PROTECTION OF INTELLECTUAL PROPERTY IN THE P.R.C.: PROGRESS, PROBLEMS, AND PROPOSALS

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I. INTRODUCTION

The People's Republic of China ("P.R.C.") has witnessed significant progress in the last two years. Since Mr. Deng Xiaoping's speeches in Southern China in early 1992, which called for further reform and an open-door policy, the economy has been

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booming, foreign investment has been increasing, and the people's expectations have continued to rise.[1] Most importantly, the People's Republic of China has committed itself to transforming its planned economy into a market economy, which will result in a restructuring of the entire economic system and a readjustment of the interests of various sectors.[2] This transformation will have an enormous impact on all aspects of the society, including the protection of intellectual property.

The purpose of this article is to review the progress achieved in the protection of intellectual property in the P.R.C. within the two years since the signing of the Memorandum of Understanding between the Government of the United States and of the Government of the People's Republic of China on the Protection of Intellectual Property ("MOU") in January 1992. This article will identify some of the remaining problems in intellectual property protection and will propose possible solutions in view of the changes that have been taking place in the P.R.C.

II. RECENT DEVELOPMENTS

A. LEGISLATION

Partly to fulfill its commitments under the MOU, the P.R.C. has made considerable progress in enacting legislation to protect intellectual property.

1. Patents

Over the last two years, the P.R.C. has amended the Patent Law and its Implementing Regulations, joined the Patent Cooperation Treaty, and published, for the first time, the Patent Examination Guidelines of the Chinese Patent Office.

In September 1992, the Standing Committee of the National People's Congress amended the Patent Law, which became effective on January 1, 1993. The new Patent Law includes the following major amendments:

> 1. Subject Matter of Protection. The amended law extends patent protection to pharmaceutical products and substances obtained by means of a chemical process as well as to

1. The gross national product ("GNP") growth of the P.R.C. was 13% in both 1992 and 1993, respectively. *China to Slow Down GNP Growth*, CHINA DAILY BUS. WKLY., Jan. 2-8, 1994, at 4. Foreign investment in the P.R.C. was US$11 billion in 1992 and US$15 billion in 1993. *Shijie yinhang yifen baogao zhichu: Zhongguo shi waiguo zhijie touzhi zuida shouyiguo* [*China Most Benefitted from Foreign Direct Investment*], JINGJI RIBAO [ECON. DAILY], Jan. 6, 1994, at 1 [hereinafter ECON. DAILY].

2. *Year of Reform*, ZHONGGUO RIBAO [CHINA DAILY], Jan. 3, 1994, at 4 [hereinafter CHINA DAILY].

food, beverages, and flavorings, all of which were excluded from patent protection before the amendments.

2. Patent Rights. The amended law extends patent protection to products directly obtained by a patented process and grants a patentee the right to exclude others from importing a patented product or a product directly obtained by a patented process.

3. Passing Off. The amended law makes passing off of an unpatented product or process as a patented one subject to administrative penalties.

4. Term of Protection. The amended laws extends the term of patent for an invention from fifteen years to twenty years, and the term of patent for a utility model or design from five years, renewable for three additional years, to ten years.

5. Compulsory License. The amended law redefines the conditions and requirements for obtaining a compulsory license.

6. Granting Procedure. The amended law changes the opposition procedure before a patent is granted to a revocation procedure after a patent is granted.

In September 1993, the P.R.C. submitted an instrument of accession to the Patent Cooperation Treaty ("PCT"), thereby, becoming a member country effective January 1, 1994. The Chinese language was designated one of the official languages for filing patent applications through the PCT, and the Chinese Patent Office was designated receiving office, designated office, elected office, international search authority, and international primary examining authority.

The official Guidelines on Patent Examination were published by the Chinese Patent Office and became effective April 1993. In the past, the Chinese Patent Office used Guidelines on Patent Examination for Trial Implementation, but they were internally circulated and unavailable to the public. Patent agents and applicants welcome the publication of Guidelines on Patent Examination since its publication increases disclosure of the Chinese Patent Office's examination process.

2. *Trademarks*

The P.R.C. has amended the Trademark Law and its Implementing Regulations, as well as the Criminal Law concerning counterfeiting of trademarks. In February 1993, the Standing Committee of the National People's Congress passed resolutions on the amendments to the Trademark Law and the Criminal Law concerning counterfeiting of registered trademarks, and the laws became effective on July 1, 1993. Amendments to the Implementing Regulations for the Trademark Law soon followed suit. The amended Trademark Law and the Criminal Law accom-

plishes the following: (1) makes registration to service marks available; (2) strengthens trademark protection; (3) increases administrative fines and permits administrative authorities to order payment of damages; (4) increases criminal penalties for counterfeiting of trademarks to include imprisonment of up to seven years and imposition of fines; and (5) improves trademark registration procedure.

3. Copyrights

The P.R.C. has also made progress in the protection of copyrights in the last two years. First, the National Copyright Administration of the P.R.C. announced, in accordance with the MOU, that works of U.S. nationals would be protected under the Copyright Law in China from March 17, 1992.[3]

Then, the P.R.C. joined three international conventions concerning copyright, one after another, within about half a year. First, the P.R.C. joined the Berne Convention for the Protection of Literary and Artistic Works, effective on October 15, 1992. Next, it joined the Universal Copyright Convention, effective on October 30, 1992. And last, it joined the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, effective on April 30, 1993.

Finally, the P.R.C. issued the International Copyright Treaties Implementation Rules ("Rules") on September 25, 1992, which became effective on September 30, 1992. The Rules were formulated to implement the international conventions which China had joined, particularly the Berne Convention. The key provisions include: (1) protecting unpublished foreign works under the Copyright Law; (2) protecting foreign works of applied art for a term of twenty-five years; (3) protecting foreign computer programs as literary works without requiring their registration; (4) protecting foreign works that are created by compiling non-protectable materials, but which possess originality; (5) eliminating certain limitations imposed by the Copyright Law on the copyright owner's rights to comply with the Berne Convention; and (6) protecting foreign works which, at the moment when the international conventions come into force in China, have not yet fallen into public domain in the country of origin after the expiration of the term of protection.

