

Evolution of Intellectual Property Protection in Post-Mao China: Law and Enforcement

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Evolution of Intellectual Property
Protection in Post-Mao China:
Law and Enforcement

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eigendomsrechten in post-Mao China:
Wetgeving en handhaving

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List of Abbreviations

ADNDRC	Asian Domain Name Dispute Resolution Centre
BSA	Business Software Alliance
CMO	Collective Management Organization
CNNIC	China Internet Network Information Center
DMCA	Digital Millennium Copyright Act
ECJ	European Court of Justice
EU	European Union
EUCD	European Union Copyright Directive
FDI	Foreign Direct Investment
GAC	General Administration of Customs of China
GDP	Gross Domestic Product
ICANN	Internet Corporation for Assigned Names and Numbers
IP	Intellectual Property
IPR	Intellectual Property Right
ISP	Internet Service Provider
MCSC	Music Copyright Society of China
NWG	National Working Group on IP Protection of China
RMB	Ren Min Bi
PRC	People's Republic of China
R&D	Research and Development
SAIC	State Administration of Industry and Commerce of China
SCA	State Copyright Administration of China
SIPO	State Intellectual Property Office of China
TSM	Teaching, suggestion or motivation test
TPM	Technological Protection Measure
UCC	Universal Copyright Convention
UDRP	Uniform Domain Name Dispute Resolution Policy
UK	United Kingdom
US	United States
USITC	United States International Trade Commission
WCT	WIPO Copyright Treaty
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty

WTO

World Trade Organization

Chapter 1

Introduction

In modern society, knowledge and information have become the most important resources. Knowledge and information bring dramatic changes and create great wealth for our society. Intellectual property (IP) rights, exclusive rights granted to right holders, are designed to encourage innovation and dissemination of knowledge and information. Nowadays, IP has become a major concern for the global community. Article 7 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) states as its objective that ‘the protection and enforcement of intellectual property rights (IPRs) should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.’¹

China has emerged as a leading center for the manufacturing industry by virtue of low cost and large manpower pools. China is striving to assert its presence in the global market as a technologically developed country. During the past thirty years, China not only enacted and subsequently revised a series of IP laws to optimize the legal system, but also implemented administrative reforms and launched several special campaigns to strengthen IP enforcement. These efforts demonstrate China’s determination to improve IP protection.

1.1 Why this study

The level of IP protection is strongly influenced by multiple factors, including economic activities, political interests, domestic needs, foreign pressure, and so on. These factors conversely influence the situation of IP protection. Scholars have studied such interaction between them. Braga and Fink indicate a positive impact of patent protection on trade flows.² Maskus argues that IP protection plays an important role in encouraging innovators’ investments and thereby expands technology transfer.³ Some scholars also point out that the level of IP protection

¹ The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement), art. 7.

² Braga, Carlos A. Primo & Fink, Carsten, *The Economic Justification for the Grant of Intellectual Property Rights: Patterns of Convergence and Conflict*, Chicago-Kent Law Journal 439, 439-43 (1996).

³ Maskus, Keith E. & Reichman, Jerome H., In Conference on International Public Goods and Transfer of Technology under a Globalized Intellectual Property Regime, Papers from the Conference on International Public Goods and Transfer of Technology under a Globalized Intellectual Property Regime, held at Duke University School of Law, Durham, North Carolina on 24 - 26 April 2003 (Cambridge University Press) 266 (2005).

can be regarded as a result of compromise among different national interests.⁴ Other than these issues, China's unique situation should be taken into account, including the Chinese legal and cultural customs, nature and history of the administrative system, development of industries and cultures, and so on. Currently, transformation and modernization of economic structures are high priority in China. Consequently, China has made considerable efforts to construct a good environment, which the economic system greatly depends on. In order to achieve this objective, it is absolutely necessary to improve IP protection. In addition, when developing an optimal system for IP protection in China, the imbalance of different geographical regions, the changes of people's psychology and Chinese legal customs cannot be ignored.

The complexity and diversity of technology lead to expansion of IP protection.⁵ IPRs are granted to new types of subject matter, including genetic creation, plant varieties, software, and so on. IPRs grant exclusive rights to right holders, which allow right holders to prevent others from using or accessing the creation without their authorization. Strong IP protection would stimulate innovation and investment of subsequent research and market development; nevertheless, excessive protection would reduce public interest and thereby increase the cost of innovation. Therefore, IPRs should not extend substantially beyond the objectives of protection.⁶ An appropriate level for IP protection means that the legal framework should achieve a balance between IPRs and the public interest. IPRs can be justified by the limitation in scope and duration and limitations to rights.⁷ Despite this research that focuses on law and economics, few publications definitely give direction for the Chinese legal, judicial and administrative system.

Chinese IP laws basically comply with international conventions in the IP regime which China has entered into. Despite China's efforts to fulfill obligations of international treaties, China is still facing great challenges in both legislation and enforcement.⁸ Currently, China has launched the third round of revision of IP laws, which aims to make the system of IP protection more feasible and efficient. Consequently, it is important to point out the defects existing in the legal system and IP enforcement, and thereby propose suggestions to optimize it.

⁴ Bosworth, Derek & Yang, Deli, *Intellectual Property Law, Technology Flow and Licensing Opportunities in China*, 9 International Business Review 453, 453-67 (2000).

⁵ Wu, Handong, Research On Basic Problems in Intellectual Property Regime [Zhi Shi Chan Quan Ji Ben Wen Ti Yan Jiu] (China Renmin University Press, Beijing), 75 (2005).

⁶ Chaffee, Zachaiah, *Reflections on the Law of Copyright (Part I and II)*, 45 Columbia Law Rev. 503, 719. (1945).

⁷ Merges, Robert P., Menell, Peter S., & Lemley, Mark A., *Intellectual Property In the New Technology Age* (Aspen Law & Business Inc., New York) 15 (2000).

⁸ Wu, Handong, Evaluation of Chinese Intellectual Property System and Suggestion on Legislation [Zhong Guo Zhi Shi Chang Quan Zhi Du Ping Jia Yu Li Fa Jian Yi] (Intellectual Property Press, Beijing) 10-14 (2008).

1.2 Research questions

There are three research questions in this study.

First, what determinants are crucial for IPR protection and how these determinants influence China's law and enforcement? The level of IPR protection in a country is decided by multiple factors; therefore, due respect for its unique national situation should be observed in designing a system for IPR protection. This question not only aims to examine China's motivation for strengthening IPR protection, but also aims to study what level of protection is appropriate for China. In order to answer this question, both domestic and international determinants that affect IP legislation and enforcement will be examined. In detail, the economic growth, technological development, legal custom, and political system, cultural history, and foreign pressure will be taken into consideration.

Second, what problems existing in IP laws cause right holders to suffer great hardship in IP protection? Technological development brings a lot of changes in society. Industrial innovations are widely used in business and consumer markets. Information technologies create new methods of information dissemination. Technical development opens up new ways of creating works of art. New challenges have emerged on the grounds that the original balance of interests between right holders and the public has been changed. As to this question, the issues caused by technical development will be discussed emphatically.

