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# CHINA IP Bulletin

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## Executive Summary

### ***IP Law - How It Works and What is on the Horizon, Part 1***

The PRC has long received a black eye for its lack of infrastructure to support the interests of IP owners. However, that bad reputation is not fully deserved when it comes to IP legislation. In part one of this two part article, IP experts Peng Kai and Zach Wortham take an in-depth look at what laws are already on the books to help protect IP and what future legislation is in the works to help further tighten the screws on would be IP infringers. The State's IP Strategy, Patent, and Trademark Law are addressed in Part 1 and Part 2 will cover Copyright Law, Anti-Monopoly Law, Customs Protection, and New Legislation.

*by Peng Kai and Zach Wortham*

### ***Government Contracts and IP, Part 1***

Securing a government contract can catapult a company into the upper echelons of corporate success and wealth. However, most countries restrict how State funds are used and so obtaining such a contract can be tricky at best and forbidden in the worst cases. In the PRC a recent spate of Rules and Regulations has been issued for how government contracts can be secured and what part home grown products and inventions will play in those dealings. In Part 1 we break down the relevant legislation and how PRC authorities view the situation. In Part 2 we discuss a new catalogue of products that has been created, how the accreditation process works for being included in the catalogue, and what this all means for foreign business owners investing in the PRC.

*by Bai Xiaoliu and Peng Kai*

## NEWS

### **Beijing Court Issues Groundbreaking Patent Ruling**

A Beijing court has ordered two Chinese kettle manufacturers to pay RMB 9.1 million to a UK company over patent infringements. The No. 1 Intermediate People's Court ruled that Zhejiang Jiatai Electrical Appliance Manufacture and Leqing FaDa Electrical Appliance sold electric kettle controls based on technology developed by Strix, a British company. The decision of the court should encourage further investment in China by showing that the courts are willing to protect intellectual property rights. However, the ruling comes after search engines Baidu and Sohu successfully defended themselves against complaints that their targeted searches for music and movies were built in order to facilitate copyright infringement.

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# IP Law - How it Works and What is on the Horizon, Part 1



## IP Law in China - An Overview of the Existing Structure and New Laws Soon to Come

WIPO predicted that the total number of PCT applications in 2009 would be reduced by about 5%. Applications from the United States have decreased by 14%, while PCT applications from China increased by 19%. This increased attention on locally registered IP rights combined with the continued economic growth in China are good indicators that IP rights protection in China will fast become a top priority, if it isn't already for the government. To spearhead this move towards a better system of IP rights China has put forward a national IP strategy, revised three major IP laws i.e. the Patent Law, the Trademark Law and the Copyright Law, and promulgated a series of regulations and judicial interpretations. In this article we address each of China's major attempts to codify IP rights and their enforcement and then provide briefs of new laws that will take IP rights in China a step further.

### The State's IP strategy

On June 5th of 2008, the State Council promulgated the Outline of the National Intellectual Property Strategy (The Strategy), setting the goals for development of IP rights over the next five years. Those goals include: (1) to increase the number of annual patent applications so that they are at similar levels as developed countries; (2) to enhance the interests of IPR holders; (3) to strengthen the protection of intellectual property and reduce infringement; and (4) to raise public awareness of, and respect for, intellectual property.

The Strategy also set out 24 specific tasks that must be accomplished in order to achieve those goals. This pronouncement of a national IP Strategy is the first and most important step towards China making intellectual property rights a national priority and towards becoming on par with other developed nations.

### The Patent Law

The third amendment to the Patent Law of the People's Republic of China entered into force on the 1st of October, 2009. The major amendments to the Patent Law include raising authorization standards and strengthening protection, (For more details please see our articles on the Third Amendment to the Patent Law in the 3rd Issue of 2008 and 1st Issue of 2009 of the China Legal Bulletin). The State Intellectual Property Office (SIPO) promulgated the Transitory Provisions on Implementing the Amended Patent Law on the 29th of September

2009, which clarifies that the new Patent Law shall only apply to patent applications submitted after the 1st of October 2009 and to patents granted thereafter. Therefore, the examination standard of absolute novelty for inventions/utility models and inventiveness for designs stipulated in the new Patent Law should only apply to those patent applications made after the 1st of October 2009. The examination and approval of patent applications before that date should not be effected.