With the issuance of the Rules, the P.R.C. now grants a higher level of copyright protection to foreign works than to the

3. *See Meiguo zuoping zai zhongguo shoudao baohu: Zhongmei jianli shuangbian zhezuo chuan baohu guanxi*, RENMIN RIBAO, HAIWAIBAN [PEOPLE'S DAILY (overseas edition)] Mar. 24, 1992, at 4 [hereinafter PEOPLE'S DAILY (overseas edition)].

works of its nationals. This is not only unfair to Chinese authors but is also creating a potentially sensitive problem. As a result, amendments to the Copyright Law have been proposed by the Education, Science, Culture, and Public Health Committee of the National People's Congress.[4] The Copyright Law will probably be amended in the near future to give Chinese authors the same protections which foreign authors already enjoy.

Other regulations under consideration to implement in the Copyright Law[5] include: (1) Rules on the Arbitration of Copyright Contract Disputes; (2) Rules on the Administration on Foreign Trade of Copyright; and (3) Rules on the Protection of Copyright in Expressions of Folklore.

4. *Trade Secrets*

Effective protection of trade secrets has been a long-standing problem in the P.R.C. In the past, a trade secret owner could protect his trade secret under a contract. By doing this, he would be able to sue the other party to the contract for breach of contract but would not be able to take legal action against a third party who misappropriated the trade secret.

Even this protection is undermined with respect to technology importation contracts. There are administrative regulations that specifically govern the licensing of foreign technology into the P.R.C., which includes know-how or "proprietary technology," as it is called under the Regulations on Administration of Technology Introduction Contracts and its Implementing Rules. The provision that has led to complaints from foreign know-how licensors or potential licensors is that, unless specially approved by the government, the term of a licensing agreement shall not exceed ten years[6] and the confidentiality obligation shall cease when the term of agreement expires.[7] Hence, since the confidential obligation is usually for only ten years, the contractual protection for trade secrets is weak.

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4. Quanguoren Dajiaoke Wen Weiwei Yuanhui [Education, Science, Culture, and Public Health Committee of the National People's Congress], *Guanyu "Zhonghua renmin gongheguo zhezuo quanfa" shishi qingkuang jiancha de baogao [Examination Report on the Implementation of the Copyright Law of the P.R.C.]* [hereinafter *Examination Report*], ZHEZUOQUAN [COPYRIGHT], May 1993, at 3, 6.

5. *Id.* at 3.

6. Regulations on Administration of Technology Introduction Contracts of the People's Republic of China, art. 8.

7. Implementing Rules of the Regulations on the Administration of Technology Introduction Contracts of the People's Republic of China, art. 13.

Alternatively, trade secrets may be protected under certain general provisions of the General Principles of Civil Law.[8] However, the provisions are so general that they are open to different interpretations, and the procedures to enforce them are so unclear that it is very difficult to do so as a practical matter.

Recognizing this problem, the P.R.C. has adopted three measures to improve the protection of trade secrets. First, the Supreme People's Court and the Supreme People's Procuratorate jointly issued the "Interpretations on the Application of Laws in Practice Concerning Some Questions Regarding the Handling of Theft Cases" ("Interpretations") on December 11, 1992.[9] In determining what constitutes a theft, the Interpretations provide that stealing intangible property such as important technological achievements is a criminal offense of theft. Thus, criminal sanctions for theft offenses may be applied to misappropriation of trade secrets under the Criminal Law.[10]

After the Interpretations were issued, a Shanghai newspaper reported the first such case in the region where an assistant engineer in a Shanghai factory was arrested for the offense of theft when he copied computer programs developed by one factory and sent them to another factory.[11]

Then, the Standing Committee of the National People's Congress promulgated the Anti-Unfair Competition Law on September 2, 1993, which became effective on December 1, 1993. Now, trade secrets can be protected under this new law, which fulfills China's commitment under the MOU to enact and implement a bill protecting trade secrets before January 1, 1994.

A trade secret is defined by the new law as "technological and business information that is not known to the public, derives economic value for the owner, is of practical applicability, and has been subject to steps by the owner to maintain its secrecy."[12] Under the law, an infringement of a trade secret of another has

8. For instance, see Zhonghua Renmin Gongheguo Minfa Tongze [General Principles of Civil Law of the People's Republic of China], arts. 4, 118 [hereinafter General Principles].

9. Zhonghua Renmin Gongheguo Zuigao Renmin Fayuan Gongbao [Supreme People's Court and Supreme People's Procuratorate of the People's Republic of China], *Guanyu banli daoqie anjian juben yingyong falü de regan wenti de jieshi [Interpretations on the Application of Laws in Practice Concerning Some Questions Regarding the Handling of Theft Cases]*, 33 GAZETTE OF THE SUPREME PEOPLE'S COURT 21 (1993).

10. Criminal Law of the People's Republic of China, arts. 151-52.

11. Zhong Ming, *Zhuli gonghchengshih Wang Zhendong bei dibu: benshi pohuo shou qi daoqie zhili chengguo an*, XINMIN WANBAO [XINMIN EVENING NEWS], June 12, 1993, at 3 [hereinafter XINMIN EVENING NEWS].

12. Zhonghua Renmin Gongheguo fanbuzheng dang jingzhengfa [Anti-Unfair Competition Law of the People's Republic of China] art. 10 [hereinafter Anti-Unfair Competition Law].

occurred when: (1) the trade secret of another has been acquired by theft, bribery, coercion or other improper means; (2) the trade secret is then disclosed, used or permitted to be used by others; and (3) such acts are in breach of a prior agreement or duty to maintain secrecy.[13] Also, acquiring, using, or disclosing a trade secret of another by a third party, who knows or should have known that the acts listed above are illegal, is considered an infringement of the trade secret of the other by the third party.[14]

Remedies include injunction and damages. A trade secret owner may file a lawsuit directly with a court or request an administrative authority of industry and commerce above county level to handle the case. The administrative authority may order the infringer to stop the infringing act and impose a fine from RMB10,000 yuan to RMB200,000 yuan.[15] The decision of the administrative authority may be appealed to a court.[16]

Finally, the Regulations on Administration of Technology Introduction Contracts ("Regulations") are in the process of amendment. Under the amended Regulations, which the State council will probably issue this year, the parties to a technology introduction agreement would be free to agree upon the terms of protection of trade secrets.

5. *Administrative Protections for Intellectual Property Rights*

In accordance with the provisions under the MOU, the Chinese Government issued regulations and rules to provide administrative protections to pharmaceutical and agricultural chemical products under certain conditions.