Third, how can IP enforcement be strengthened? IP protection depends greatly on enforcement. There are two routes for IP enforcement in China: the administrative route and the judicial route. The current IP enforcement system was established thirty years ago. Circumstances change with time. In order to create a good environment for IP protection, it is important to improve the efficiency and effectiveness of enforcement further. Consequently, it is necessary to study what measures can be adopted to optimize the enforcement system. As to this question, the resource of administrative authorities and judicial organs, the efficiency of enforcement and social psychology will be considered, as well as the practices of other countries where this regime is concerned.

1.3 Methodology

1.3.1 Doctrinal research

Doctrinal research means the systematic analysis of laws through the study of legal concepts and principles of statutes, rules and cases. It explains and justifies legal rules as part of the legal system. It is generally acknowledged that laws, in themselves, cannot give a complete description of each rule under any circumstance. Therefore, doctrinal research is valuable because it helps clarify ambiguities of rules by putting them within a systematic structure and identifying their relationship to other statutes. In this book, the doctrinal research instrument is used to understand the existing legal rules in China, and seek sensible solutions to reduce ambiguities and defects.

1.3.2 Historical study

Using the historical research method, the researcher may explore why the present provisions are well-founded. It shows the circumstance under which the provisions are justifiable. It is also expected that it will be possible to interpret particular provisions in a more rational way because historical research is useful for showing the historical background of legislation and relevant changes or legal reforms. Through such a method, the author explores whether a particular provision, which was sensible when it was enacted, is no longer justifiable due to changes in circumstances. Furthermore, the historical study helps the author to trace the gradual development of laws and predict the trend in legislation and enforcement.

1.3.3 Empirical study

The empirical study involves systematically collecting and analyzing data, thereby gaining vital insight into how laws are working. Using this instrument, the data and analysis will help to evaluate justifications of particular provisions and effectiveness of laws. Such evaluation is significant for monitoring the effects of legal institutions on society and identifying bottlenecks. An empirical study may also help to develop theoretical understanding of laws. In this book, the level of technological innovation, the number of patent applications and patents granted, and information on IP lawsuits are evaluated, on the grounds that they are the main factors influencing IP legislation and strategies. The data are collected from the internet, newspapers, databases and other sources. Some data are published by governmental authorities, while some data are unpublished but can be obtained from research institutes. In using this method, statistics, comparisons, classifications and induction will be applied.

1.3.4 Comparative study

The comparative study is an important methodology for developing China's IP theories and practice. It would be useful to understand legal rules and contribute to the systematic unification and harmonization of law. In this study, the foreign and domestic regulation regarding IPRs will be compared to ascertain similarities and differences. In comparison, legal custom and the evolution stages of different systems are to be considered. Based on this, it will be analyzed whether the solutions offered by foreign legal systems can be adopted in China. In this study, international treaties, IP laws of the US, UK, some EU countries and Japan are compared with those of China. These countries have mainly been chosen because their IP protection systems are the most advanced in the world so their practices merit attention. The US in particular pushes the process of IP protection forward in the global community. The EU is also a pioneer in this regime in view of the protection of goodwill for trademarks, sui generis protection for databases, broad copyright protection for industrial designs, and strong protection for neighboring rights. Moreover, to some extent, the Chinese legal system imitates the Western civil law systems, into which the core principles are codified as the primary source of law. In the context of legal system and legal custom, the laws of Germany and

France are typical references for Chinese legal reform. In addition, Japan is an advanced country in Asia, and its rapid technology development furthers its motivation to improve the IP protection system. The fact that the Japanese legal system and cultural custom are similar to those in China is another rationale for learning from its experience.

1.3.5 Case study

The case study instrument investigates a contemporary phenomenon within its real-life context.⁹ It helps researchers ‘understand a complex issue or object and extend experience or add strength to what is already known through previous research’.¹⁰ Using this method, the author will combine theory and practice under a particular condition in order to obtain a clear insight into complex issues. It is expected that a better understanding will be obtained of how the courts apply the laws, thereby exploring the difficulties the courts and right holders are facing. Based on this, the author will attempt to formulate feasible approaches to solve the problems.

1.4 The structure of the study

The structure of this book is based on the problem definition described in Section 1.2. This research is carried out referring to the theoretical analysis, studies on the current legislation and enforcement system, and empirical investigation.

Chapter 2 answers the first research question concerning the main factors that have affected the development of IP protection in China. IP protection cannot be viewed as a one-dimensional concept so that it cannot be measured only by legal rules. In law-making, political, economic, cultural and other relevant factors should be considered. Moreover, the pressure from other countries and the international community is also an important determinant. This chapter examines how these factors affects IP protection and discusses China’s motivation for further progress in the IP regime.

Chapter 3 discusses the issues of China’s Patent Laws. It reviews the history of developing patent protection in China, studies the modifications of each round of revisions, explores the reasons justifying the modifications and states the potential impacts on society. Based on the historical analysis, it addresses sensitive issues regarding the protection pattern for the utility model, substantive requirement of patentability for the utility model, indirect infringement and so on. For each issue, alternative suggestions are proposed.

Chapter 4 firstly reviews the journey China made for copyright protection. It explores the reasons for the sluggish evolution in history and China’s motivation for the current high-speed development. It discusses the modifications of recent

⁹ Yin, Robert K., *Case Study Research: Design and Methods* (Newbury Park, CA: Sage) 23 (1984).

¹⁰ Soy, Sue K., *The Case Study as A Research Method* (1997), available at <http://www.ischool.utexas.edu/~ssoy/usesusers/1391d1b.htm> (last visited 2 November, 2013).

revisions of copyright rules and examines its justifications. In view of the fact that technological development has changed the original balance of interests between right holders and the public, this chapter studies the issues regarding collective management of copyright, the liability of internet service providers (ISP), limitations to copyright and technological protection measures (TPM). In order to find appropriate solutions to overcome challenges, the different approaches of other countries are discussed as well.

Chapter 5 reviews the history of trademark protection in China. In particular, the draft of the forthcoming trademark law is discussed in detail. In the internet era, new methods of using trademarks in business have emerged, which brings challenges to traditional trademark rules. This chapter focuses on two issues in this context. One is about search engine keyword advertising and the other is about domain name and cyber squatting. It analyzes how to establish and apply legal rules to regulate the relevant issues, and thereby achieve better protection for right holders and consumers.

Chapter 6 analyzes the enforcement system for IP protection in China. There are two ways to enforce IP protection: judicial enforcement and administrative enforcement. In China, judicial proceedings and administrative enforcement constitute the main components of the enforcement system. Both of them have advantages and disadvantages. The judicial route is a direct and final means to claim damages. However, if enterprises choose to enter into judicial proceedings, they will face time-consuming risks, difficulties regarding the burden of proof and high litigation costs. On the other hand, the administrative route can generally provide a quick, efficient and low-cost remedy, specifically in the circumstance where the fact of infringement is clear, when there are minimal damages and when it is not likely that the infringer will contest the infringement allegations. Although administrative authorities have the power to grant the demand to stop infringement and to provide opportunities of conciliation and mediation, they cannot award damages directly or hold appeal proceedings. The current enforcement system is facing the challenges of low efficiency, understaffing, lack of resources, lack of coordination between different agencies and so on. This chapter analyzes these problems, and proposes feasible suggestions.