The State Council and SIPO then followed up the third amendment to the Patent Law, by promulgating the Decision on Amending the Detailed Rules for the Implementation of the Patent Law on December 28, 2009, and the Guidelines on the Examination of Patent Applications on January 21, 2010, respectively, and both came into effect on February 1, 2010. The Decision and the Guidelines supplement and clarify the revisions relating to patent applications, the procedures of examination, and criteria for patent granting, etc.

Another important legal update for patents was The Interpretation of the Supreme People's Court on Several Issues Concerning the Specific Application of Law in the Trial of Disputes over Infringement on Patent Rights which was promulgated on the 21st of December 2009 and provided more detailed information regarding the protective range of patent rights, settled issues concerning whether the infringing technology involved in litigation falls within the protective range, offered better definitions of infringing acts, clarified the defense of prior art and prior rights, and gave details regarding the calculation of compensation.

### Trademark Law

The Third Amendment to the Trademark Law was first publicized in January 2008, and promptly created controversy due to substantial revisions regarding examination procedures. The amendment has since been revised several times before being submitted to the Legal Affairs Office of the State Council in December of 2009. The third amendment to the Trademark Law will most likely be officially promulgated in 2010 and it is expected that the third amendment to the Trademark Law will have a significant effect on the current PRC trademark regime.

Besides the third amendment there were several new trademark laws worthy of notice promulgated in 2009, specifically relating to the protection of well-known trademarks. The first of which was the Notice of the Supreme People's Court on the Jurisdiction over Cases of Civil Disputes Involving the Determination of Well-known Trademarks issued on the 5th

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### The Supreme Court and IP

In order to crack down on infringers and increase recognition of patent infringement, the Supreme Court, issued the Interpretations on the Several Issues on the Applicable Laws to Trials of Patent Infringement Cases, which will come into force on January 1st, 2010. The Interpretation standardizes the assessment procedures when trying patent infringement cases, including the determination of the protection scope of invention, utility model patents, and the principles necessary for recognizing infringement of patent designs, the application of prior art defense, prior use defense, acceptance criteria for non-infringement litigation, and a few other key areas.

On January 28th, 2010, the Supreme Court issued the Notice of Adjusting Jurisdictions of the People's Courts at Local Levels in Intellectual Property Cases of First Instance, which standardizes the criteria of IP cases of first instance under the jurisdiction of the high courts; confirms the pecuniary limits of the general IP cases of first instance under the jurisdiction of the basic courts. The new criteria came into effect on February 1, 2010.

The Supreme Court, on December 23rd, 2009, proposed 4 new measures to improve patent proceedings including Judicial Authentication, Expert Witness, Expert reference and Expert Juries. IP cases can be challenging for non-specific courts because of the unique and complicated technology and evidences involved in them. These measures should go along way towards streamlining hearings that were before difficult to explain.



of January 2009. In the Notice it was stated that civil disputes involving the determination of well-known trademarks must be within the jurisdiction of the intermediate peoples court of the city where the provincial government is located (capital city) or it must be a self governed city. All other decisions regarding a court's jurisdiction over such cases is subject to the approval of the Supreme Peoples Court. Therefore, all intermediate courts will continue to have jurisdiction over normal trademark cases, but only a few now have the authority to determine well-known trademarks. For example, all 21 intermediate courts in Guangdong Province, the province with

the most IP litigations, had jurisdiction over cases involving the determination of well-known trademarks in the past, but now only the Guangzhou Intermediate Court and the Shenzhen Intermediate Court have such jurisdiction.

