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IP Enforcement In China Still A Work In Progress

By **Erin Coe**

Law360, New York (April 08, 2010) -- China's intellectual property laws may be in harmony with those of other World Trade Organization member states, including the U.S., but the country's courts and authorities are still grappling with how to effectively enforce those laws, according to U.S. attorneys.

U.S. and other foreign companies are likely to have success in putting a stop to copyright and trademark violations in China, but asserting a patent can prove to be a more difficult undertaking, and most damages awards remain too small to deter infringement, lawyers said.

With the enactment of its first patent law in 1984, and its subsequent decision to adopt certain IP standards when it joined the WTO in 2000, China has made great strides in developing its IP legislation over the past three decades.

But taking initiative to crack down on parties that break the laws is an area that still needs improvement, according to Barton E. Showalter, chair of Baker Botts LLP's IP department.

"The infrastructure to try cases and enforce remedies is not there yet. The culture needs to move in the direction to make the enforcement of the laws on the books effective," Showalter said.

An IP owner can report trademark and copyright violations to the Bureau for Industry and Commerce and local law enforcement authorities, which can be very effective in shutting down illegal operations directly without court orders, according to Lei Mei, co-founder of IP firm Mei & Mark LLP.

Companies seeking damages need to go to court, and Chinese courts appear to be consistent in their handling of trademark and copyright cases, Mei said.

"China is moving in the right direction, with courts awarding damages and issuing injunctions," he said. "Courts are getting very aggressive in cracking down on any illegal operations over copyright and trademark violations."

In February, the Beijing High People's Court awarded Founder Technology Group Corp. about \$213,000 after finding Blizzard Entertainment liable for copyright infringement of Chinese characters. The damages award was nowhere near the \$60 million in damages Founder initially sought, but it was something, attorneys said.

IP owners are also likely to meet with more success in defending trademarks in China these days, according to Paul Devinsky, a partner at McDermott Will & Emery LLP.

"Trademark proceedings are pretty quick, and all they really do is stop one particular counterfeiter from doing one particular thing. Companies may have to do a lot of work to protect against counterfeiting, but if they put their fingers in a lot of holes, they can diligently police their marks and prevent specific activities," Devinsky said.

Companies defending patents against infringement in China, however, face bigger obstacles.

For one, administrative officials are more willing to make a decision on a trademark than a patent, because marks are more visible and officials can see whether a mark is similar, said Qian Huang, also a partner at McDermott.

"With patents, officials don't know if they are qualified to make a decision and they like to hear from a court whether infringement exists," Huang said.

To pursue an infringer, a patent owner can file suit in an intermediate people's court where the defendant is domiciled, the infringing conduct occurs or the alleged injury takes place.

Challenging the validity of a patent requires a company to bring the matter to the Patent Re-Examination Board of the State Intellectual Property Office, but SIPO faces some local pressure to protect Chinese companies, according to Showalter.

"There's still a lot of domestic pressure on SIPO. It wants to make sure Chinese companies flourish, but it also wants foreign investment," he said.

Any court proceeding will be automatically stayed during review of the patent to SIPO, and the validity determination can be appealed to an intermediate people's court.

In 2006, for instance, the Beijing No. 1 Intermediate People's Court reversed a decision of the SIPO board that had invalidated New York-based Pfizer Inc.'s Viagra patent, which had been challenged by more than a dozen Chinese generic-drug makers.

Injunctions are relatively easy to obtain in China, but damages are a different story, Devinsky said. While actual damages for patent infringement are potentially available, usually only statutory damages are awarded, he said.

In October, China amended its patent law to raise statutory damages up to about \$145,000 when an IP owner's loss is difficult to calculate.

"What a company may win may not appear to be a victory," Devinsky said.

Recent verdicts, however, indicate that Chinese courts may be increasingly willing to hand down significant damages awards in patent infringement cases.

Holley Communications was awarded a \$7.4 million verdict in December 2008 from the Hangzhou Intermediate People's Court in Zhejiang province after the court held that Samsung Electronics violated a patent covering dual-mode handsets. No update on an appeal or settlement has been reported by the Chinese media, Mei said.

Issuing the largest patent award in China so far, the Wenzhou Intermediate People's Court in Zhejiang province handed Wenzhou-based Chint \$48.5 million in September 2007, finding that a Chinese unit of France-based Schneider Electric SA violated a Chinese patent covering a miniature circuit breaker. The parties resolved the matter for about \$23 million in April 2009, Mei said.

The Chint case, according to Mei, has paved the way for courts to consider issuing larger damages awards.

"Before, damages were almost laughable with awards of \$100,000 or less. Now, Chinese courts are sometimes making large verdicts," he said.

The larger awards have also encouraged some companies to seek substantial damages.

Shenzhen-based Yi Du & Masep Medical Technology Development filed suit in the Shenzhen City Intermediate People's Court in Guangdong province in December, seeking about \$25.7 million from Concord Medical Services Holdings Ltd., a publicly traded Chinese company, for allegedly infringing a patent covering gamma ray radiation technology. That case is still

pending.

Although a number of challenges can arise as foreign companies try to enforce their IP in China, they can make the process run more smoothly by preparing their case in advance and knowing what to expect, attorneys said.

Because ex parte communications are permissible with Chinese courts, companies need to make sure they have selected the proper lawyers to handle a case. A city lawyer who tries a case in a rural area may be at a disadvantage if the opposing lawyer is a local practitioner who often plays Mahjong with the judge, Devinsky said.

Companies need to take jurisdiction into account and ensure that they use a lawyer or law firm that has "relationships" with the court, Huang said.

Showalter said the language barrier and getting local lawyers up to speed also could be real challenges.

"In the U.S., lawyers make clear and concise statements of their positions and provide simple and persuasive arguments of why their client should win," he said. "What I've seen in courts in China, it's down in the weeds. There are volumes of papers and confusing arguments. It's no surprise the judges just don't get it. The advocacy I've seen is particularly lacking."

Chinese court proceedings have a much shorter and simplified discovery process than in the U.S., and plaintiffs should be ready to prove their case by the time they bring it in court.

"Before filing a suit, a common practice is to hire a local company that will do a lot of the investigating in secret without disturbing the infringers. If the infringers find out [they are being watched], the evidence will disappear very fast," Huang said.

A plaintiff can name only one defendant in each patent suit, but can later try to merge related cases, according to Huang.

"For a lot of foreign companies, if they know of five or six infringers, they will pick a few of the large ones and hit them hard, and hopefully it will serve as a lesson to the smaller ones," she said.

Most patent infringement suits in China are between Chinese companies, and only about 4 percent involve a foreign company, Huang said.

For foreign companies to start feeling more confident about China's IP system, China is going to have to continue to ramp up its enforcement mechanisms, but that is going to take time, Showalter said.

"Some control has to be ceded from the central government to trust good judges in China to do the right thing. And there has to be more effort on publicizing cases that foreign companies got a fair shake on," he said.

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