintiff.⁸¹ Upon the request of the interested party, however, the IPO may mediate resolution of claims for compensation.⁸²

If the respondent is not satisfied with the IPO's decision, the law permits him to institute legal proceedings in the court in accordance with the Administrative Procedure Law of China within fifteen days from the date of receipt of the decision.⁸³ However, the decision of the IPO regarding patent infringement and the punishment rendered will continue to be enforced during the court proceedings.⁸⁴ Where an interested party is dissatisfied with the administrative punishment decision made by the administrative authorities, he may, within three months from receipt of the notification of the decision, institute administrative proceedings with the People's Court in the place where the administrative authorities are located.⁸⁵ If no proceedings are instituted and the decision is not performed at the expiration of the specified period, the administrative authorities may request the People's Court for compulsory execution thereof.⁸⁶

Thus, for example, in a patent infringement case, where the parties are not willing to consult with each other or the consultation fails, the patentee or any interested party may institute a legal proceeding with a competent People's Court, as discussed above, or request the relevant administrative authority for patent affairs to handle the matter.⁸⁷ If the case is referred to an administrative authority and such authority establishes infringement, it has the power to order the infringing party to

⁷⁶ *Id.* art. 16.

⁷⁷ *Id.* art. 9.

⁷⁸ Song Zhu, *China's Administrative Procedure for Patent Protection*, SQUIRE SANDERS & DEMPSEY L.L.P. INTELL. PROP. UPDATE, Summer 2006, at 2, 2, available at http://www.ssd.com/files/tbl_s29Publications%5CFileUpload5689%5C9720%5CIPSummer2006.pdf; Peiyu Sun & Aaron Wininger, *Recent Developments and Routes for Enforcing Intellectual Property Rights in China*, 14 CURRENTS: INT'L TRADE L.J. 39, 40 (2005) (noting that while the IPO has no time limit to reach a decision, it usually reaches one "promptly").

⁷⁹ Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 33.

⁸⁰ *Id.* art. 38.

⁸¹ Russi & Mirsch, *supra* note 56, at 70.

⁸² Yasong & Connor, *supra* note 15, at 168 (discussing the administrative authorities' responsibilities regarding patent disputes).

⁸³ *Id.*; Patent Law (P.R.C.), *supra* note 9, art. 57.

⁸⁴ Patent Enforcement Measures (P.R.C.), *supra* note 67, arts. 34, 39; *see also* Yasong & Connor, *supra* note 15, at 168.

⁸⁵ LAURENCE J. BRAHM, *INTELLECTUAL PROPERTY & TECHNOLOGY TRANSFER IN CHINA* 96 (Longman Asia Bus. & Prof'l 1994) (1988); *see also The Latest Amendments to the Chinese Patent Law—Comparative Study of the Patent Law with the TRIPS Agreement*, EAST IP, Oct. 17, 2001, http://www.eastip.com/news_publications/latestamendment/index_html_v2.

⁸⁶ Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 34; *see also* Yasong & Connor, *supra* note 15, at 168.

⁸⁷ Patent Law (P.R.C.), *supra* note 9, art. 57.

stop the infringing act immediately.⁸⁸ If, within the time limit, the order is not complied with, the administrative authority for patent affairs may approach the People's Court for enforcement of the administrative order.⁸⁹ If any party is not satisfied with the administrative order, it may, within fifteen days as of receipt of the administrative order, institute a legal proceeding with a competent People's Court.⁹⁰

In a case of passing off and false marking, the administrative authority has the right to order the person or entity to stop and to rectify the act.⁹¹ Further, the administrative authority may confiscate illegal income and impose a fine of no more than three times the value of illegal income or, if there is no income, a fine of no more than RMB 50,000.⁹² In a case of attempting to pass off a non-patented product as a patented one, for example, by false marking with a fictitious patent number, the administrative authorities may order the person or entity to stop, announce a public criticism and/or impose a fine of up to RMB 50,000.⁹³

To curb patent infringement and especially patent counterfeiting, the agency has recently been given additional power to examine the alleged infringing party, and other relevant parties, to inspect the premises of the alleged infringing act, to inspect or copy relevant documents, and, if reasonable evidence of the illegal activities is provided, the power to seize or confiscate relevant products or equipment.⁹⁴

IV. ADVANTAGES AND DISADVANTAGES

As we will demonstrate, there are advantages and disadvantages to both of these routes. The answer to which route is best will depend on several factors.