Chapter 7 provides the conclusion of this book. It briefly summarizes China's progress in strengthening IP protection in recent years. It also addresses the defects existing in current laws and the disputable issues in the drafting of law revisions. Moreover, it points out the problems resulting in the difficulties in IP enforcement, as well as possible solutions. In addition, it comes to a close in providing the direction of further development.

Chapter 2

Determinants Affecting the Level of Intellectual Property Protection in China

Intellectual property (IP) legislation and enforcement are greatly influenced by the development of technology, the flourish of literature and the boom of the commodity market. In the era of knowledge economy, IP has almost become the most important resource for countries, enterprises and individuals. IP protection cannot be viewed as a one-dimensional concept to be measured by laws only,¹ because each country has its own situation influencing its legislation, judicial system and administrative system. This means that in determining the level of IP protection multiple factors should be taken into consideration, including the domestic economy, political system, technology development, cultural customs and so on. For example, some developed countries, such as the United States and Japan, which have the majority of the most advanced and cutting-edge technologies, present stronger motivation for improving patent protection. Similarly, those countries where plenty of valuable well-known trademarks are creating enormous values would like to strengthen trademark protection.

The study of China's IP system cannot be isolated from the analysis of the relevant determinates, especially the domestic needs and foreign pressure. Besides, the factors correlating to socioeconomic development should also be taken into consideration.² In order to gain a better understanding of the IP regime, this chapter aims to explore which determinants are crucial for IP protection and how these determinants influence China's IP legal system and enforcement.

2.1 The domestic determinants

For a sovereign state, the domestic need is the most important element for determining the level of IP protection. As pointed out by Deng Xiaoping, the former President of P. R. China, 'science and technology constitute a primary productive force.'³ In order to respond to the needs from domestic industries, countries are dedicated to the construction of a good policy environment for them,

¹ Frame, J. Davidson, *National Commitment to Intellectual Property Protection*, 2 Journal of Law and Technology 209, 209-27 (1987).

² Chen, Chun Hsien, *Explaining Different Enforcement Rates of Intellectual Property Protection in the United States, Taiwan, and People's Republic of China*, 10 Tulan Journal of Technology and Intellectual Property 211, 219- 22 (2007).

³ Deng, Xiaoping, *Selected Works of Deng Xiaoping* [Deng Xiaoping Wenxuan] vol. 3, 274 (1993).

in which respect policies regarding IP rights (IPRs) are an essential component. In formulating the IP regime, the economic determinant is the main priority.

2.1.1 Economic determinants

It is difficult to draw a simple equation between the increase in IP protection and economic development. However, a reasonable conclusion can be drawn that an appropriate system of IP protection may provide a stimulus to innovation and industrial development. Therefore, for a modern country it is necessary to consider the impacts of IPRs on its economy in designing the strategies of development.

2.1.1.1 International trade flows

The impact of IP protection on trade flows has attracted general attention, because the trade flows involving IPRs have been the most dynamic components of international trade over the last few years.⁴ Stern points out that the discrepancies between national IP protection systems influence trade flows similarly to non-tariff barriers.⁵ Maskus and Penubari use a Helpman-Krugman economic model of monopolistic competition to examine the impact of IP protection on trade flows and conclude that stronger IP protection creates positive effects on trade flows.⁶ They also find that the impact of patent protection on trade flows into large developing countries is bigger than those into small developing countries.⁷ Subsequently, Primo Braga and Fink support these results based on their findings of a positive interaction between IP protection and trade flows.⁸

However, strengthening IP protection does not necessarily result in an increase in trade flows. There are at least three reasons causing such ambiguity. First, under a stronger IP protection system, the exports of patented goods would not increase if the price elasticity of demand for the patented goods were relatively low. In other words, although weak IP protection may impede the imports of IP sensitive goods because of the high risk of imitation and infringement,⁹ it cannot be concluded that

⁴ Maskus, Keith E. and Penubari, Mohan, *How Trade-Related are Intellectual Property Rights*, 39 Journal of International Economics 227, 234 (1995).

⁵ Stern, Robert M., 'Intellectual Property.' In Finger, J. Michael & Olechowski, Andrezej eds., *The Uruguay Round: A Handbook On The Multilateral Trade Negotiations* 198, 202-05 (1987).

⁶ *Supra* note 4.

⁷ Maskus, Keith E., 'Trade-related intellectual property rights: issues and exploratory Results.' In Deardorff, Alan V. and Stern, Robert M. eds., *Analytical and Negotiating Issues in the Global Trading System* (Ann Arbor: University of Michigan Press) 401 - 46 (1994).

⁸ Braga, Carlos A. Primo & Fink, Carsten, *The Economic Justification for the Grant of Intellectual Property Rights: Patterns of Convergence and Conflict*, 72 CHI.-KENT L. REV. 439, 443 (1996).

⁹ Fink, Carsten & Braga, Carlos A. Primo, 'How Stronger Protection of Intellectual Property Rights Affects International Trade Flows.' In Fink, Carsten & Maskus, Keith E. eds., *Intellectual Property and Development, Lessons from Recent*

stronger IP protection would increase imports. The main reason is that stronger IP protection may also result in greater market power held by IP owners. In the case of the absence of substitute products,¹⁰ IP owners might not choose to increase exports into other countries; alternatively, they may increase the price in those countries to maintain or even increase profits only if they have sufficient monopoly.¹¹ A typical example is the pharmaceutical industry. In the circumstance where the price elasticity for some patented drugs is low, the pharmaceutical firms tend to maintain a high price rather than increase the supply of patented goods.

Second, other forms of IP exploitation would reduce the international trade flows. Besides exporting IP sensitive goods, IP owners may choose other forms to serve the foreign market, such as licenses, foreign direct investment (FDI) and joint ventures. Which method IP holders would adopt depends largely on the legal environment in recipient countries and other relevant factors in the target market.¹² Under stronger IP protection, the alternative forms of IP exploitation may have a negative effect on international trade flows.

Third, the impact of IP protection on international trade flows also depends on the nature of the imported products. Some empirical studies find that a higher level of IP protection may encourage non-technology intensive trade, but there is no significant evidence showing similar effects on high-technology goods.¹³ A possible reason is that insufficient capability and high cost to implement reverse engineering and produce pirated goods including high-technology components reduce the risk of imitation.¹⁴ In this respect, the correlation between IP protection and international trade flows is uncertain.