We can see from this decision that the determination of well-known trademarks is now being given more importance. Two other sets of guidelines were issued concerning well known trademarks; the Working Instructions for the Determination of Famous Trademarks issued by the State Administration of Industry and Commerce (SAIC) on the 21st of April

2009, and the Interpretations on Several Issues Concerning the Application of Law to the Trial of Cases of Civil Disputes over the Protection of Well-known Trademarks issued by the Supreme People's Court on 23rd April 2009. Both further clarify and regulate the determination and protection of Well-known trademarks in administrative and judicial procedures.

(Part 2 of this article will be published in the forthcoming Issue #2 of the China IP Bulletin)

*By Peng Kai and Zach Wortham*

## Government Contracts and IP, Part 1

### **Government Projects/Preferential Policies and Independent Innovation Products**

In 2003 the PRC Government Procurement Law was passed and "government procurement" was defined as those goods, projects, and services which are included in the procurement lists or those that exceed procurement limits and are required by government institutions, public institutions and social organizations using public funds. The total amount of procurement by the public sector was USD 877billion in 2008, which is triple what it was in 2003 and this trend should continue to increase rapidly along with the Chinese economy. As with any country, public funds are preferred to be spent on domestic products, however, well-known and high-level foreign products are also routinely purchased especially when the technological value is high, thus creating a huge market for government projects for many international corporations.

Beginning in 2006, the Chinese government began drafting and issuing a series of policies requiring that government institutions give priority to domestic independent innovation products (IIP) in regards to government procurement. As a result of those policies international businesses should pay close attention to their future government procurement projects in order to avoid any missed opportunities or misspent funds. We provide here the key provisions of the above mentioned legislation and analyze its influence on foreign enterprises.

### **Relevant Legislation**

After the PRC Government Procurement Law was promulgated, the Outline of the National Overall Medium and Long-term Planning on Developing Science and Technology (2006-2020), and the Notice of Implementation of Supporting Policies of the Outline of the National Overall Medium and Long-term Planning on Developing Science and Technology (2006-2020) were published in 2006 providing for the enforcement of the government procurement policies favoring use of independent innovation products with the aim to encourage domestic innovation.

In April of 2007, the Ministry of Finance (MOF) issued the Measures for the Budget Administration of Government Procurement of Independent Innovation Products, which specifically stated that products and services listed in the Catalog of Independent Innovation Products of Government Procurement must have priority in government procurement. The MOF also published two new regulations; the Administrative Measures for the Government to Initially Purchase and Order Independent Innovation Products, and the Administrative Measures for the Government Procurement of Import Products. These two regulations explicitly encourage the preferential purchase of IIP in government procurement, and specify that procurement of imported products must firstly pass an examination process. The MOF further issued a notice regarding these two regulations, stating that independent R&D in

large State-owned equipment manufacturing enterprises was to be encouraged by refunding the import tax and VAT of any key components imported for R&D purposes while at the same time the tax exemption applied to imported, complete machinery and equipment was abolished.

In September of 2008, the Ministry of Science and Technology, the National Development and Reform Committee, and the MOF jointly issued the Measures for the Administration of the Accreditation of National Independent Innovation Products which established a national accreditation system for IIP. Provinces and cities like Beijing, Jiangsu, Shenzhen, Guangdong, Shandong, Fujian, Hebei and Chengdu each began accrediting IIP and a catalog of IIP for each province was issued. The catalogues are made up almost entirely of domestic enterprises that have developed distinct brands and that are well known in their provinces, so some have questioned whether the catalogue is merely a form of regional protectionism, not in line with the original intent of supporting independent innovation.

Most recently, in October of 2009, the Ministry of Science and Technology, the National Development and Reform Commission and the MOF jointly issued the Notice to Initiate the Accreditation of National Independent Innovation Products of 2009. This notice asks all provinces and autonomous cities to begin

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examining, recommending, and declaring which products will be designated as IIP in a Catalog of National Independent Innovation Products.