A. Advantages and Disadvantages of the Judicial Route

Civil litigation in the courts is often used to enforce IP rights in China, especially by IP owners. The drawbacks of this procedure are the high cost and the length of the proceedings.⁹⁵

The fact that the Chinese system allows for so many possible venues, both as to location and the level of the court in which to bring the action leads to considerable forum shopping by plaintiffs.⁹⁶ In other words, plaintiffs may select a court that appears to be more favorable to them to institute an action, but may also find themselves subject to conflicts between jurisdictions. It is generally recognized that

⁸⁸ See Patent Enforcement Measures (P.R.C.), *supra* note 67, art. 33.

⁸⁹ See *id.* art. 34.

⁹⁰ See Patent Law (P.R.C.), *supra* note 9, art. 57.

⁹¹ See generally ASIA BUS. LAW SERIES, CHINA INTELLECTUAL PROPERTY LAW GUIDE ¶¶ 50-800 to -830, 51-000 to -040 (Kluwer Law Int'l 1st ed. 2005) (discussing the prevalence of false marking and counterfeiting in China and the administrative procedures to enforce IP rights).

⁹² Patent Law (P.R.C.), *supra* note 9, art. 58.

⁹³ *Id.* art. 59.

⁹⁴ Patent Enforcement Measures (P.R.C.), *supra* note 67, arts. 28, 29.

⁹⁵ Yasong & Connor, *supra* note 15, at 172.

⁹⁶ *Id.* at 170-71.

the quality of the courts varies considerably from province to province. Accordingly, a plaintiff can choose a court located in an economically developed region, which is probably more experienced, a court located outside the area where a defendant is domiciled, or a higher court in the first-instance, when the case is of high importance. Additionally, such maneuvering may put the plaintiff in a position to have the Supreme People's Court potentially intervene in the trial in the second-instance. This range of choices can be an advantage to a plaintiff, and a disadvantage to a defendant.⁹⁷

A disadvantage to both parties is that the courts are not authorized to invalidate patents.⁹⁸ Every decision regarding invalidation of a patent must initially be made by the Patent Reexamination Board ("PRB"), which is under the jurisdiction of SIPO in Beijing.⁹⁹ The PRB has sole jurisdiction over patent validity and will examine and rule on the patent at issue.¹⁰⁰ Thus, unlike the United States, where patent infringement and validity are decided in the same proceeding in the same court; the decision on validity is made by the PRB and the decision on infringement is made by the court.¹⁰¹

The PRB decisions are subject to the judicial review of the Beijing intermediate court through a proceeding called "administrative action."¹⁰² The judgments of the Beijing Intermediate Court are reviewable by the Beijing High Court.¹⁰³ The PRB procedure can commonly last a year to several years.¹⁰⁴ Thus, the People's Court that has the jurisdiction over invalidation cases is invariably the Beijing People's Court.¹⁰⁵ As such, it becomes a critical issue whether to stay an ongoing infringement proceeding litigated in a court other than the Beijing People's Intermediate Court. In Chinese patent litigation, when the patent validity is challenged, the court may stay the litigation in order to wait for the resolution of the validity issue by the PRB.¹⁰⁶

China patent law provides for three types of patents: invention patents, utility model patents (also known as petty patents), and design patents.¹⁰⁷ Invention patents are similar to utility patents in the United States. Utility model patents are different in that they are not examined by SIPO and have a term of only ten years from the filing date.¹⁰⁸ Utility model patents can only be directed to an article or

⁹⁷ *Id.* at 171.

⁹⁸ Patent Law (P.R.C.), *supra* note 9, art. 46.

⁹⁹ *Id.*

¹⁰⁰ *Id.* art. 41.

