

Reflections on Evaluation of IP Protection Situation



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Recently, two newsreports have drawn the writer's attention. One is that a local court "decided a trade secrete infringement case within seven days, protecting an involved business against a potential loss of RMB 12 million yuan" and bringing the business under the "legal protection umbrella";¹ and the other is that in the 2011 Special 301 Report released by the US Trade Representative Office (the Special 301 Report for short), China remained on the "List of Specially Watched Nations" and the "List of 306 Supervised Nations"². The two newsports coming from the two sides of the Pacific seem rather irrelevant, but set the writer thinking on how to evaluate the situation of IP protection in China.

I. Domestic evaluation of situation of IP protection in China

The newsport on deciding a trade secrete infringement case within only seven days has sent the writer wondering: was the defendant's time for making his defence in the case ensured? Did the two parties reach an agreement on the time for evidence adduction, or did the trial court give them a time limit of not less than 30 days for adducing evidence? When

the "legal protection umbrella" protected an IP right of the business, did it also protect the freedom of its resigning employee to make his choice of career? ... The answers to all these questions were unknown. In the newsreport the time of "seven days" was highlighted as it showed the judicial efficiency with which the trial court had dealt with the case. Judicial efficiency is now indeed one of the important indicators in China for evaluating the situation of IP protection in the nation.

Evaluation of the situation of IP protection in China is a topic that has been drawing great attention from rightholders, infringers, judges, enforcement officers and the general public. Over the years, a system has independently evolved for the evaluation of the situation of IP protection in China, characterized by "letting the number talk". Take the system for the evaluation of civil protection of IPRs for example, it consists of a series of indicators, including the number of accepted cases and that of closed cases, the percentage of cases closed in first instance, the percentage of cases of appeal and retrial, amendment of judgment and remand, cases closed within the prescribed time limit, cases of grant of pre-action injunction, those of grant of pre-action evidence preservation, and those of grant of property preservation.³ Within the evaluation system, changes of some indicators will have direct and important impact on the outcome of the situation of IP protection in China. For example, rising percentage of cases closed within the prescribed time limit and cases of grant pre-action injunction (including grant of injunction, evidence preservation, and property preservation) are seen to be indications of improved situation of IP protection

and enhanced protection; the declining percentage of cases of appeal and amendment of judgment and remand are deemed to show that the situation of IP protection in China has been brought to a new height ... Today when numerical management is universally applied, indicators are often deemed to be equivalent to the judicial or administrative performance.

A brief analysis, however, would make it easy to see that some indicators set in the evaluation system are by no means rational. Take the percentage of amendment of judgment and remand for example, while clear standards are provided for in the Chinese Civil Procedure Law for amendment of judgment and remand⁴, there are two preconditions for a declining percentage of amendment of judgment and remand to indicate improved situation of IP protection in China: one, both a case in which a party appeals and the judgment thereof in the first-instance hearing are erroneous; and two, both the judgment made by the court of appeal or made by the former trial court after remanding are correct. Only when the two preconditions are met is it possible for preconditions for a lower percentage of amendment of judgment and remand to indicate improved situation of IP protection in China. But according to our common-sense knowledge, the two preconditions obviously do not exist in real life.

Besides, setting up some indicator *per se* is contrary to the initial aim of the relevant system, so irrational. The percentage of cases of grant of a pre-action injunction on the temporary measures is such an example. Take the pre-action injunction of the temporary measures for example, the system is put in place to facilitate the courts to take effective measures to cease infringement promptly, especially to stop allegedly infringing goods from entering the channel of commerce and to protect a rightholder against irreparable injury.⁵ Since pre-action injunction has great impact on the rights of a respondent, in countries where pre-action injunction or similar system has been put in place have set forth stringent requirements on the application of it, so does China.⁶ The Supreme People's Court has made it clear in its relevant opinions that the law provisions should be stringently applied, and pre-action measures for ceasing infringement be cautiously taken for due treatment of the relations between cessation of infringement and protection of businesses' normal business activities.⁷ It is exactly due to the stringent application requirements, the percentage of grant of pre-action injunction remains rather low in other field of law. For example, it is said that that of the temporary restraining order is

only 2 to 3% in the U.S.A. But in China, it reached nearly 90%. With such an extraordinary high percentage of cases where pre-action injunction is granted, how to protect the rights of respondents is an issue worth our attention.

The evaluation indicators guide the IP protection. Where a very few enforcement officials try hard to seek some indicators to show their performance, it is possible for something to be done that run counter to the normal order of trial to the detriment of the rights of interested parties. For example, in mere seeking of the high number of accepted and closed cases, some cases that could otherwise be dealt with in one case were divided into several cases. Also, to seek higher percentage of closed cases, some cases that might be put on docket quickly were put off. For mere higher percentage of cases closed within the prescribed time limit, cases the hearing of which should be suspended were not. To seek higher efficiency of trial, some parties were deprived of their procedural rights they were entitled to. For higher percentage of cases of grant of the temporary measures, such measures were granted that should otherwise not be ...

