

# THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

## *Intellectual Property Committee*

### Position Paper

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## CHALLENGES IN PROTECTING IP RIGHTS THROUGH CIVIL LITIGATION IN THE PRC

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### *The Issue*

Since China joined the World Trade Organization in December last year, expectations with respect to China's intellectual property rights enforcement have been higher than ever. Significant numbers of multinationals continue to relocate their manufacturing and R&D centres to China, making an effective civil IP enforcement system increasingly important. Despite some important recent improvements, including new provisions permitting litigants to seek preliminary injunctions in IP-related cases, right holders seeking to protect their intellectual property through civil litigation in China continue to face serious obstacles, and the overall civil enforcement system requires strengthening in key areas in order to win the confidence of foreign investors.

### *Position*

China should take steps to increase the effectiveness of civil remedies in IP-related cases, including through: (1) making full use of the recent rights granted to courts to issue preliminary injunctions, and other ex parte measures, including evidence and asset preservation; (2) providing for more substantial damages awards, including reasonable statutory damages, (3) significantly strengthening and streamlining procedures to ensure the enforcement of judicial awards; (4) greater training for both judicial officials and practitioners; (4) adopting measures to strengthen the ability of litigants and the courts themselves to gather evidence needed for civil cases; and (5) further opening the market for legal and investigation services needed by IP owners to enforce their rights.

### Specific Points

- **Lack of Effective Preliminary Injunctive Relief:** In civil IP litigation, preliminary injunctions and/or temporary restraining orders are critical tools without which right holders may be forced to suffer ongoing infringement during trial and until judgment can be enforced. China has recently made a dramatic move in the right direction by amending its patent, trademark and copyright laws to specifically provide for such relief. No such measures yet exist for unfair competition claims, however. And it remains to be seen how the courts obliged to pass on requests for such relief will act. It is hoped that this new authority will be utilized in an effective and non-abusive manner to assist rights holders in protecting their IP and litigating their cases.
- **Low Judgment Awards:** Usually counterfeit and pirate goods are sold at a price much lower than that of authentic products, but damages are often assessed based upon the infringer's profits, which is itself based upon unreasonably low prices charged for counterfeit or pirate goods. Consequently, the actual recovery by the winning party, if any, frequently does not justify the cost of litigation. Increasing damages awards based on more robust standards is needed in order to provide the economic justification for IP owners to pursue their rights in civil courts in the first place. It is hoped that Chinese courts will take maximum advantage of the recent addition of statutory damages provisions to China's recently revised IP laws. These provisions now allow awards up to RMB500,000 (US\$62,000) in trademark and copyright infringement cases where the rights holder's actual losses or the infringer's profits are difficult to prove. Such difficulties in proving prior profits or damage are the norm, rather than the exception, in most counterfeiting and copyright piracy cases. The problem is exacerbated by the lack of a formal discovery mechanism in Chinese litigation.
- **Need for Automatic Judgment Enforcement System:** Judgments issued by Chinese courts are difficult to enforce in many cases. The winning party frequently has to spend extra time, effort and money (including legal fees) to enforce judgments, and with uncertain prospects of actually receiving any compensation at all. This is often due to the fact that infringers routinely transfer assets and take other measures to frustrate enforcement.
- **Lack of Discovery Procedure:** In China, parties can easily conceal, distort or even destroy evidence before or during trial, because parties typically are not required to produce relevant materials upon request, and under the threat of criminal sanctions. Improvement in this area is of fundamental importance, as right holders are often unable to determine the extent of infringement and loss without access to information in the custody or control of the infringer. To assist right holders in this regard, courts will need to make effective use of their authority to issue orders preserving evidence. The government should also consider strengthening relevant measures in the Civil Procedure Code and quickly issuing a new Evidence Law.

- **Training of Judicial Officials:** Most judges in China are not properly trained on issues relating to the enforcement of intellectual property rights. Even judges in specialized IP courts mostly do not have technical backgrounds, or even legal expertise. Currently, steps are being taken to remove “non-legal” judges from the bench. Still, most judicial officials in China would benefit from further opportunities for more systematic and regular training on the unique issues that arise in IP-related cases.
- **Invite Competition among IP Practitioners:** China should be encouraged to take steps to open its legal market to qualified foreign lawyers. Inviting these practitioners to participate more broadly in civil litigation in China would likely further enhance the level of protection available to right holders. The standards of service provided by Chinese firms can also be increased by allowing Chinese law firms to represent IP owners in registering their trademarks and patents. To date, the Trademark Office and Patent Office have monopolized these services for the benefit of a limited number of trademark and patent agencies. IP protection can also be significantly strengthened by legitimizing the investigation profession, and opening up the profession to foreign investigation firms.
- **Using Corporation as a Vehicle for Infringement:** In China, infringers frequently use corporations as a shield behind which they conduct their activities. When courts find these corporations liable, the individuals behind the legal entities often escape penalty and simply resume business under a new name. China should clarify the law to ensure that individuals are held responsible for acts they commit through corporate entities.

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