The State Council approved on December 12, 1992, and the State Pharmaceutical Administration issued on December 19, 1992, the Regulations on Administrative Protection of Pharmaceuticals, which took effect on January 1, 1993. The State Pharmaceutical Administration then issued the Rules for Implementation of the Regulations on Administrative Protection of Pharmaceuticals on December 30, 1992.

The State Council approved on December 26, 1992, and the Ministry of Chemical Industry issued on December 26, 1992, the Regulations on Administrative Protection of Agricultural Chemical products, which took effect on January 1, 1993. The Ministry of Chemical Industry then issued the Rules for Implementation

13. *Id.*

14. *Id.*

15. *See* Anti-Unfair Competition Law, *supra* note 12, art. 25. RMB10,000 yuan is equivalent to US$1200.

16. *See* Anti-Unfair Competition Law, *supra* note 12, art. 29.

of the Regulations on Administrative Protection of Agricultural Chemical Products on December 26, 1992.

These administrative protections are available only to those whose country or region has concluded a bilateral treaty or agreement with the P.R.C. Currently, the P.R.C. has such bilateral agreements with the United States, the European Community, Japan, and Switzerland.

The term of administrative protections for both pharmaceuticals and agricultural chemical products is seven years and six months, counting from the date on which the certificate for administrative protection is issued. The requirements for obtaining the administrative protections are in accordance with the provisions under the MOU.

B. ENFORCEMENT

Infringement disputes of intellectual property have been constantly increasing. At the same time, these courts and administrative authorities involved have made considerable efforts to enforce intellectual property rights. Statistics show that from 1988 to 1993, the courts decided 6796 patent, trademark, and technological contract dispute cases, among which 1808 cases were decided in 1992[17]; from 1985 to the end of 1992, patent administrative authorities received 1858 patent cases, among which 1400 have been concluded[18]; and from June 1991, after the Copyright Law came into force to 1992, courts received 214 copyright cases.[19] Courts have also decided cases concerning computer software infringement[20] and unfair competition.[21]

A new development in the enforcement of intellectual property rights is the establishment of two specialized divisions in the Beijing courts. In August 1993, the Beijing Municipal High People's Court and the Beijing Municipal Intermediate People's

17. *See* Ren Jianxin, *Report on the Works of the Supreme People's Court*, 34 GAZETTE OF THE SUPREME PEOPLE'S COURT 52, 53 (1993).

18. *See* Gao Lulin, *Huoying fazhan shehui zhuyi shichang jingji de xuyao ba woguo zhuanlishiye tuixiang yige xinde fazhan jieduan: zai quanguo zhuanli gongzuo huiyi shang de gongzuo baogao* [*Report on the National Patent Work Conference*], ZHONGGUO ZHUANLIBAO [CHINA PAT. NEWS], Dec. 22, 1993, at 1 [hereinafter CHINA PAT. NEWS].

19. *See Examination Report, supra* note 4, at 4.

20. These computer software infringement cases were reported in Xin Xiao, *Quanguo shouzong jisuan jijiao jian qinquan anting shenji*, FAZHI RIBAO [LEGAL DAILY (weekend)] [hereinafter LEGAL DAILY (weekend)], Mar. 12, 1993, at 2; *Ranjian zhuzuo quan you fakeyi: "kelihua: zhuanggao sitong,"* BEIJING RIBAO [BEIJING DAILY], May 22, 1993, at 2 [hereinafter BEIJING DAILY]; FAZHI RIBAO [LEGAL DAILY], Jan. 9, 1994, at 5 [hereinafter LEGAL DAILY].

21. An unfair competition case was reported in Wang Hongwei, *Henanshen jieshouli bu chengdang jingzheng jiufenan: minquan putaojiuchang shengsu*, LEGAL DAILY, Dec. 11, 1993, at 1.

Court set up respective Intellectual Property Divisions.[22] The Intellectual Property Divisions have jurisdiction over disputes on patents, trademarks, copyrights, technological achievements, and technological contracts. This was the first time that courts in China set up intellectual property divisions. The Supreme Court strongly supported the establishment of these divisions which shows the determination of the judiciary to effectively protect intellectual property rights. Other courts in major cities will hopefully follow suit.[23]

Before the end of 1993, the Intellectual Property Division of the Beijing Municipal Intermediate People's Court ("Division") already received 125 intellectual property cases, among which 10 cases involved parties from Hong Kong, Macao, Taiwan, and other foreign countries, and of which 82 cases have since been concluded.[24]

With respect to the application of laws, the Division has made a number of what may be called "path-breaking decisions." The Division has awarded large amounts of damages to plaintiffs, awarded attorney's fees and costs for investigation and collection of evidence to plaintiffs, and ordered a defendant to compensate for loss of the plaintiff's reputation in a trademark infringement case.

The Division has also tried to reform the traditional adjudication method within the framework of the procedure laws. For instance, the Division has strengthened the collective responsibility of the tribunal that is hearing a case. In the past, usually only the chief judge handled the case while the other judges would follow the opinion of the chief judge. Moreover, the Division has changed the traditional system of questions by judges and answers by the parties during trial into an adversarial system in which the parties now ask and answer each other's own questions. Additional changes include first, the announcement of trial dates to the public, particularly the media, to increase disclosure of the trial and adjudication process and second, the encouragement of parties to seek the most experienced intellectual property lawyers to represent them before the court.[25]

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22. *See Beijing fayuan chengli zhishi chanquan shen panting*, RENMIN RIBAO [PEOPLE'S DAILY], Aug. 6, 1993, at 3 [hereinafter PEOPLE'S DAILY].

23. It was reported that the High People's Court of Guangdong Province had just set up an Intellectual Property Division, and it was announced that the Guangzhou Municipal Intermediate People's Court and three intermediate people's courts of Shenzhen, Zuhai, and Shantou special economic zones would also set up intellectual property divisions in the near future. *See* Li Han Sheng, *Guangdong gaoyuan chengli zhishi chanquan shen panting*, LEGAL DAILY, Jan. 20, 1994, at 1.

24. *See* Zhang Tao, *Huishou zhengcheng zhanyouhan: 1993 nian "yanda" douzheng huigu*, LEGAL DAILY, Dec. 29, 1993, at 1.

