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exercised its own judgment and will undoubtedly continue to enact only those provisions that seem wise. If the United States is influenced in turn by what China does, each country may enjoy the best of what the other's law has to offer. The articles that follow in this Conference are a valuable contribution to that possibility, for they tell us much about what China has done, and is doing, about the law of intellectual property.

Protection of Intellectual Property Rights in China

ZHOU CHUANJIE*

In the past several years, China has made great progress in developing its intellectual property protection system. China passed a new trademark law in 1982 which became effective in March, 1983. Thereafter, China enacted its first patent law in 1984, which came into force in April, 1985. China is currently drafting a copyright law, which is expected to be promulgated soon.

I. PATENT

The 1984 Chinese Patent Law has been in effect for over four years. During that time, China has worked diligently to implement the Law and has achieved encouraging results. Up to mid-August of this year, the Chinese Patent Office has received a total of over 108,000 patent applications, 22,000 of which were filed by foreigners. Thus far, the Chinese Patent Office has granted about 27,000 patents, including 1,800 granted to foreign applicants. Eighty-three percent of these patents were utility model patents. During the past four years, China experienced a steady increase in patent applications, receiving 14,000 applications in 1985, 18,000 in 1986, 26,000 in 1987, and 33,000 in 1988.

Article 11 of the Chinese Patent Law provides that after the grant of a patent for an invention or a utility model, no entity or individual may, without the authorization of the patentee, exploit the patent by making, using, or selling the patented product or by using the

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patented process for commercial purposes. Article 11 further provides that after the patent office grants a design patent, no entity or individual may, without the authorization of the patentee, exploit the patent by making or selling the product incorporating the patented design for commercial purposes.

A. Mechanisms for Enforcing Patent Rights

Two mechanisms exist for enforcing patent rights when an unauthorized exploitation of a granted patent occurs. The first involves resolving the dispute before the administrative authority for patent affairs; the second involves bringing an action before the court. The time limit for instituting either of these proceedings is two years from the date when the patentee or any interested party obtains or should have obtained knowledge of the infringing act.

As mentioned above, the complaining party may bring an action before the Chinese court. The Chinese court system includes courts at four levels: the basic people's courts, the intermediate people's courts, the higher people's courts, and the supreme people's court. Each court has three divisions: the criminal, civil, and economic divisions. Patent infringement cases fall within the jurisdiction of the economic division of a people's court.

Because patent cases are complex, the intermediate people's courts initially hear all infringement disputes. These hearings occur in the capital cities of provinces, autonomous regions, municipalities directly under the Central Government and in the special economic zones. When necessary, the respective higher people's court, upon approval by the supreme people's court, may designate the intermediate people's courts in other cities to hear patent infringement cases. If any party is not satisfied with the judgment of the intermediate people's court, that party can appeal to the higher people's court.

The Intermediate People's Court of Beijing, where the China Patent Office is located, has jurisdiction over cases on appeal from decisions of the Re-examination Board of the China Patent Office concerning the patentability of applied inventions or the validity of granted patents. The people's courts hear infringement cases without questioning the validity of the patent. If the defendant files a counterclaim, alleging that the patent at issue is invalid, the court will suspend the infringement proceedings and defer the case to the Patent Re-examination Board of the China Patent Office to make a final decision on the validity of the patent.

An alternative mechanism for enforcing a patent right is through proceedings before the administrative authority for patent affairs. Ninety-nine such administrative authorities exist throughout China. The patentee or any interested party in a patent infringement case may submit an application to the local administrative authority for patent affairs for a settlement when a patent infringement occurs. The administrative authority has the power to enjoin the infringer from further exploiting the patent and compel him to pay damages. Any party dissatisfied with the decision made by the administrative authority may, within three months from the receipt of the notification, institute legal proceedings in the intermediate people's court. If a party does not institute such proceedings within the time limit and does not comply with the order, the administrative authority for patent affairs may obtain a court order for compulsory enforcement.

B. Remedies for Patent Infringement

A number of patent infringements have already been reported since China granted the first group of patents in 1985. Both mechanisms discussed above have been utilized for enforcing patent rights.

The first patent infringement case ever tried in China was the case of *Shenyang No. 9 Shoe Factory (Plaintiff) v. Shenyang No. 1 Shoe Factory (Defendant)*. On November 30, 1985, the plaintiff applied to the China Patent Office for a utility model patent for a new kind of shoe made from chemical fibroid net, artificial leather, and real leather. During this time, the plaintiff secretly commenced manufacture of the shoes. In February of 1986, the defendant learned of the plaintiff's production of the shoe. On March 15, 1986, the defendant commenced production of the shoes according to the plaintiff's design despite plaintiff's warning.