II. Evaluation of situation of IP protection in China in Special 301 Report

In the section on China in Part II of the Special 301 Report, the U. S. Trade Representative Office evaluated the situation of IP protection in China, especially the IP enforcement and relevant protection in nearly a third of the section. The US Trade Representative Office was affirmative about the progress made in the protection of IP rights in China, for example, the positive impact on the IP protection in China caused by the "special action" or "campaign" launched from October 2010. But it also expressed doubts about whether the enhanced enforcement would be maintained after the campaign.

Having carefully read the Special 301 Report, the writer has found out that the Report did not evaluate the situation of IP protection in China objectively, and many views presented were not based on facts. For example, the Report said that China required or encouraged the United States to transfer IP to Chinese businesses or branches of US businesses in China, without presenting any relevant evidence showing, for example, the presence of the relevant laws, policies or practical cases of the kind in China. In the Sino-US diplomatic history on matter of IP rights, the U.S. always emphasises letting the number talk, saying that the inadequate IP protection

in China has caused so and so much economic damage, or so and so many job losses in America.⁸ However, it seems that they have never revealed the way in which and the basis on which they have made the calculation. For that reason, the numbers *per se* are not convincing, nor do they talk themselves at all.

Additionally, the writer is not positive about the reasonability and legitimacy of some requirements or recommendations made in the Report directed to the IP protection in China. For example, the U.S. requires the Chinese Government to convict counterfeiters, without considering the total value of the counterfeit goods manufactured. Such requirement has grossly disregarded the relevant provisions of the Chinese criminal law and the obligations on the member states under the TRIPS Agreement.⁹ The Special 301 Report is worth close review by the relevant IP authorities. The more work the Chinese Government has been doing on IP enforcement, the higher requirement and expectation the U.S. would place on China. And this phenomenon requires our serious reflection.

III. How to objectively evaluate situation of IP protection in China

As the preceding sections show, the standards set forth and the conclusion drawn in the U.S. in the evaluation of IP protection are diametrically different, the relevant domestic authorities in China tend to start their evaluation from the number of cases accepted, the rate of amendment of judgment, the percentage of cases closed in the first instance, frequency and duration of special IP actions or campaign. By contrast, the United States of America's evaluation starts from their trade interests in the light of their domestic law or practice.

For this writer, it is unrealistic to require China and the U.S. to adopt exactly the same standards for the evaluation of IP protection in China, but some basic principles underlying the law of IP protection should be complied with. When the IP legislations in China are now brought in full compliance with the TRIPS Agreement, the situation of IP protection in China should be evaluated in the following aspects:

One, the foreseeability of enforcement. The foreseeability is the most essential embodiment of the value of law, and it is shown in a party's reasonable anticipation of the progress, procedural matter and the outcome of a case. There is still room for improvement in IP enforcement in China in this as-

pect. For example, matters should be addressed in the relevant law provisions concerning acceptance of evidence presented by a party after the time limit for evidence adduction in civil proceedings and that of new evidence in administrative lawsuit.

Two, the time for enforcement. The time is shown in the expediency to grant relief to rightholders. From the enforcement perspective, pre-action and interlocutory relief measures have been put in place in China. As the IP civil litigation practice in China shows, since the time limit for closing a trial has been fixed, the IP civil litigation takes much less time and is much more efficient in China than that elsewhere. One thing worth attention about the IP civil litigation is that some courts or judges try to go after specific percentage of closed cases or that within the prescribed time limit at the expense of a party's procedural rights.

Three, adequacy of relief made available to rightholders in enforcement. The adequacy of relief is mainly reflected in whether the amount of damages is sufficient to cover a rightholder's injury caused because of infringement, including reasonable expenses of a rightholder to cease an infringement. In recent years, the courts in China have been constantly enhancing the relief in form of damages for rightholders, with more cases in which large amount of damages is awarded. The matters along the line are worth our study by way of learning previous practical experience and setting forth detailed rules for calculation of damages.

As mentioned above, many indicators in the system for evaluation of the situation of IP protection in China are put in place in a rather irrational manner. Statistically significant as they are, they are not of much value for reference in assessing the situation of IP protection. Only the foreseeable enforcement, time and relief directly show the adequacy of IP enforcement, and the justice done in many cases will certainly arouse interested parties' trust in individual cases and the public trust in IP protection in China.