25. *See id.*

Another interesting development is that at least two courts, the Tianjin Municipal High People's Court and the High Court of Henan Province, have formulated rules which provide that if serious errors occurred in adjudicating a case concerning the application of procedural law, the determination of facts, the identification of issues, the application of substantive laws, or the final judgment, then the responsible judges will be subject to internal administrative penalties ranging from circulation of a criticism, to reduction of bonuses, and even to removal from judgeship.[26]

C. Other Developments

There are a number of other developments that will have positive effects on the protection and enforcement of intellectual property rights in China. An important new development relates to the successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT"). After negotiating for several years with GATT contracting parties to rejoin the GATT, the P.R.C. recently indicated that it would like to rejoin the GATT and sign on to the World Trade Organization ("WTO").[27] If the P.R.C. successfully rejoins the GATT and signs the Uruguay Round agreements that include the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods ("TRIPS"), it will have a significant impact on the protection and enforcement of intellectual property in China concerning, for example, the protection of geographical indications and layout-designs of integrated circuits, enforcement procedures and remedies, provisional measures, and special requirements related to border measures.

Another development is that legal education on intellectual property in universities has improved. A survey of seventy-one universities shows that forty-eight universities have instituted intellectual property courses.[28] The People's University, the Huazhong Science and Technology University, and the Zhejiang University now offer a second bachelor degree in intellectual

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26. *See* Zhang Ya, *Zhongyang zongzhi an di baci quanbenhui yi yaoqiu: Huoying shichang ji jing xuyao luoshi zonghe zhili cuoshi*, LEGAL DAILY, Dec. 10, 1992, at 1; *Tianjin shifayuan dui faguan you xin guifan: Bancuoan yao yifa chuijiu zeren*, LEGAL DAILY, Aug. 23, 1993, at 3.

27. *See* Jin Man, *GATT Accord to Aid China's Re-Entry*, CHINA DAILY BUS. WKLY., Dec. 19-25, 1993, at 1.

28. Chen Meizang & Yang Wu, *Wuoguo gaodungxuexiao zhiyi chanquan jiaoyu de xianzhuang yuduice [Situation and Policy with Regard to Intellectual Property Education in China's Universities]*, ZHISHI CHANQUAN [INTELL. PROP.], July 25, 1993, at 3 [hereinafter INTELL. PROP.].

property law.[29] In addition, the Beijing University has recently set up the School of Intellectual Property.

Still another development relates to the reform of the lawyer system in the P.R.C., which will have far-reaching effects on the entire legal system. In the past, lawyers were defined as "state legal workers,"[30] and virtually all law firms were owned, in one way or another, by the State. This type of ownership might be appropriate for a planned economy, but it is certainly not proper for a market economy. The Ministry of Justice ("Ministry") has been trying to reform China's lawyers' system by transforming all law firms into independent ones to better serve a market economy.

The Ministry has taken several measures since early 1993 to achieve this transformation. For example, lawyers are encouraged to set up private law firms[31]; more people are encouraged to become lawyers in order to rapidly increase the number of lawyers[32]; national bar examinations will be held once every year, instead of once every two years as in the past, to increase the number of lawyers[33]; and, to accommodate the great need for lawyers with certain specialties, those who have obtained law degrees in foreign countries will be granted lawyer status without having to take or pass national bar examinations, provided that they have worked in domestic law firms for a year.[34]

On December 26, 1993, the State Council approved the "Package for Furthering Reforms on Lawyer Work" ("Package") proposed by the Ministry of Justice.[35] Under the Package: (1) lawyers are defined as professional legal workers to serve the society; (2) all law firm should be independent with legal person status; (3) law firms are encouraged to take various forms; (4) the responsibility for administration of lawyers should be shifted gradually from judicial administrative authorities to the All-China Lawyer's Association under the macro-management of the

29. Chen Meizang, *Wuoguo zhishi chanquan jiaoyu yu rencai peiyang [Education on Intellectual Property and Training of Personnel in China]*, INTELL. PROP., Mar. 25, 1993, at 3, 5.

30. Zhonghua renmin gongheguo lüshi guanli zanxing tiaoli [Tentative Regulations on Lawyers of the People's Republic of China], art. 1.

31. *See* Ma Chenguang, *Better Legal Services Sought*, CHINA DAILY, Jan. 5, 1994, at 1.

32. Chang Hong, *State Aims to Triple Number of Lawyers*, CHINA DAILY, July 22, 1993, at 3.

33. *Annual Exam Set for New Lawyers*, CHINA DAILY, June 12, 1993, at 3.

34. He Jun, *Lawyers to Grow in Number and Role*, CHINA DAILY, Oct. 16, 1993, at 1.

35. *See Sifabu: Guanyu shenhua lüshi gongzuo guige de fangan*, ZHONGGUO LÜSHIBAO [CHINA LAWYERS], Jan. 11, 1994, at 5 [hereinafter CHINA LAWYERS].

judicial administrative authority; and (5) residents of Hong Kong, Macao, Taiwan, and other foreigners will be permitted to take the national bar examination if they obtained legal training in the P.R.C.[36] Further legislation concerning lawyers is currently under consideration.

III. PROBLEMS AND CHALLENGES

A. Problems in Intellectual Property Laws Including Inconsistencies in Coordination

The rapid development of intellectual property protection in China is not without its problems. Some of the problems exist in the laws and regulations themselves; others relate to the lack of consistent coordination among different intellectual property laws and regulations as well as various other laws. The following are some of the new or newly identified issues.

1. Intellectual Property Laws and Regulations

Unlike the amendments to the Patent Law and its Implementing Regulations, the amendments to the Trademark Law and its Implementing Regulations create new problems. The Trademark Law was amended to combat more forcefully widespread counterfeits and infringements of registered trademarks. However, one amendment to the old law has proven to be counterproductive.

Before amendment, the Implementing Regulations for the old Trademark Law provided that it was an infringement of a registered trademark for a seller to sell goods bearing a trademark that infringed the registered trademark.[37] One positive effect of this provision was that it made sellers intensely cautious of selling infringing goods in order to avoid liabilities. Another effect was that it made it easy to have the sellers reveal the sources of the infringing goods to mitigate their liabilities. Thus, it was a strong weapon against trademark infringement.