¹⁰¹ *Id.*

¹⁰² *Id.*; Administrative Reconsideration Law (promulgated by the Standing Comm. Ninth Nat'l People's Cong., Apr. 29, 1999, effective Oct. 1, 1999) art. 5 (P.R.C.), *available at* http://english.zhb.gov.cn/zffg/fl/199904/t19990429_49746.htm.

¹⁰³ Li Jian, *Debating the Specialized Intellectual Property Court in the People's Republic of China*, 19 INTELL. PROP. & TECH. L.J., Dec. 2007, at 17, 17-18.

¹⁰⁴ *The Latest Amendments to the Chinese Patent Law*, *supra* note 85 ("[T]he fact that it may take up to two years for the PRB to issue a decision may further make the invalidation proceeding difficult to implement.").

¹⁰⁵ *See generally*, Mo Zhang, *International Civil Litigation in China: A Practical Analysis of the Chinese Judicial System*, 25 B.C. INT'L & COMP. L. REV. 59, 60-63 (2002) (discussing the structure of Chinese courts).

¹⁰⁶ Bai, Wang & Cheng, *supra* note 44, at 458.

¹⁰⁷ Patent Law (P.R.C.), *supra* note 9, art. 2.

¹⁰⁸ *Id.* art. 42.

device, that is, they cannot claim a process or method.¹⁰⁹ When the patent at issue is a utility model patent, which has not been substantively examined by SIPO, courts will usually grant a stay of the litigation if the patent validity is challenged by the defendant.¹¹⁰ Alternatively, the plaintiff has the option of obtaining a validity report from SIPO.¹¹¹ In contrast, when the patent in dispute is an invention patent, the court will generally not grant a stay.¹¹² Nevertheless, the law is far from settled in this area.¹¹³

The ability to award damages is an advantage of taking the judicial route for the plaintiff. However, the amount of calculated damages is often much lower than a patentee's actual damages.¹¹⁴ This is because infringers generally sell their infringing products at a significantly lower price. It is also difficult to assess the losses of patentees as well as the profits of the infringer. In a case of doubt, the courts have the right to decide the amount of the compensation, within the range allowed by law, taking into account such factors as the extent of the infringement.¹¹⁵ Many patentees consider such amounts too low to compensate for the damage caused by the infringer.¹¹⁶

Court directed mediation can be used to achieve a satisfactory result in certain infringement cases.¹¹⁷ One such case is *General Motors Daewoo U.S. v. Chery Automobile*.¹¹⁸ In this case, it is reported that GM sued Chery for the infringement of its design patent.¹¹⁹ GM alleged that Chery's QQ cars were extremely similar to GM's Matiz as to the internal and external designs, in addition to the integrated structures.¹²⁰ GM claimed design patent infringement and sued Chery in the Shanghai Second Intermediate Court.¹²¹ The case was brought to the Beijing First Intermediate Court by the Supreme People's Court.¹²² The trial began on May 6, 2005 and on November 19, 2005, the parties reached a settlement agreement.¹²³ The details of the agreement were not made public, but it is generally believed that the overall settlement was favorable to the plaintiff.¹²⁴ Another case decided by

¹⁰⁹ L. Mark Wu-Ohlson, *A Commentary on China's New Patent and Trademark Laws*, 6 NW. J. INT'L L. & BUS. 86, 96–97 (1984).

¹¹⁰ Issues Relating to Application of Law (P.R.C.), *supra* note 15, arts. 8–11; Yasong & Connor, *supra* note 15, at 171–72.

¹¹¹ Patent Law (P.R.C.), *supra* note 9, art. 57.

¹¹² *Cf.* Issues Relating to Application of Law (P.R.C.), *supra* note 15, arts. 8–11 (referring to patent rights for utility and design but not invention).

¹¹³ Bai, Wang & Cheng, *supra* note 44, at 462.

¹¹⁴ Yasong & Connor, *supra* note 15, at 172.

¹¹⁵ Patent Law (P.R.C.), *supra* note 9, art. 60.