Besides, it is traditionally assumed that stronger IP protection would reduce imitation effectively which would correspondingly increase international trade flows of IP-intensive products. However, the premise of this argument is highly problematic, because a higher level of IP protection does not necessarily imply the reduction of imitation. It should be noted that imitation will exist if the supply of legitimate products is insufficient in the market, and that the profits would cover the costs and the risk of penalties imposed on the illegitimate products. This phenomenon is determined by economic laws but not by IP protection alone. In fact, the prevalent piracy in developing countries is partly attributed to the unaffordable price of legitimate IP products. Moreover, some pirated products are preferred by consumers due to their good quality, which can even be the same as that of legitimate products, but the price of the former is a good deal lower than that of the latter. If the price of legitimate products were reduced to a reasonable level, the system of IP protection might deter imitation effectively because, after all, legitimate IP goods mean good quality, good service for subsequent use and reliable security. Other than the reduction in price offered by the suppliers, the

Economic Research (A Co-publication of the World Bank and Oxford University Press, New York) 21 (2005).

¹⁰ Sometimes, imitation and pirates just function as the substitute product of the legitimate product in the consumer market.

¹¹ *Supra* note 8.

¹² *Id.*

¹³ *Id.* at 35.

¹⁴ Gervais, Daniel J., *Information Technology and International Trade: Intellectual Property Trade & Development: The State of Play*, 74 Fordham Law Review 505, 525 (2005).

government also may adopt measures to approach the similar outcome, including tax relief and price control.¹⁵ On the other hand, it can also be observed that a lot of pirated products for sale in developing countries are made for foreign tourists visiting these countries who can actually afford legitimate products. However, a cheap price and acceptable quality attracts this group of consumers. This type of transaction can be prevented by effective IP enforcement.

For the Chinese economy, import and export have played a significant role in the last three decades. On the one hand, China has had a massive volume of international trade in goods for a long time (Fig. 2.1), which has become one of the most important sources of gross domestic product (GDP). Moreover, the international trade promotes the development of domestic industries. On the other hand, as shown in Fig. 2.2, the increase in foreign trade in the high-technology sector in China indicates that the industrial structure of China is gradually transforming from a labor-intensive industry into a technology-intensive and capital-intensive industry. China is attempting to upgrade industries by importing technologies and technology-sensitive products. The considerable achievements made by China can be attributed to multiple factors, including political factors, economic factors, legal factors, labor forces, patterns of trade, foreign investments and so on. Moreover, as shown in these two figures, a significant growth can be perceived in both the international trade in goods and the international trade in high-technology products since China entered into the WTO in 2001. Although it cannot be concluded that strengthening IP protection will lead directly to an increase in international trade in China, at least it is certain that the legal framework under the WTO, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement), creates a good environment in China for international trade.

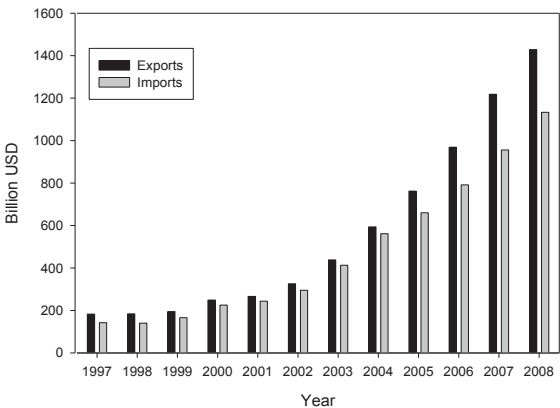


Figure 2.1 Exports and imports of goods of China from 1997-2008.

Source: National Bureau of Statistics of the Republic of China.

¹⁵ Wu, Handong, *Intellectual Property: Protection In The International Community* [Zhi Shi Chan Quan Guo Ji Bao Hu Zhi Du Yan Jiu] (Intellectual Property Press, Beijing) 317 (2007).

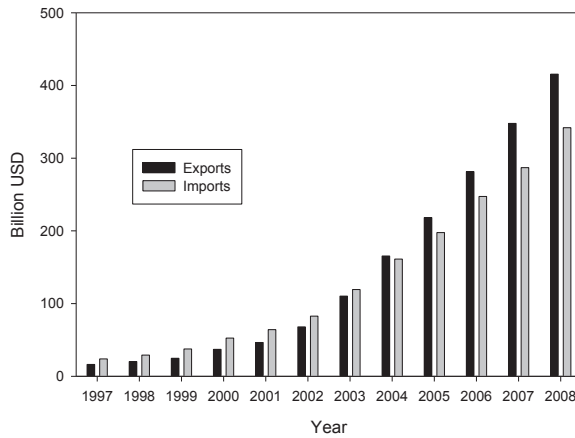


Figure 2.2 Exports and imports of high-technology products of China from 1997-2008.

Source: Ministry of Science and Technology of the Republic of China.

2.1.1.2 Technology transfer

Technology transfer is another issue highly relevant to IP protection. Strong IP protection is a necessary condition for promoting flows of technology transfer, which is generally implemented by FDI and licensing.¹⁶ Especially if a country attempts to enhance its technological capabilities by introducing foreign advanced technologies, it should obtain a better understanding of the correlation between IP protection and technology transfer before formulating its economic strategies.

IP enforcement directly influences FDI since most cases of FDI involve inward flows of technology. On the one hand, FDI may be accompanied by a separate licensing agreement, in which technology is a component of the FDI portfolio rather than the subject matter of a transaction. On the other hand, a transaction of research and development (R&D) facilities and technology-intensive equipment may be involved in the case of FDI. In this regard, it is not surprising that IP protection is becoming a necessary consideration for foreign investors. Empirical studies also show that IP legislation and enforcement play an important role in FDI because strong IP protection provides an incentive for FDI. This means that foreign firms tend to avoid investing in countries that have a weak system of IP protection.¹⁷ Likewise, surveys of US multinational firms demonstrate that they are willing to invest in countries where the IP system could protect their

¹⁶ In this case, the focus is only on these two means of technology transfer, namely FDI and licensing.

¹⁷ OECD, Economic Argument for Protecting Intellectual Property Rights Effectively, TC/WP (88) 70, (Paris OECD).

investment effectively.¹⁸ Other than the technology-intensive sectors, research implies that weak IP protection also has a negative impact on investments in other sectors.¹⁹

Furthermore, Maskus and other scholars provide some deeper insights into the IPRs-FDI link. They address the fact that the effects of IP protection on inward FDI should not be overestimated because composition of inward FDI depends on multiple factors.²⁰ Other than the IP regime, inward FDI is also influenced by the situation of the recipient country, firm characteristics, channels of technology transfer, and so on.²¹ First, the local imitation capacity and the labor skills of workers in the host country are important factors for FDI. Multinational firms are generally reluctant to invest in countries where imitation or piracy is popular. In this case, they prefer to choose to license IPRs. Meanwhile, practice shows that a country that has plenty of skilled and semi-skilled workers seems more attractive than the one with lagging productivity.²² Second, the possibility of licensing and establishing joint ventures reduces the effect of IP protection on inward FDI. In high-technology sectors, stronger IP protection may induce multinational firms to 'shift away from FDI and toward licensing at the margin'.²³

Similar to FDI, licensing of IPRs is influenced by IP protection. However, there is an obvious difference between these two means of technology transfer. FDI is a long-term commitment to a location so that it requires higher fixed costs than licensing. Consequently, it can reasonably be deduced that the level of IP protection required in the case of FDI will be higher than in the case of licensing. Moreover, for host countries, FDI usually creates high-skilled and high-paying jobs, such as engineering, quality-control, and management positions, which may have spillover effects in higher education and local laboratories.²⁴ In the long run, FDI may be more helpful for developing countries to improve their technological capabilities.