Under the amended Trademark Law, one provision was added presumably to combat counterfeiting of registered trademarks. It provides that a seller is liable for infringement where he sells goods that he "knows" bear a counterfeited registered trademark.[38] Hence, a seller has to be proven to have prior

36. *Id.*

37. Zhonghua Renmin Gongheguo Shangbiao Fashi Shixize [Implementing Regulations of the Trademark Law of the People's Republic of China (before amendment)], art. 41 [hereinafter Implementing Regulations of the Trademark Law].

38. Zhonghua Renmin Gongheguo Shangbiao Fa [Trademark Law of the People's Republic of China], art. 38 [hereinafter Trademark Law of PRC].

knowledge of the counterfeiting to be held liable for infringement, which is rather difficult to do in practice.

The Implementing Regulations had to be amended as well to follow the new law—if prior knowledge is required to hold a seller liable for selling goods bearing counterfeited registered trademarks, the same should apply for a seller selling goods bearing infringing trademarks, a less serious offense. The Implementing Regulations were thus amended to require that to incur liability, a seller must "know[ ]" or "should have known" about the infringement of a registered trademark.[39] It appears that the drafters of the Implementing Regulations tried to do some fence-mending when requiring "should have known." But it is ironic that while a seller must have knowledge to be liable for selling counterfeited goods, a seller is liable for selling infringing goods where the seller only should have had knowledge.

As a result of the amendments, it became more difficult to stop the spread of trademark infringement since sellers can claim that they have no knowledge or could not have known about the counterfeits or infringements and are therefore not liable. Frequently, the only thing a trademark owner could do is stop the sellers from continuing to sell the infringing goods, but receive no damages and still not know the source of the counterfeited or infringed goods.

One lesson that should be learned from this is that the P.R.C. must improve its legislative procedures. It was only at a later stage of the amendment procedure that such a requirement was inserted. To improve the legislative process, perhaps experts should be involved at every stage of this process and all legal and practical ramifications should be carefully considered. To do otherwise could frustrate the real legislative intent, as the case above shows.

With respect to copyright protection, the most serious problem is the absence of criminal penalties. It is curious that criminal penalties are provided under the Patent Law for counterfeiting of patents and under the Trademark Law for counterfeiting of registered trademarks, but none are provided under the Copyright Law. However compelling the legal arguments against including criminal sanctions may have been, practice has shown that the lack of criminal penalties under the Copyright Law has had a disastrous effect on China's efforts to fight against copyright pirates.

Driven by huge profits and quick money, pirates in books and audiovisual works are devastating the industries. For in-

39. Implementing Regulations of the Trademark Law, *supra* note 37, art. 41.

stance, it has been reported that there are seventeen pirated versions of the well-known novel *Enclosing Wall*.[40] Almost all audiovisual shops sell pirated works, which account for more than fifty percent of all works offered for sale in the market.[41]

Clearly the Copyright Law should be amended to provide criminal sanctions to crack down on copyright pirates. Only then will copyright protection be in line with protection of other intellectual property rights: patents, trademarks, and trade secrets, all of which have criminal penalties.

2. *Coordination*

The intellectual property laws and regulations do not entirely coordinate among each other. There are problems concerning substance and procedures.

One problem concerning substantive protection is the coordination between the protection of trademark under the Trademark Law and the protection of enterprise names under the Regulations on the Administration of the Registration of Enterprise Names. One case is illustrative.

The case involves the most famous trademark and tradename in China on scissors—"Zhangxiaoquan." In *Hangzhou Zhangxiaoquan Scissors Factory v. Nanjing Zhangxiaoquan Scissors Factory*,[42] the plaintiff registered the trademark under the Trademark Law and also registered its enterprise name in Hangzhou in accordance with the Regulations on the Administration of Enterprise Names. In 1987, the plaintiff reached an agreement with the defendant, the then Nanjing Scissors Factory, to use the trademark "Zhangxiaoquan" on its products. But since the defendant's products did not meet the quality requirements, the plaintiff terminated the license agreement in November 1989. The defendant, however, not only continued to use the trademark but also changed the name of the factory to Nanjing Zhangxiaoquan Scissors Factory and had it registered as its enterprise name in May 1990 in Nanjing. The plaintiff sued the defendant for infringement of its trademark and enterprise name in the Nanjing Municipal Intermediate People's Court. The Court rendered its decision in October 1993. With respect to trade-

40. *See* Song Yi, *Yiyan nanjin qinquan guansi*, WENHUA ZHOUMO [CULTURAL WEEKEND], Sept. 11, 1993, at 2 [hereinafter CULTURAL WEEKEND].

41. *See* Zhou Hong, *Yinxiangye de kunhuo yu xiwang*, WENHUA SHICHANG [WRITER'S DIG.], Nov. 26, 1993, at 4 [hereinafter WRITER'S DIG.]; Mao Jingba, *Musicians Call for Halt to Pirating of Recordings*, CHINA DAILY, Nov. 11, 1993, at 4; ECON. DAILY, Jan. 24, 1994, at 5.

42. Ding Jingcheng, *Sange "zhangxiaoquan" dui bugongtang: yishen panjue nanjing liang "zhangxiaoquan" qinhai shangbiaoquan*, LEGAL DAILY, Dec. 10, 1993, at 1.

mark, the Court held the defendant liable for infringement of the plaintiff's trademark and issued an injunction and ordered the defendant to pay damages of RMB369,000 yuan. With respect to the enterprise name, the Court held that since both plaintiff and defendant had registered their respective enterprise names with local administrative authorities for industry and commerce, each has the exclusive right within its own area, and therefore the defendant had not infringed the plaintiff's right to its enterprise name.[43]

Clearly the Regulations on the Administration of Enterprise Names do not coordinate with the Trademark Law, nor are they in accordance with the General Principles of Civil Law that require honesty.[44] These cases have presented two broad issues:

(1) The legislative process should be improved. Up to now, almost all special laws and their implementing regulations as well as independent administrative regulations or rules are drafted by individual government agencies. One problem is that the agencies may have limited expertise and experience in the subject matter and in drafting laws and regulations. Another problem is that the agencies often have only a limited view of the legal system in general and the drafted laws or regulations in particular, and they give little consideration to the position of the laws or regulations in the legal system and the coordination among other laws and regulations. Moreover, the agencies often draft laws or regulations in such a way as to benefit their own agencies,[45] which is why some laws read like administrative regulations and why agencies often fight over who is designated drafter of such legislation. Perhaps the government agencies' role in the legislative process should be limited and a special drafting committee formed, either under the Legislative Affairs Commission of the Standing Committee of the National People's Congress or under the Bureau of Legislative Affairs of the State Council, which includes experts as well as representatives from the different institutions concerned.