¹¹⁶ Chun-Hsien Chen, *Explaining Different Enforcement Rates of Intellectual Property Protection in the United States, Taiwan, and the People's Republic of China*, 10 TUL. J. TECH. & INTELL. PROP. 211, 254 (2007); Bai, Wang & Cheng, *supra* note 44, at 462.

¹¹⁷ Yasong & Connor, *supra* note 15, at 171 (discussing mediation cases).

¹¹⁸ *Id.*

¹¹⁹ *Id.*; see also Liu Li & Yu Qiao, *IPR Disputes Fuelled By Automakers*, CHINA DAILY, Sept. 6, 2004, http://www.chinadaily.com.cn/english/doc/2004-09/06/content_371939.htm (last visited May 5, 2008).

¹²⁰ Yasong & Connor, *supra* note 15, at 171.

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*

mediation is *Intel v. Dongjing Communication Co.*¹²⁵ In this case, Intel accused Dongjing of making cards that infringed the copyright of its header files in its Intel SR5.1.1 software, claiming \$7.96 million (U.S.D.) in compensation.¹²⁶ This case was settled by private agreement subsequent to the court's mediation.¹²⁷

B. Advantages and Disadvantages of the Administrative Route

The administrative route can provide a quick, efficient and low-cost remedy, specifically when the case of infringement is clear, when there are minimal damages, and when it is not likely that the infringer will contest the infringement allegations. If, however, the accused infringer is likely to strongly dispute the allegations and challenge any administrative decision in court, it is more efficient to forgo the administrative approach and directly seek a remedy in court. Another disadvantage of the administrative route is that the local IPO may be influenced by local government officials keen to protecting their local industries.¹²⁸

Because the local IPO does not have authority to award damages to the plaintiff, the only way the plaintiff can walk away with money is through a mediation conducted by the IPO.¹²⁹ If the mediation fails, the parties may institute a legal proceeding.¹³⁰

One success story for the administrative route involves Royal Philips Electronics of the Netherlands.¹³¹ In August 2002, at the request of Royal Philips Electronics, the Sichuan Provincial Intellectual Property Office ("SPIPO")¹³² conducted a raid on twenty-six stores that sold electric shavers that infringed Philips' Chinese patents.¹³³ The twenty-six stores assured not to repeat the infringing activity and entered into agreements with Philips, which obligated them to pay large fines for violating Philips' IP rights in the future.¹³⁴ The SPIPO seized 821 pieces of infringing products and destroyed them under Philips' supervision.¹³⁵

While administrative proceedings with the appropriate IPO are effective to end infringing activity in a relatively short time, they are ineffective in imposing punishment or damages. First, it is difficult to calculate the amount of the offender's illegal earnings. Second, the maximum fine seems low compared with the potential profit of an infringer. Further, the amount of compensation for patent infringement is calculated based on the infringer's profits earned during the infringement period or the amount lost by the patent holder during the same period.¹³⁶ In many cases, however, the infringing party's loss is much greater than the infringer's illegal

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ *Accord* Daniel C.K. Chow, *Counterfeiting in the People's Republic of China*, 78 WASH. U. L.Q. 1, 26–31 (discussing local protectionism by Chinese local governmental authorities).

¹²⁹ Patent Law (P.R.C.), *supra* note 9, art. 57.

¹³⁰ *Id.*

¹³¹ Yasong & Connor, *supra* note 15, at 168.

¹³² *Id.*

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *Id.* at 168–69.

¹³⁶ Patent Law (P.R.C.), *supra* note 9, art. 57.

earnings.¹³⁷ Such compensation appears to be an insufficient deterrent against patent infringement.¹³⁸

SUMMARY

China offers two paths to IP enforcement. The administrative route is faster and less expensive, often resulting in an administrative injunction being issued against the infringer. However, where a patent owner is unsatisfied with enjoining the infringer's activity alone and wishes to recover damages, it is advisable to take the judicial route instead. In both routes, court or IPO facilitated mediation has been quite successful in resolving IP infringement disputes.

¹³⁷ Yasong & Connor, *supra* note 15, at 170.

¹³⁸ *Id.*