Although the relationship between IP protection and technology transfer is subtle due to many complicated elements, the previous studies offer some helpful insights for policy makers in designing the IP system.

From the 1990s, China has paid considerable attention to introducing FDI and other forms of technology transfer. With the improvement of the economic

¹⁸ Glass, Amy J., & Saggi, Kamal, *Intellectual Property Rights and Foreign Direct Investment*, 56 Journal of International Economics 387, 395 (2002).

¹⁹ Javorcik, Beata S., 'The Composition of Foreign Direct Investment and Protection of Intellectual Property Rights: Evidence from Transition Economics', included in Fink, Carsten & Maskus, Keith E. eds., 'Intellectual Property and Development, Lessons from Recent Economic Research.' (A Copublication of the World Bank and Oxford University Press, New York) 159 (2005).

²⁰ Maskus, Keith E., Saggi, Kamal & Puttitanun, Thitima, 'Patent rights and international technology transfer through investment and licensing,' paper prepared for the conference, 'International Public Goods and the Transfer of Technology after TRIPS', Duke University Law School, April 4-6 (2003).

²¹ *Supra* note 20.

²² Brainard, S. Lael, *An Empirical Assessment of the Proximity-Concentration Tradeoff Between Multinational Sales and Trade*, 87 American Economic Review 520, 525 (1997).

²³ *Supra* note 17.

²⁴ *Supra* note 13.

environment, China has become one of the largest economies to absorb foreign technologies. Table 2.1 shows a steady increase in the flows of foreign technology towards China in recent years. The increase is especially significant as far as patent licensing and know-how licensing are concerned, which is consistent with the progress in the IP regime in China. However, for joint-venture manufacture and cooperative manufacture, regular variation is not found, which may support the argument that the impact of IP protection should not be overstated since it is only one of the components affecting technology transfer.

Table 2.1 Flows of foreign technology towards P. R. China from 2004 to 2009

Value of contracts: million USD

Value of contracts	2009	2008	2007	2006	2005	2004
Patent Technology License and Transfer	1820.91	1766.18	1683.32	1398.43	1278.38	1026.33
Know-how License and Transfer	9562.79	12651.97	8594.32	7276.74	5095.33	4130.03
Joint-venture Manufacture and Cooperative Manufacture	618.65	942.37	858.2	4294.71	1722.94	114.96
Complete Set of Equipment, Equipment and Production Line	1500.36	2107.88	6631.92	2868.59	5333.12	3784.3

Source: National Bureau of Statistics of the Republic of China.

2.1.1.3 R&D

R&D is basically an essential economic activity for enterprises, research institutes and nations. It is also widely acknowledged as a significant indicator for the level of national economic development. Empirical studies find that R&D expenditures determine profitability on the ground that investments in R&D may increase productivity which often results in more profitability.²⁵ Energetic R&D efforts not only indicate the determination where creation and innovation are concerned but also imply the promising future of industries in a country.

²⁵ Li, Anfang, The Pattern Choice of R&D Investment in Developing Countries by MNC, The Annual Conference of Economics in China (2003).

An effective system of IPRs may provide stimulation of R&D,²⁶ because an investment in R&D is expected to yield a return under an effective IP system. In contrast, weak IP enforcement may dampen the enthusiasm for R&D due to the concerns about the risk of unfair competition and infringement.

A good environment for patent protection would reduce the risk of imitation and infringement. The invention patent grants the right holder an exclusive right to exploit it. Inventions that imply high economic and social return generally need vast expenditures on research, process control and product exploitation. It is therefore necessary to develop a strong protection system for them. Moreover, patents of utility models involving a lower level of novelty can also spur R&D in technology-follower countries.²⁷ Under an effective system of utility models, endeavors are encouraged to adapt some available advanced technologies to specific uses in domestic industries, which may significantly improve productivity. Such an argument is verified by empirical studies.²⁸

Copyright and trademark also have a positive impact on R&D. Several industrial sectors rely highly on copyrights, such as software and entertainment. In the majority of national legal systems, creative literary and artistic works are automatically copyrighted without delay. Strong copyright protection stimulates R&D by safeguarding investments in literary and artistic works against possible piracy. Similarly, trademarks provide incentives for the development of new products as well, even in poor nations.²⁹ A trademark that is closely associated with the quality of goods influences consumers' preferences; therefore, it is an important form of protection for developing new products and new markets.

Moreover, under an appropriate system of IPRs, financial markets may favor the innovators more effectively. If the ownership of IPRs is clearly defined and the financial project can successfully be converted into R&D efforts with a low risk of piracy or infringement, the R&D activities will be more attractive in the capital market. In this respect, strong IP protection would favor R&D.

In the case of China, a substantial increase in R&D expenditure has been achieved in recent years. The total R&D expenditure increased from 153.96 RMB billion in 2003 to 371.02 RMB billion in 2007; accordingly, the share of R&D in GDP rose from 1.31 percent to 1.49 percent. Meanwhile, it should be noted that the share of R&D expenditure by enterprises has increased annually, indicating the increasing confidence of enterprises in believing that their investment in R&D will yield a return. With the increase in R&D expenditure, both the number of patent applications and patent grants has increased correspondingly. These achievements, shown in Table 2.2, imply the correlation between the increase in investments in R&D and the improvement in the IP regime.

²⁶ Kanwar, Sunil, & Evenson, Robert E., *Does Intellectual Property Protection Spur Technological Change?* 55 Oxford Economic Papers 235, 235-37 (2003).

²⁷ Maskus, Keith E., Dougherty, Sean M. & Mertha, Andrew, 'Intellectual Property Rights and Economic Development in China', included in Fink, Carsten & Maskus, Keith E. eds., 'Intellectual Property and Development, Lessons from Recent Economic Research.' (A Copublication of the World Bank and Oxford University Press, New York) 299 (2005).

²⁸ Maskus, Keith E., & McDaniel, Christine, The Impacts of the Japanese Patent System on Post-War Productivity Growth, 11 Japan and the World Economy 557, 557-74 (1999).

²⁹ *Supra* note 24.