(2) Where there is conflict between laws and regulations, courts should apply the laws. In the *Zhangxiaoquan* case, the court could very well have applied the General Principles of Civil Law to hold the defendant liable. In a later case decided after

43. See Li Shishi, *Qiye mingchen yaochuang ziji de paize*, PEOPLE'S DAILY, June 19, 1993, at 5; Shen Guansheng, *Xuyao zhiding qiye mingchenquan baohufa*, LEGAL DAILY, Oct. 16, 1993, at 1; Wu Juan, *Yong falü wuqi: zhanduan dao "jin" zhi shou*, PEOPLE'S DAILY, May 15, 1993, at 2; Zhang Wenshang, *"Xingsaorao": renao gongshangjie*, WENZHAI ZHOUBAO [DIG. WKLY], Nov. 24, 1993, at 1.

44. General Principles, *supra* note 8, art. 4.

45. *See Market Economy Needs Legal Base*, CHINA DAILY, Jan. 14, 1994, at 4.

the Anti-Unfair Competition Law came into force,[46] the court should have also applied the new law that condemns anyone's use of another's enterprise name on his own goods to mislead people as unfair competition[47] and should have held the defendant liable. Laws should supersede administrative regulations where there is any conflict or where the regulations do not coordinate with the laws. The judicial reluctance to disregard anything written should be changed. Furthermore, any provisions in laws or regulations that are not in accordance with the Constitution should be disregarded. This can not be achieved overnight, but it is certainly the right direction for courts to move in if the P.R.C. is to improve its legal system to better serve a market economy.

There are also procedural problems in that enforcement procedures of intellectual property laws in the P.R.C. do not coordinate among each other. Different laws have different enforcement proceedings, which makes it very difficult to choose a forum when a case involves more than one intellectual property claim.

Under Chinese law, an intellectual property owner has two choices when bringing an action against infringement: one is to request an administrative authority to handle it and then appeal to a court if not satisfied with its decision; the other is to file a lawsuit directly with a court. Problems occur when a case involves more than one intellectual property claim. With respect to administrative proceedings, an administrative authority for patent affairs handles patent infringement; an administrative authority for industry and commerce handles trademark infringement or unfair competition claims; and a copyright administrative authority handles copyright infringement. The question is that if two administrative authorities are to be involved, then how to coordinate the two requests, the two actions, and the two decisions?

The trouble does not end there. If the intellectual property owner wants to appeal the administrative decisions to a court, he may have to appeal to different divisions. And it is also not entirely clear which procedures he should follow. He may very well end up in a civil procedure for one claim and an administrative litigation procedure for the other claim.

So an aggrieved owner may decide to go directly to court to avoid the above problems. But then the problem is that courts of different levels have jurisdictions over different intellectual prop-

46. *See* Su Chi, *"Wongzhihe" feng bolu: shen panhou de sikao*, LEGAL DAILY, Jan. 6, 1994, at 3.

47. *See* Anti-Unfair Competition Law, *supra* note 12, art. 5.

erty claims. Even within the same court, different divisions have jurisdictions over different intellectual property claims. Therefore, in a case involving two claims, an aggrieved owner may find that two courts of different levels or two divisions have jurisdiction over one of the claims. It is possible that the two courts or two divisions will decide among themselves as to which court or division will have jurisdiction over both claims. The question then is whether the court or the division has the required expertise to adjudicate the claim.

What is the solution? Since it is unlikely that in the near future the individual intellectual property laws will be amended to have the enforcement procedures coordinated, a possible short-term solution is to have the Supreme Court make a judicial interpretation in order to coordinate court jurisdictions and clarify procedures.[48] In addition, it has been suggested, but not yet acted upon, that the Chinese Patent Office, the Chinese Trademark Office under the National Administration of Industry and Commerce, and the National Copyright Administration should all be merged under a Chinese Intellectual Property office so that all administrative enforcement proceedings for intellectual property will be consolidated. In the long run, court adjudication on intellectual property disputes should be emphasized and administrative proceedings should be gradually phased out. This would also help reduce inappropriate administrative intervention and facilitate the smooth transition from a planned economy to a market economy.

These problems indicate that the legislature may not have enacted laws in a systematic way, nor have had a clear legislative framework in mind. Now that the direction has been set to move towards a market economy, the legislature is urged to take the whole legal system into consideration when enacting or amending individual laws to serve the establishment and healthy development of a market economy.

B. Effective Enforcement

After the establishment of the intellectual property system in the P.R.C., those courts and administrative authorities that were granted the power to handle infringements have made considerable efforts to enforce the intellectual property laws, and the progress has been remarkable. However, it has been only fifteen years since the P.R.C. began to establish a legal system. China

48. The Supreme People's Court is empowered to make judicial interpretations as to the application of laws and regulations under the Organic Law of the People's Court of the People's Republic of China and the Resolution of Standing Committee of the National People's Congress on Improving Interpretations of Laws.

has only just begun transforming its planned economy to a market economy, and China's thousand years of feudal history still have a significant influence on the people's way of thinking, particularly among those in office. As a result, local protectionism and governmental intervention with respect to enforcement of laws constitute a serious problem, and the enforcement of intellectual property is no exception.[49]

Recognizing the problem, Mr. Qiao She, Chairman of the Standing Committee of the National People's Congress, stated in a recent Session of the Standing Committee that China should not only attach importance to the legislation, but should emphasize the enforcement of laws as well, to combat local protectionism and governmental intervention.[50] Although there is probably still a long way to go to educate the people to respect and abide by the laws and to have the laws effectively enforced, the transition from the planned economy to a market economy will likely expedite this process and help establish the status of laws in the society.