The China Patent Office announced the plaintiff's application on April 20, 1986, after preliminary examination, and granted a patent for a utility model on July 31, 1986. After receiving the patent, the plaintiff brought a lawsuit before the Intermediate People's Court of Shenyang alleging that the defendant had infringed the patent claims, warranting an injunction as well as compensation.

The Intermediate People's Court of Shenyang heard the case, and made the following decisions under Articles 11, 12 and 60 of the Patent Law and Rule 77 of the Implementing Regulations of the Law: (1) the defendant should pay the plaintiff an appropriate fee of RMB 0.50 yuan per pair of shoes which the defendant produced and sold

after the Patent Office announced the plaintiff's patent application; and (2) the defendant infringed the plaintiff's patent right by producing and selling the shoe after the grant of the patent and should pay an exploitation fee of RMB 3.26 yuan per pair to the plaintiff. In a subsequent mediation by the Court, the case was settled by the following agreement: (1) the defendant immediately had to pay to the plaintiff a total of RMB 18,000 yuan, which is the sum of the appropriate fee and the exploitation fee; and (2) the defendant had to pay the court cost of RMB 200 yuan.

This case raises two points of concern. First, the plaintiff cannot get any compensation for the shoes the defendant sold after the plaintiff filed its application but before the Patent Office announced the patent because, under the Chinese Patent Law, provisional protection only becomes available after the Patent Office announces the grant. Second, a shocking difference between the amount of the appropriate fee and the exploitation fee exists.

C. Protection for Chemical and Pharmaceutical Inventions

Under Article 25 of the Chinese Patent Law, pharmaceutical products and substances obtained by means of a chemical process cannot be patented. Only the process of making them is patentable. Foreign chemical and pharmaceutical industries have regarded this protection as inadequate. However, through a broad interpretation of Article 25, China has protected chemical and pharmaceutical inventions beyond the point of manufacture. In practice, composition claims, use claims and even compound claims have also been allowed for certain inventions.

China has also lifted restrictions on the protection of agro-chemical composition. Originally, only agro-chemical compositions using two or more compounds as active ingredients could be patented. Now, agro-chemical compositions containing only one compound as the active ingredient and one or more common inactive ingredients as the carrier ingredient may be patented. Furthermore, a catalyst can be patented either as a composition or as a compound.

These developments illustrate that with the accumulation of experience in the implementation of the patent system and with the technical and economic development in China, China will gradually lift the existing restrictions on the protection of chemical and pharmaceutical inventions.

D. Prospects for the Revision of the Patent Law in 1990

Based on the experience gained during the past implementation of the Patent Law, China plans to revise the Law in 1990. The revisions are expected to improve Chinese patent law in certain aspects. However, final decisions concerning the revisions have not been made. In the interim, I can only discuss some of the issues under consideration for the revised Patent Law.

According to Article 11 of the Chinese Patent Law, the protection given by a process patent is meant to prevent others from using the patented process for manufacturing a commercial product in China. This provision does not protect a patentee against the importation and sale of a finished product in China after the patentee has a process patent. In other words, the patentee would have no recourse if another person used the patented process to make a product in a country where the patentee had no patent on the process, and then export the product for sale in China. Before August 23, 1988, patentees in the United States faced the same problem; however, on August 23 Congress enacted the Omnibus Trade and Competitiveness Act of 1988.¹ The Act changed the patent statute and extended the protection of a process patent to the product made by the patented process. The same change is currently being discussed in China.

When an applicant is not sure whether he should file an invention application or a utility model application, Article 22 of the Chinese Patent Law permits him to file for both. If an applicant wishes to file both of these applications, he must file the second application before the publication or announcement of the first one. However, if an applicant decides to file only an invention application, he cannot convert that application to a utility model application if the Patent office rejects the invention application for a lack of inventiveness. The 1990 revised Patent Law may provide for such a conversion.

Under Articles 39, 40, 41 and 44 of the Chinese Patent Law, when the China Patent Office decides to grant a patent after examination, it will first announce the application for opposition. If within three months, no one files an opposition or the Patent Office finds the opposition is unjustified, the Patent Office will grant the patent. Based on past experience, few people filed oppositions, yet the Chinese Patent Office delayed the grant of all the patents for three

1. Omnibus Trade and Competitiveness Act of 1988, 100 Pub. L. No. 418; H.R. 4848 (1988).

months. Currently, China is considering postponing the opposition procedure until after the grant of the patent.