Table 2.2 R&D and domestic patent grants from 2003 to 2011

	R&D		Share of R&D			Domestic patent grants		
	Total (RMB billion)	Percentage of GDP	Enterprises	Research institutes	University	Total	Invention	Utility models
2011	868.70	1.84	76	15	8	883,861	112,347	405,086
2010	706.26	1.76	74	17	9	740,620	79,767	342,256
2009	580.21	1.70	74	17	9	501,786	65,391	202,113
2008	461.60	1.47	73	18	9	352,406	46,590	175,169
2007	371.02	1.40	72	19	9	301,632	31,945	148,391
2006	300.31	1.39	71	19	9	223,860	25,077	106,312
2005	245.00	1.32	68	21	10	171,619	20,705	78,137
2004	196.63	1.23	67	22	10	151,328	18,241	70,019
2003	153.96	1.13	62	26	11	149,588	11,404	68,291

Source: Ministry of Science and Technology of the Republic of China; SIPO.

2.1.2 Balancing mechanism

The IP system is designed to stimulate knowledge creation, promote economic development and increase information dissemination. Such an underlying principle is highlighted in both international treaties and national IP legislation.³⁰ The copyright clause of the US Constitution states that the law shall be ‘to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries’.³¹ Similarly, the Chinese Copyright Law stresses that its primary purpose is to protect ‘the copyright of authors in their literary artistic and scientific works and rights related to copyright’, to encourage ‘the creation and dissemination of works’, and to promote ‘the development and flourishing of socialist culture and sciences’.³² However, the system would reduce the dissemination of information and knowledge if it were unreasonably to prevent the public from accessing existing works.³³ In order to protect existing IP works and promote subsequent creations, a balance should be achieved between IPRs and the public interests in determining the level of IP protection. A balanced system would mitigate the conflict of interests between different parties, improve equity and efficiency and promote effective allocation of intangible resources.

A balanced system means establishing an appropriate and reasonable level of IP protection. On the one hand, IP rights should ensure the necessary remuneration for right owners. On the other hand, it is worth noting that IP has prominent aspects of public interests in that it provides information dissemination and technology utilization in a social scope. The expansion of protection will construct

³⁰ The TRIPS Agreement, art. 7; Constitution of the United States of America, art. I, 8, cl. 8; Copyright Law of the People’s Republic of China, art. 1.

³¹ Constitution of the United States of America, art. I, 8, cl. 8.

³² Copyright Law of the People’s Republic of China, art. 1.

³³ Arrow, Kenneth, ‘Economic Welfare and the Allocation of Resources for Inventions,’ in *The Rate and Direction of Inventive Activity: Economic and Social Factors*, ed. R. Nelson (N. J.: Princeton University Press, Princeton) 609- 26(1962).

a barrier for the public in accessing protected subjects. Although strong protection may stimulate innovation and investment in research and market development, excessive protection would undermine competition, hamper subsequent innovation and decrease public interests. Therefore, nations must prudently demarcate the boundary of IPRs. Inside the boundaries, IP owners should have a statutory monopoly; outside these boundaries, there should be free public access.

The balancing theory has rich connotations, including balancing rights and obligations in IP laws, balancing the IP owner's interests and public interests and balancing efficiency and justice. In the case of patent law, the following factors should be considered: the relationship between technological innovation and sustainable development, the relationship between investment and profits and the relationship between the patent owner, the prior creator and the competitors. It means an adequate allocation of rights, obligations, responsibility and risk to different parties.³⁴ Similarly, the balancing philosophy is clearly reflected in copyright law and trademark law as well. Copyright protection is provided for the interests of authors, disseminators and the public, while trademark law serves the interests of trademark owners, prior users of the registered trademark and consumers.

'Balancing the system either upwards or downwards' can be achieved 'by means of adjusting the existing rights or creating new rights.'³⁵ In detail, there are at least three methods.

First, the level of IP protection can be adjusted by changing the scope of IP subjects. From the history of IP protection in the world, it is observed that the scope of IP subjects expands or narrows when it becomes necessary to satisfy new needs of society. The scope of the subject determines whether new forms of works are under the protection of the IP system.³⁶ For example, in some countries a 'database had previously been considered to be compilations',³⁷ but does constitute the author's own intellectual creation through the selection or arrangement of its contents.³⁸ However, in order to protect public interests, the threshold of 'intellectual creation' is established to avoid excessive monopoly. Many countries have reached a consensus on traditional IP subjects, but they still have divergent views on the further expansion of IP subjects, such as traditional cultural expression, genetic resources, folklore and electronic commerce. Even though the WIPO is attempting to find a moderate pattern generally favoring its member countries, this is fairly difficult due to different national situations. For example, there are serious debates on protection for plant genetic resources. Some developing countries own a large portion of the world's plant genetic resources

³⁴ Tang, Rongna, Protection for Common Prior Used Trademarks [Lun Dui Zhai Xian Shiyong De Putong Wei Zhuce Shangbiao De Baohu], in Qian, Feng, Studies on Chinese IPR Trials (People's Court Press, Beijing) 193 (2011).

³⁵ World Trade Organization, Protection of Intellectual Property under the TRIPS Agreement ¶ 9, E/C. 12/2000/18 (Nov., 27, 2002), available at <http://www.unhchr.ch/tbs/doc.nsf/0/292864197888d603c12569ba00543291?OpenDocument> (last visited 2 July, 2013).

³⁶ Landes, William M. & Posner, Richard A., *An Economic Analysis of Copyright Law*, 18 Journal of Legal studies, 325, 326-32 (1989).

³⁷ Davies, Gillian, Copyright and the Public Interest (London: Sweet & Maxwell), 51-52 (2002).

³⁸ The EU Database Directive, Directive 96/9/EC, art. 3 (1).

that are critical for both new plant varieties and secondary plant products; in contrast, some developed countries have lost the majority of their plant genetic resources and the existing genetic resources have also been shrinking. Therefore, developed countries encourage their domestic institutions and individuals to conduct research on developing more plant genetic products under their powerful IP systems. However, many developing countries argue that over-emphasized IP rights would diminish their advantages where genetic resources are concerned and cause negative impacts on biodiversity protection and sustainable development. Some developing countries are also concerned about the risk of high price and food security caused by legal monopolization and privatization.³⁹

Second, countries may choose a beneficial protection pattern. As regards the same subject, there are usually some different approaches to be adopted, only if they are consistent with the obligations under the international conventions. IP protection for computer programs can be taken as a typical example to illustrate this argument. The two important methods of protecting software, namely copyright protection and patent protection, provide different levels of protection. The former method only provides protection for expression, but not for its inner ideas; but the latter method provides much stronger protection since both products and processes or methods of production can be protected under the patent system. National attitudes towards the two methods depend largely on the appropriate level of protection they desire to achieve. For instance, almost all countries adopt copyright protection to prevent piracy; but only individual nations that own shares in software industries, such as the US and Japan, embed computer programs into the patent system. Developing countries seem reluctant to accept this method since they worry about the negative impacts on their domestic industry.

Third, setting limitations to IPRs is also a method to achieve balance. From the standpoint of the public, IP protection 'should not extend substantially beyond the purpose of protection.'⁴⁰ IP laws regulate limitations to IP norms to encourage access to works; these limitations include the duration of protection, exceptions to protection and compulsory licenses or non-voluntary licenses. In this respect, the IPR is not an absolute right.⁴¹

The duration of the protection may balance the IP system. During the term of the protection, IP owners are granted legal exclusive rights to prevent illegal access to their works; but after this term, their works will enter into the public domain and the public may use them without any authorization or licensing. If the term were too short, it would decrease the stimulus for innovation and dissemination of knowledge; while if it were unreasonably long, it would be unfair for potential competitors and the public and would violate the purpose of promoting social development. Thus, there is sufficient justification to set such a limitation to exclusive rights.⁴² Therefore, the duration of protection is an important means of balancing.