There are three special issues concerning the enforcement of intellectual property laws. The first is the need to set up judicial tests to determine intellectual property infringement. The second

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49. *See* Fan Yuzheng & Luo Maocheng, *Yizhuang si liaofeiliao de shangbiao qinquanan*, [*A Seems-to-be-concluded Trademark Infringement Lawsuit*], PEOPLE'S DAILY, Mar. 10, 1992, at 2; Gong Shang, *Yi bei san tanhua zhuanli: yiqi zhuanli qin quan anjishi* [*A Record on Patent Infringement Case*], LEGAL DAILY, June 8, 1992, at 2; Guo Zhangguo, *Susong gongzheng zoumingqu* [*Fair Litigation*], LEGAL DAILY (weekend), Nov. 5, 1993, at 2; Han Yunxing & Liu Fanquan, *Zheshi weisheme? Bufen gonanji guancha shou jijingjiufen toushi* [*Why?*], LEGAL DAILY, Sep. 13, 1993, at 2; Liu Heping, *Yichang bugai fasheng de zhenglun*, [*A Dispute That Should Not Have Occurred*], LEGAL DAILY, May 12, 1992, at 2; Lu Hui, *Fayuan huhuan kefu "zhixingnan": fayuan guilinhui yiyaoqiu jiaqiang fayuan jianxiezuo* [*Judges Calling for Overcoming Difficulties in Execution of Court Decision*], LEGAL DAILY, June 7, 1993, at 1; Zhen Dong, *Bushi jiang gushi: fayuan zhixing nantoushi (I)* [*Not Telling Tales: Difficulties in Execution of Court Decisions (I)*], LEGAL DAILY, May 16, 1993, at 1 [hereinafter *Difficulties*]; Zhen Dong, *Bushi bumingbai: fayuan zhixing nantoushi (II)* [*Not That It's Unclear: Difficulties (II)*], LEGAL DAILY, May 17, 1993, at 1; Zheng Dong, *Bushi meiyoulu: fayuan zhixing nantoushi (III)* [*There is a Way Out: Difficulties (III)*], LEGAL DAILY, May 18, 1993, at 1; *Zhongguo yinggai you ziji de chiming shangbiao* [*China Should Have Its Own Well-Known Trademarks*], LEGAL DAILY, May 17, 1993, at 2; *see also* Ren Jianxin, Zuigao renmin fayuan gongzuo baogao [Report on the Works of the Supreme People's Court], *in* 34, Zhonghua Renmin Gongheguo Zuigao Renmin Fayuan Gongbao, 53, 59 [Gazette of the Supreme People's Court], (1993); Ren Jianxin, *Zai quanguo gaoji fayuan yuanzhang zuotan huishang de jianghua* [*Speech on the Meeting of the National High Court Presidents*], *in* 35 Zhonghua Renmin Gongheguo Zuigao Renmin Fayuan Gongbao 92, 94 (1993) [Gazette of the Supreme People's Court]; *Examination Report supra* note 4, at 5; Chang Hong, *Violent Crime Spurs Call for Crackdown*, CHINA DAILY, Dec. 26, 1993, at 3.

50. *Qiao Shi zai bajie quanguoren dachangweihui diwuci huiyi shangde jianghua* [*Speech on the Fifth Session of the Standing Committee of the National People's Congress*], BEIJING DAILY, Dec. 30, 1993, at 3.

is the need to impose greater penalties on willful infringers. And the third is the need to educate the public and to train legal professionals.

1. *Tests in Determining Infringement*

In the P.R.C., judicial decisions do not enjoy *stare decisis* status. Hence there are notable disparities among court decisions and no clear judicial tests to determine whether infringements have occurred. For instance, it is not clear whether the doctrine of equivalents and the doctrine of file wrapper estoppel should be applied in determining patent infringement. It is also unclear whether the test for trademark infringement should be determined by the test of likelihood of confusion. Similarly, what about the test for determining copyright infringement? Should the test of access and substantial similarity be adopted? Without the establishment of judicial tests, the public and enforcement institutions, including courts and administrative authorities, have no guidance as to how to avoid and determine infringement, thus hindering the enforcement of intellectual property rights in the P.R.C.

For example, in a patent infringement case, a court did not determine in its decision whether or not there had been an infringement of the patent at issue. Although the defendant was ordered to pay damages, the court issued no injunctions and held that the defendant should negotiate with the plaintiff regarding royalties when continuing to use the technology in its products.[51] The court appeared to have granted a *de facto* compulsory license to the defendant. Apparently, the court was torn between the interest of protecting intellectual property rights and the fear of monopoly.

Since only the Supreme Court has the right of interpretation concerning the application of laws, the Supreme Court should render judicial interpretations in regards to setting up tests to determine infringement of intellectual property as soon as possible. Also, the Supreme Court should publish in the *Supreme Court Gazette* more court decisions on intellectual property cases to serve as guidance, since cases published in the *Supreme Court Gazette* are considered to have *quasi stare decisis* status.

2. *Infringement Remedies*

Infringement of intellectual property has been a major problem. Realizing that they could get large sums of money quickly

51. *Yi falü shouduan baohu zhishi chanquan: "wubi zixing" qinquan an yishen zuochu panjueh*, PEOPLE'S DAILY (Overseas), Jan. 5, 1994, at 3; Wong Bin, *Suzhan jishi*, LEGAL DAILY, Jan. 9, 1994, at 5.

by infringing upon others' intellectual property rights, some individuals and enterprises, particularly small ones, are willing to take the risk of being caught and continue to manufacture and sell infringed products. This also explains why counterfeiting registered trademarks and pirating copyrights are more widespread and serious than other infringing acts.[52] This is not only a reflection of the break-down of traditional codes of conduct and of old social values and disciplines, but also a reflection of the development of a money-oriented frenzy to get rich quickly.[53] To rectify this, in addition to setting up new rules to regulate social behavior, the P.R.C. should impose penalties sufficiently severe to deter infringements. Presently, damages ordered by courts are frequently inadequate for this purpose.

Damages are usually calculated on one of the following basis: (1) the intellectual property owner's actual economic loss caused by the infringement; (2) the infringer's total profits derived from the infringement; or (3) an amount no less than a reasonable royalty.[54] In practice, damages ordered by courts are frequently equal to the amount of royalties; therefore, infringers actually gain a profit through infringements. This does not provide effective protection of intellectual property.

There are of course technical reasons that make it difficult to prove actual economic loss, or even to prove the infringer's total profits since infringers often abuse the accounting system. But other reasons include local protectionism and governmental interference. Another reason is that a court may fear that if large damages are ordered, the infringer may be forced to go bankrupt. If an infringer declares bankruptcy, then who takes care of, for instance, the hundreds of workers who lost their jobs because of this? With the reforms of the enterprises and the welfare system to be carried out this year, these fears should be mitigated in the future. As far as damages are concerned, double or even triple damages should be imposed on willful infringers as a deterrent. The P.R.C. should not let these "clever thieves" take any advantage of the loopholes in damages.