Under the Chinese Patent Law, everything in the claims must be supported by the description, and amendments may not go beyond the scope of the initial description. This is different from the practice in the United States where claims are part of the disclosure of the invention. Thus, in the United States, anything disclosed in the claims, but not in the description, can be added to the latter by amendment. In 1990, China may change its Patent Law to regard claims as part of the disclosure, thereby allowing additions to be made to the description in the claims.

II. TRADEMARK

Since 1983, China has made continuous efforts to improve the Trademark System, particularly regarding the protection of trademark rights. At the beginning of 1988, China revised the Chinese Implementing Regulations, placing a great deal of emphasis on the enforcement of trademark rights. As of November 1, 1988, China adopted the International Classification of Goods legislation.

A. Mechanisms for Enforcement of Trademark Rights

Similar to Chinese patent law, Chinese trademark law provides two ways to enforce trademark rights. One is via the Administrative Authority for Industry and Commerce (AAIC), and the other involves bringing an action before a court.

According to the Trademark Law and the new Implementing Regulations, any person may lodge a complaint with or report an offense to the competent administrative authority when an infringement of an exclusive right occurs. The competent administrative authority is the AAIC either at or above the county level in either the infringer's domicile/establishment area or at the location of the infringement.

In contrast to the Administrative Authority approach, the court action approach is only available to the infringed party. When an infringed party brings a trademark infringement suit against a foreign party, he must sue in the intermediate people's court where either the infringer's domicile/establishment area exists or where the infringing act occurs. The economic division of the people's courts hears both patent and trademark infringement cases.

Any interested party dissatisfied with the decision of the AAIC

may, within fifteen days from the receipt of the notification of the decision, apply for reconsideration of the decision to the AAIC at the next higher level. The authority at the next higher level shall make a decision within forty-five days from the receipt of the application for reconsideration. Again, the dissatisfied party may, within fifteen days from the receipt of the notification of the decision, institute legal proceedings in the people's court. If the dissatisfied party does not comply with the decision and does not file an application for reconsideration or institute proceedings at the expiration of the time limit, the AAIC may obtain a court order for compulsory enforcement. As for the above mentioned two fifteen-day periods, the dissatisfied party may apply for two extensions, with each not exceeding thirty days.

B. Acts Regarded as Infringement

Article 38 of the Trademark Law provides that any of the following acts shall be an infringement of trademark rights:

- (1) using a trademark which is identical with or similar to the registered trademark of the same or similar goods without the authorization of the proprietor of the registered trademark;
- (2) making or selling, without authorization, representations of the registered trademark; and
- (3) causing, in other respects, prejudice to the exclusive right of the registered trademark.

For some time, the type of act which would fall under Article 38(3) of the Trademark Law was unclear. Article 41 of the new Implementing Regulations has eliminated this uncertainty by stating explicitly the acts referred to by Article 38(3) of the Trademark Law. The acts identified are:

- (1) dealing in (distributing or selling) goods infringing the right of a registered trademark;
- (2) using any words or design identical with or similar to a registered trademark of another person as the designation of the goods or decoration of the goods which are the same as or similar to the goods in respect of which the trademark was registered, where such use is sufficient to cause mistaken recognition; and
- (3) intentionally providing facilities, such as storage, transportation, mailing or concealment, for an act of infringement of the registered trademark of another person.

Sections (1) and (3), above, have broadened the scope of protec-

tion, making the enforcement of trademark rights easier. When identifying the person causing the infringement of a registered trademark is difficult, or suing this person is impossible, a party can lodge a complaint against the distributor or vendor of the infringing product or against any other person facilitating the infringing act.

Most of the cases under section (2) involved famous trademarks. The infringing parties involved in those infringement cases did not fully understand the intricacies of trademark law. When they saw a product selling well, they mistakenly decided to use the same name for their own product to promote sales. These parties mistook the trademark as the name of the product.

Some cases of another type also exist which are arguably not true infringement cases under the Trademark Law. Specifically, these cases involve someone, without the authorization of the owner of the registered trademark (design mark), manufacturing goods according to the depiction in the design mark. Some experts believed that these cases were not within the jurisdiction of Trademark Law, and should instead be governed by copyright law. However, in view of the fact that China had not yet enacted copyright laws, the administrative authority for industry and commerce resolved the problem with a broader interpretation of Article 38(2) and (3) of the Trademark Law.