## Definition of Government Procurement

According to the PRC Government Procurement Law, those involved in government procurement (the Purchasers) include government institutions, public institutions, and social organizations. Within this definition terms still need to be defined. For example, the term "social organizations", does it include state-owned enterprises and State-Owned Subsidiaries? A large number of state-owned enterprises are involved in procurement projects, especially in large projects such as energy development and infrastructure construction. So the question remains should the preferential policy towards independent innovation products apply to those procurements? And further, do BOT (Build, Operate, Transfer) projects qualify for government procurement?

Internationally, government procurement is very well defined, however, whether state-owned

enterprises can be deemed as a Purchaser in government procurement is in dispute in China. Popular opinion is that it depends on the nature of the funds used for procurement. That is, if the funds for procurement are not part of the National Fiscal Expenditures, then the state-owned enterprises' procurement can not be regarded as government procurement; and from this perspective, it is easy to say that BOT projects should not be taken as government procurement. However, a state-owned enterprise's procurement which uses fiscal funds should be deemed as government procurement and this view has widely been accepted by local governments. For example, Shenzhen, Shanghai, and Beijing have all passed the following measures:

- The Regulations of Shenzhen Special Economic Zone on Government Procurement, the Regulation applies to procurement of goods, projects and services by state institutions, public institutions and other social organizations using fiscal funds, and that fiscal funds include any public funds not only those in the budget, as well as any income from the project.

- The Administrative Measures of Shanghai on Government Procurement stipulate that the Measures apply to state institutions, projects regarding budget management, social organizations and other relevant entities should they purchase products, projects, or services, using fiscal funds, and that fiscal funds include any public funds not only those in the budget.

- The Measures of Beijing on Government Procurement stipulate that all government institutions, public institutions and social organization listed in the budget management of Beijing City are subject to the Measures and thus it can be deduced that any procurement using fiscal funds is government procurement and all preferential policies regarding independent innovation products apply.

(Part 2 of this article will be published in the forthcoming Issue #2 of the China IP Bulletin)

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## CHINA IPR NEWS

### IP Offices Create Joint Website

The world's five major IP offices - the European Patent Office (EPO) the Japan Patent Office (JPO), the Korean Intellectual Property Office (KIPO), the State Intellectual Property Office of the People's Republic of China (SIPO), and the United States Patent and Trademark Office (USPTO), also known as "IP5" - launched a new website to provide information on their joint projects. The website, [www.fiveipoffices.org](http://www.fiveipoffices.org), will contain news and background on co-operations, in particular ten joint "Foundation Projects" agreed to in August 2008, which are aimed at harmonizing the global environment for patent searches and examinations as well as enabling work-sharing among the five offices.

### New PRC Tort Law and IP

The first PRC Tort Liability Law will come into effect on July 1st, 2010. The 92-provision law covers liabilities for a range of circumstances, including copyright, patent, and trademark infringement, although the law lacks specific provisions. Therefore, in practice, all relevant IPR laws will still prevail.

### China Backs Copyright Protection by Attending International Book Fair

China had a copyright service station at the 61st Frankfurt Book Fair, indicating the launch of China's intent to offer better copyright protection. Professionals provided consultation concerning international publication and copyright.

### Guangzhou Banks Jointly Extend Credit to Firms for IP Development

Construction Bank, Industry and Commercial Bank, Merchants' Bank and Commerce Bank, signed an agreement with the Guangzhou IP Office, to offer a RMB 20billion in credit over the next three years for IPR support and to help Guangzhou companies finance R and D efforts.

### SIPO Issues New Guidelines for Patent Examination Procedures

After the new PRC Patent Law and the new Detailed Rules for the Implementation of the PRC Patent Law, the State Intellectual Property Office issued the Guidelines on the Examination of Patent Application which will come into effect on February 1, 2010., The Guidelines improve the efficiency in patent examinations and the approval procedure, and revises some criteria of the patent application and examination.

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