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52. Thomas McCarroll, *Whose Bright Idea?*, TIME, June 10, 1991, at 44.

53. Wang Rong, *Experts Urge New Rules to Maintain Social Stability*, CHINA DAILY, Dec. 23, 1993, at 4.

54. With respect to patents, see *Zuigao renmin fayuang guanyu shenli zhuanli jiufen anjian ruogan wenti de jiehda* [Supreme People's Court Interpretations on Some Issues Concerning Adjudicating Patent Dispute Cases], issued on Dec. 29, 1992; with respect to trademarks, see Trademark Law of PRC, *supra* note 38, art. 39; with respect to trade secrets, see Anti-Unfair Competition Law, *supra* note 12, art. 20; no method for calculating damages is provided with respect to copyright infringement.

3. *Education and Training*

It is always important to educate the public about laws and to train legal professionals. It is particularly true regarding intellectual property, since intellectual property laws are relatively new in China. These laws created new property concepts which may appear peculiar to judges, lawyers, and the public.

After the signing of the MOU, there was a movement in the P.R.C. towards furthering education in the field of intellectual property, and there have been a number of intellectual property lawsuits that have gained publicity through the media. These cases have increased the public's awareness of intellectual property rights. This education should not only be expanded generally but also be directed to certain special groups, such as research institutes, universities, and state-owned large and medium enterprises. Many of these institutions have not been actively involved in the protection of their own intellectual property.[55] It is very important to have strong domestic participation in and support for the intellectual property system. Without such a domestic base, it will be difficult to develop a healthy property system.

There are many reasons for public apathy. For research institutes and universities, there are practical considerations. The academic system is structured in such a way that promotion and academic honor, and therefore salary, housing, and reputation, depend on how many papers one has published and how many certificates for technological achievements one has received, rather than on how many patents one has obtained or how much know-how one possesses. Hence, it is understandable that researchers and professors find it more important to publish papers and obtain the degree certificates than to file patent applications or to maintain the secrecy of research results.[56] Another practical reason is that research institutes and universities lack the financial resources and necessary facilities to commercialize their inventions. It takes much less time, energy, and money to publish papers and get certificates. Also, there may be a cultural reason involved. It is the traditional thinking of Chinese intellectuals to despise commerce. Intellectuals are supposed to do research of academic, philosophic, or to a less degree, social value, but not to seek economic achievements as do business people. For state-owned enterprises, the reason is more straightforward.

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55. *See* CHINA PAT. NEWS, *supra* note 18; Zhang Jinping, *Zhongguo qiyi: qingchushi nide "jinhuzhao,"* NANFANG ZHOUBAO [NANFANG WEEKEND], May 14, 1993, at 2.

56. *See A War Against Every One*, LEGAL DAILY WEEKEND, Aug. 27, 1993, at 2.

The current ownership and operating system provides no incentives for the protection of intellectual property.[57]

Thus, education is important to advise institutions that they should seek intellectual property protection for their own benefit. But the ultimate solution is to establish a market economy, thereby changing the existing planned economy mentality and practice. With the reform of the economic system, particularly the enterprise system, large and medium enterprises, as well as research institutes and universities, will probably be more enthusiastic about intellectual property protection.

Training judges is extremely important since judges enforce the laws. Because of the peculiarity of intellectual property laws, judges need to learn and acquire the expertise to adjudicate these cases. Regular programs implemented for this purpose, advanced seminars organized to keep pace with new developments, and the establishment of an intellectual property division within courts would be helpful in training judges for this specialized legal field.

There is also a need to train lawyers. The P.R.C. has a shortage of lawyers, and intellectual property lawyers are considered to be one of the specialty lawyers in great demand. Also, in view of some cases reported in the media, it appears that there is much room for lawyers handling intellectual property cases to improve their services. Effective enforcement of intellectual property requires a basic level of competency from the lawyers representing parties in a lawsuit or in an administrative action. The task thus is twofold: first, to increase the number of intellectual property lawyers to meet the demand and second, to improve the quality of services that intellectual property lawyers provide. Since the All-China Lawyer's Association holds great responsibility in administering and training lawyers, the association should play a critical role in organizing and setting up training programs for lawyers.

IV. CONCLUSION

The protection of intellectual property in the P.R.C. has progressed at an amazing pace during the last two years: the P.R.C. has (1) amended the Patent Law and Trademark Law; (2) joined four international conventions on intellectual property; (3) strengthened or made available criminal sanctions on infringement of intellectual property; and (4) seen its courts and administrative authorities aggressively attempt to enforce the in-

57. *See* Li Li, *Kaizu "jiasuqi" yonghao "cuihuaji": qiye zhuanli gongzuo toushi*, LEGAL DAILY, Nov. 10, 1992, at 3; *see also supra* note 18.

tellectual property laws in practice. All of these factors have helped bring the level of protection of intellectual property in the P.R.C. up to international standards.

But problems continue to exist in the protection of intellectual property. There are defects in intellectual property laws and in the coordination among the courts and government agencies, and there is much to be done to enforce the intellectual property laws effectively.

The P.R.C. will implement many critical reforms within the next few years as it switches from a planned economy to a market economy.[58] With such a heavy load of legislation pertaining to the changing form of economy, intellectual property legislation or amendments are not expected to be at the top of the P.R.C.'s agenda, with the probable exception of providing criminal sanctions against copyright pirates. One potential development which may occur soon is China rejoining the GATT and signing the Uruguay Round Agreements, including the TRIPS agreement, which would considerably impact China's intellectual property rights protection.

Effective enforcement of intellectual property laws will largely depend on the successful establishment and operation of a market economy in the P.R.C. Without changes in the planned economy mentality and operating system, there will not be an environment in which effective protection of intellectual property is possible.

58. The P.R.C. is planning to implement reforms on banking, finance, taxation, welfare, foreign trade and enterprises this year. *See* CHINA DAILY *supra* note 2; Sun Shangwu, *Official Reveals '94 Reforms*, CHINA DAILY, Dec. 17, 1993, at 4.