The international community, with the United States included, should objectively evaluate the situation of IP protection in China from the perspective of history and change. In particular, after China entered the WTO, the situation of IP protection in the nation should be evaluated with full account taken of China's fulfillment of its international obligations, the enforcement foreseeability, time and relief adequacy, which are not only the goal the IP judiciary seeks to realise, but also should be the purpose of administrative IP enforcement. Special enforcement actions and other campaigns, while can

resolve some problems sometimes, are by no means the effective approach to enhancing enforcement any time.

The situation of IP protection, in essence, is a matter of enforcement of the national law. Any evaluation of enforcement situation and recommendations on enhanced enforcement should not be detached from the legal tradition, the basic legal system, and the international obligation of China. In evaluation of the situation of IP protection in China, the citizens' IP awareness is also a factor requiring consideration. For historic reasons, their awareness is relative low. But, it is human nature to seek something cheap and of reasonable quality (even passing-off goods). This is by no means something typical of the people in China.¹⁰ It takes a while for people to raise their IP awareness. It is not something that can be done overnight.

Conclusion

The indicators put in place for evaluation of the situation of IP protection in China, not of sufficient rationality, are rather utilitarianly oriented, and cannot correctly reflect the situation of the IP protection in China, so is the evaluation along the line made in the US Special 301 Report, which is in the interests of the US trade, impossible for the Report to be objectively justifiable. Only for China and the international community to follow the standards of the enforcement foreseeability, time and relief adequacy, and take full account of the history of IP legislation and protection from a development perspective is it possible to arrive at an objective evaluation of the situation of IP protection in China. It is the writer's hope that it would no longer be a news event for a case to be judged or decided in seven days and for the special IP enforcement action or campaign in China no longer to be highlighted in the US Special 301 Report. ■

¹ See P.4 of the People's Court Daily on 30 April 2011.

² 2011 Special 301 Report.

³ For example, in 2010, the percentage of first-instance civil IP cases closed by the local courts around China increased from 85% in 2009 to 86.39% in 2010; the percentage of cases of appeal from 48.82% in 2009 to 49.65% in 2010; that of cases of retrial dropped from 0.33% in 2009 to 0.27% in 2010; that of cases of amendment of judgment and remand from 6.00% in 2009 to 4.57% in 2010; that of first-instance civil cases closed within the prescribed time limit increased from 97.38% in 2009 to 97.93% in 2010; that of cases of grant of pre-action temporary injunction was 89.74%; that of cases of grant of pre-action evidence

preservation was 97.46%; and that of property-preservation was 97.41%. For the detail of the statistics, see the 2010 Situation of IP Protection.

⁴ Article 153 of the Civil Procedure Law of the People's Republic of China.

⁵ See Article 50, paragraphs one and two, of the TRIPS Agreement.

⁶ The pre-action injunction is known as the pre-action cessation of alleged infringement in the relevant IP laws in China, and for the conditions for its application, see Article 11 of the Supreme People's Court's Several Provisions Relating to Issue of Application of Law to Pre-action Cessation of Infringement of Patent Right (No. Fashi 20/2001); Article 11 of the Supreme People's Court's Interpretation of Several Issues of Application of Law to Pre-action Cessation of Infringement of Exclusive Right to Use Registered Trademarks and Evidence Preservation (No. Fashi 2/2002); and Article 30 of the Supreme People's Court's Interpretation of Several Issues of Application of Law to Civil Cases of Dispute over Copyright (No. Fashi 2/2002).

⁷ The Supreme People's Court's Opinions on Several Issues Relating to IP Trial in the Service of the Present-day Economic Situation (No. Fafa 23/2009).

⁸ For example, the US Government launched its special 301 investigation in 1991, holding that China was inadequate in its protection of the IP rights and caused a loss worthy \$1.5 billion, and making a trade list at the amount of \$1.5 billion. See Ding Ding, Gaming published in the Financial Daily on 11 November 2006. For another example, Gary Locke, US Secretary of Commerce recently said that US and other foreign businesses suffered each year in China losses worthy billions of US Dollars because of the counterfeit and IP piracy in China, which has made doing business "unattractive". See International IP News in Vol.32, 2011, issued on 6 May 2011.

⁹ The Spokesman of the Ministry of Commerce was sorry that China remained on the List of Closely Watched Nations and on the List of Nations of Supervision in the 2011 Special 301 Report, and hoped the US Government to evaluate, in a comprehensive, objective and fair manner, the protection of IP rights in China. See the New Beijing Daily on 5 May 2011.

¹⁰ As one of such examples, on 3 July 1998, after the Sino-US Summit, the US Trade Representative Charlene Barshefsky, (one of whose missions was to urge China to enhance the mechanism for IP protection), was stopped at the US Customs as she bought over 40 counterfeit Beanie Babies in Beijing. See Andrew C. Mertha, *The Politics of Piracy*, Cornell University Press, 2005, P1.