C. Remedies for Trademark Infringement

In handling a case of trademark infringement, the administrative authority concerned shall have the power to order the infringer to cease the infringing act immediately and seal up or seize any representations of the trademark, or order the infringer to remove the trademark from the existing goods and compensate the infringed party for any damages. The amount of the compensation shall be the profit that the infringer has made through the infringing act or the loss that the infringed party has suffered during the period of the infringement. Where the circumstances warrant, a fine may also be imposed.

Under Article 24 of the old Implementing Regulations, a fine for trademark infringement could not exceed RMB 5,000 yuan (equal to about \$1,350 U.S. dollars). The new Implementing Regulations have raised the fine ceiling. Now, the fine may not exceed the greater of twenty percent of the illegal business's volume or twice the profit made through the infringement.

Any party that passes off a registered trademark as his own or makes or sells representations of a registered trademark of another

person shall compensate the infringed party through damages. The infringing party must also pay a fine. Furthermore, China shall criminally prosecute any person directly responsible for the offense.

D. *Protection of Well-known Trademarks*

No provision in the Trademark Law explicitly specifies protection for well-known trademarks. However, China, as a member nation of the Paris Convention, has traditionally given protection to well-known trademarks. To be a well-known trademark, the mark should be well-known domestically in China, and internationally.

Under Article 8 of the Chinese Trademark law, parties may not register descriptive marks and generic name marks. However, in practice, well-known trademarks get special consideration, even if they are descriptive or generic.

When applying for registration of a well-known trademark which is descriptive of the quality, main raw materials, function, use or other features of the goods, the applicant may submit reference materials to show the product's name recognition, how long it has been used as a trademark and in how many countries it has been registered. If the submitted materials establish it as a well-known trademark which has gained secondary meaning, the Chinese Trademark Office may register it. Examples of descriptive trademarks which have been registered in China are *Coca-Cola* (meaning tasty and gratifying in Chinese) and *Vitasoy* (indicating vitamin and milk in Chinese).

The Chinese Trademark Office has registered some well-known trademarks which have become generic names in China after the applicants have successfully proven that they are truly trademarks rather than generic names of the goods. Examples are *Jeep* and *Freon*. After the Trademark Office granted their registration in China, the original designation for the jeep vehicle was changed to "cross-country vehicle," and the original designation for *Freon* was changed to "refrigerant."

When a proprietor of a non-registered, well-known trademark discovers that another person has applied for registration of his trademark or of a mark similar to his own, he may file an opposition against that registration with the Chinese Trademark Office. Filing is governed by a three-month opposition period running from the publication of the preliminary approval.

Where the proprietor of a well-known trademark has missed the three-month opposition period to oppose the registration of his well-

known trademark by another person, he may, by resorting to Article 25 of the new Implementing Regulations, make a request to the Trademark Review and Adjudication Board for cancellation of the registration on the ground that the mark was improperly registered.

For world famous trademarks truly originated by the proprietor, such as *Kodak*, *Coca-Cola*, *Sony*, and *Sharp*, a good chance exists that opposition to or cancellation of the trademark will occur. But for other, less famous trademarks, opposition or cancellation may not be as certain.

Reasonable protection is available in China for well-known trademarks. However, applicants should try to register trademarks in China immediately since China uses the first-to-file ("first in time, first in right") principle. Obviously, the better known a trademark is, the more likely it will be copied by others. Though opposition to or cancellation of the improper registration is possible, the owner of the trademark has the burden of submitting documents to prove his case. Therefore, even the owner of a well-known trademark is taking a risk by not registering. Furthermore, proprietors of well-known trademarks should register their marks in as many classes as possible to get maximum protection for the well-known trademarks. This multi-registration will prevent others from registering the well-known trademarks in similar classes of goods.

E. Non-use of Registered Trademarks

Under Article 30(4) of the Trademark Law and Article 29 of the Implementing Regulations, where the registrant has not used a registered trademark (in China) for three consecutive years, any person may apply to the Trademark Office for cancellation of the registration. In such a case, the Trademark Office shall notify the trademark registrant to furnish proof of use of the trademark within a specified period. If no proof of use is furnished after the specified time, or the proof of use is invalid, the Trademark Office will cancel the registration.

Furthermore, according to Article 30 of the Implementing Regulations, after cancellation of a trademark registration on the ground of non-use, the person who applied for the cancellation may immediately file an application for registration of that trademark. In view of the above, the trademark registrant should pay careful attention to the use requirement.