³⁹ Liu, Wenqi & Gu, Lingyun, *Intellectual Property Protection of Plant Varieties in Asian Developing Countries*, 27 Biotechnology Law Report 525, 531 (2008).

⁴⁰ *Supra* note 37, at 265.

⁴¹ Wu, Handong, *Intellectual Property Law [Zhishi Chanquan Fa Xue]* (Beijing University Press, Beijing) 40 (2000).

⁴² Feng, Xiaoqing, *Balancing Theory for Intellectual Property Law [Zhishi Chanquan Fa Liyi Pingheng Lilun]* (China University of Political Science and Law Press, Beijing) 89 (2006).

In addition, exceptions to protection are measures to preserve public interests. Normally, IP laws leave a free domain for the public through exceptions, such as 'fair use'. 'Fair use' is the main defense against the argument of infringement and has also been used by judges balancing the rights of IP owners and the public interest. In this regard, it is necessary to establish the 'fair use' rule. However, the boundary between 'fair use' and 'unfair use' may be variable with the development of information technology and dissemination means.⁴³

The limited scope of a statutory monopoly 'reflects a balance of competing claims upon the public interest... The immediate effect of our copyright law is to secure a fair return for an author's creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.'⁴⁴ IPRs not only are private rights, but also sometimes are related to national interests.⁴⁵ All main international conventions, including the Paris Convention, the Berne Convention and the TRIPS Agreements, and national IP laws regulate a series of exceptions to protection in the light of the balancing rationale.

Limitations also take the form of compulsory licenses. A few patent law systems provide for the granting of compulsory licenses subject to certain conditions, including abuse of monopoly and national emergency, and for public non-commercial use. Article 5A.(2) of the Paris Convention states: 'Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.'⁴⁶ Similar provisions and the related requirements are also set out in the TRIPS Agreement. Furthermore, the TRIPS Agreement provides that the requirements for a compulsory license 'may be waived by a Member in the case of national emergency or other circumstances of extreme urgency or in cases of public noncommercial use'.⁴⁷

The compulsory license for drugs for treating serious diseases such as malaria and HIV/AIDS has provoked fierce debates in the world. The conflict of interests between the pharmaceutical industry and public health is the root difficulty in reaching a consensus on this issue in global society. Although the TRIPS Agreement allows the grant of compulsory licenses in the case of a national emergency, some developing countries with insufficient manufacturing capacities in the pharmaceutical sector cannot make effective use of this provision. Therefore, a feasible way is to manufacture the drugs overseas and import them at a relatively lower price. However, this is not possible until drug exporting countries ensure that their drugs really will be used for the poorest people to deal with national emergency situations and not for reselling or re-exporting purposes. Fortunately, this issue was addressed by the Doha Declaration and a solution is expected.

Compulsory licenses are also found in the copyright and trademark systems based on the ideal of optimizing the allocation of social resources and preventing the abuse of exclusive rights, thereby increasing social welfare.

⁴³ Liu, Chuantian, Intellectual Property Law [Zhishi Chanquan Fa] (4th edited), (People's University of China Publishing House, Beijing) 128 (2009).

⁴⁴ *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

⁴⁵ *Supra* note 42, at 337.

⁴⁶ Article 5A(2) of the Paris Convention.

⁴⁷ TRIPS Agreement, art. 31(b).

2.1.3. Democracy

For a long time, the interrelationship between democracy and law has been widely acknowledged in global society. In the case of the IP regime, democracy can also be regarded as an impacting factor where determining the level of IP protection is concerned. To measure the level of democracy in different countries, Jagers and Gurr propose a democracy scale, in which five yardsticks are used to evaluate the democracy of a nation: competitiveness of political participation, regulation of political participation, competitiveness of executive recruitment, openness of executive recruitment and constraints on the chief executive.⁴⁸ With this method, the degree of democracy in a country may be measured quantitatively.

Based on the understanding of democracy, scholars have gained further access to the relationship between democracy and IP protection. Overall, it is found that rich and powerful democratic countries appear to have more interests in establishing strong IP regimes; as a result, the people in those countries show greater enthusiasm for the creation of IP and repulsion against infractions.⁴⁹ N. L. Piquero and A. R. Piquero examine trajectories of software piracy and find that software piracy may be influenced by the level of democracy. Rights-based democracies that have strong civil and political liberties attempt to prevent IP piracy, while non-democratic countries even exacerbate piracy by indulging illegal access to IP products.⁵⁰

The interrelationship between democracy and IP protection can also be interpreted from the perspective of legal culture. Western cultures seem to be more supportive of IP laws since they highlight individual freedoms and rights.⁵¹ For instance, the TRIPS Agreement pushed by the Western groups explicitly defines IPRs as private rights. In contrast, 'Eastern cultures stress the importance of society as a whole over any single individual.'⁵² Such cultural differences result in dissimilar attitudes towards IP protection.

Furthermore, democracy also induces more liberty of civil and political rights. It is reasonable to expect that IPRs, one form of civil rights, would be respected in a democratic state. Meanwhile, democratization offers a good environment for political participation, where freedom of speech is respected and legislators are willing to perceive the demands from people and the domestic industries.

Eastern cultures and models of IP laws incur harsh criticism from the Western world. Asian countries especially are blamed since they value precepts of

⁴⁸ Jagers, Keith & Gurr, Ted Robert, *Transitions to Democracy: Tracking Democracy's Third Wave with the Polity III Data*, 32 Journal of Peace Research 469, 480 (1995).

⁴⁹ Piquero, Nicole L. & Piquero, Alex R., *Democracy, Democratization, and Crime: Democracy and Intellectual Property: Examining Trajectories of Software Piracy*, 605 The American Academy of Political and Social Science 104, 104-25 (2006).

⁵⁰ *Id.*

⁵¹ Swinyard, William R., Rinne, Heikki & Kau, Ah K., *The Morality of Software Piracy: A Cross-Cultural Analysis*, 9 Journal of Business Ethics 655, 655-64 (1990).

⁵² *Supra* note 49.

disciplines rather than political freedom.⁵³ The United States and other Western states have attempted to push democratization in those nondemocratic countries. The efforts made by those countries should be acknowledged and the characteristics of their countries should be adequately respected. It should be noted that ‘political or moral values’ belongs to internal affairs in a sovereign country.

As regards democratization and legal development, China is normally portrayed as a problematic case. During the initial stage of development, China paid more attention to economic development rather than legal reforms. The result is that the Chinese legal system lags far behind the economic development and requirements of global society. In order to access the WTO, comprehensive reforms are being carried out. In recent years, China has made remarkable progress. In particular the level of democracy has improved significantly, the scope of civil and political rights has expanded and legitimate rights are valued.

2.2 The international determinants

At international level, the IP framework is primarily dominated by developed countries. The serious debates on the extension of copyright duration in global society are persuasive evidence.⁵⁴ The TRIPS Agreement and other international IP treaties provide “a one-size-fits-all model of IP protection and enforcement”.⁵⁵ Some developing countries that are the recipients of large amounts of trade and investment frequently encounter tremendous pressure from foreign governments.

The international trade flow has accelerated the globalization of IP from the late 20th century.⁵⁶ The direct reflection is the increasing expansion of the scope of subject matters of IP laws in some developing countries.⁵⁷ China, as one of the largest developing countries, is attractive to inward FDI and foreign trade due to its huge and open market. The profits earned in the Chinese market are important for both the foreign investors and their home countries. However, foreign investors are concerned about IP theft because some investments and trade depend heavily on IP protection. In order to safeguard their IPRs, they persuade their home governments to impose pressure upon China to increase IP protection. For example, under the threat of a trade war with the US, the Chinese government had to take the requirements of the US into account. Meanwhile, China should recognize that ‘any

⁵³ Tay, Alice, (ed.) *East Asia-Human Rights, Nation-Building, Trade* (Baden-Baden: Nomos Verlagsgesellschaft) 14 (1999).

⁵⁴ This issue has been proposed by the US on the grounds that its entertainment industry is its pillar industry. Extension of copyright duration would benefit the interests of copyright owners and the United States. However, public interests will be reduced by extending copyright duration because this limits the access to copyrighted works. Therefore, many developing countries disagree with this proposal.

⁵⁵ Yu, Peter K., *The Middle Intellectual Property Powers*, Legal Studies Research Paper Series, Research Paper No. 12-28, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2144505 (last visited 17 December, 2012).

⁵⁶ Yang, Deli & Clarke, Peter, *Globalisation and Intellectual Property in China*, 25 *Technovation* 545, 549 (2005).

⁵⁷ *Id.*

imbalance from one group to another would undermine incentives for creativity in China'.⁵⁸ Therefore, China needs to encourage innovation both from home and abroad as long as it contributes to Chinese economic development and the continual innovative activities.⁵⁹

Moreover, international organizations push China to strengthen IP protection. In particular, the WIPO and the WTO play an essential role in this regime. Due to China's membership of these organizations, the obligations are both a burden and a stimulus to reform the IP regime.

2.2.1 Pressure from developed countries

To some extent, the 'IP fever' is the result of international pressure. Due to weak protection and rampant piracy and counterfeiting, industrialized countries, including the US, the member states of the EU and Japan, campaigned for better protection for their products and technologies in China. As a result, a number of bilateral agreements have been signed to relieve this crisis.⁶⁰

The strongest pressure comes from the US. The US is a leading country in the regime of innovation and creation; at the same time, it is one of the most important trade partners of China and the largest source of inward FDI in China. Since the launch of the opening reform, a lot of technologies, industrial products, entertainment products and literature work from the US flow into China annually. However, due to the inadequate level of IP protection, IP piracy and infringement are fairly rampant. Consequently, disputes over IP legislation and enforcement in China have never ceased.

The US requires other countries to protect its IPRs, which was taken as an essential prerequisite for offering a most-favored-nation treatment in trading with them during the 1990s. It applies Section 301, which authorizes the US trade representatives to retaliate against countries that have unjustifiable, unreasonable or discriminatory trade practices, enabling them to exert a strong influence on IP protection.⁶¹ China is an important target under Section 301. For instance, China was listed as one of the priority countries under Section 301 in 1991. Thus, China and the US conducted several rounds of negotiations regarding IP protection. As a result, the Sino-US memorandum of understanding on IPRs was signed in 1992. In order to realize the pledges in this agreement, China extended the scope and duration of patent protection and expanded patent holders' rights. However, similar disputes arose again in 1994 since the US argued that copyright protection in China was inadequate. In order to avoid trade retaliation, the agreement of 1995

⁵⁸ Yang, Deli, *Intellectual Property System in China: A Study of the Grant Lags and Ratios*, 10 *The Journal of World Intellectual Property* 22, 48 (2007).

⁵⁹ *Id.*

⁶⁰ Bosworth, Derek & Yang, Deli, *Intellectual Property Law, Technology Flow and Licensing Opportunities in China*, 9 *International Business Review* 453, 453-67 (2000).

⁶¹ Yang, Deli, *Intellectual Property and Doing Business in China* (Pergamon) 34 (2003).

and further bilateral agreements concerning IP protection were finally reached.⁶²

The US urges other nations to improve IP protection by applying the international legal framework. It investigates the situation of IP enforcement in other countries and publishes the results of the investigation in the Special 301 Report every year. If the US believes that some countries do not comply with obligations of the TRIPs, it will bring claims to the WTO Dispute Settlement Body (DSB). In the Special 301 Reports of 2007 and 2008, China is named in the priority watch list. Especially in 2008, the Report devotes a considerable amount of space to discussing the status of IP protection. The US addresses the fact that approximately 85 percent of copyrighted works from the US sold in China are pirated; that IP infringing products are rampant and extend to the industrial sectors of pharmaceuticals, electronics, industrial equipment and toys; and that inadequate IP enforcement with high criminal thresholds does favor IP theft.⁶³ Based on these findings, the US submitted a report to the WTO Dispute Settlement Body, in which it alleges that certain Chinese measures are inconsistent with the TRIPS Agreement and requires the establishment of a panel to examine this.⁶⁴

This time, the US brings three claims against China: the first, that the criminal thresholds are too high so they create a safe harbor for businesses engaged in commercial activities; the second, that copyright protection for works containing prohibited content is denied in China, but such works should be protected according to the TRIPS Agreement; the third, that the Chinese customs regulations preclude destruction or proper disposal of infringing goods by releasing seized counterfeit goods into markets in some instances, which is inconsistent with Article 59 of the TRIPS Agreement.

Regarding the first issue, the US argued that China has not provided adequate criminal procedures or penalties in circumstance where willful trademark counterfeiting or copyright piracy on a commercial scale fails to meet certain thresholds.⁶⁵ China responded that it provides alternative thresholds, including amount of illegal gains, amount of sales, number of copies, illegal business operation volume, and other serious circumstances.⁶⁶ There are some legislative sources to regulate this issue, comprising '(a) the Criminal Law of the People's Republic of China (adopted at the Second Session of the Fifth National People's Congress on 1 July 1979 and revised at the Fifth Session of the Eighth National People's Congress on 14 March 1997), in particular Article 213, 214, 215, 217, 218, and 220; (b) the Interpretation by the Supreme People's Court and the Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (adopted at the 1331st Session of the Judicial Committee of the Supreme People's Court on 2 November 2004 and the 28th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate on 11 November 2004 and to be effective as of 22 December 2004); and (c) the Interpretation by the Supreme People's Court and the

⁶² Zheng, Chengsi, *The World Trade Organization and the TRIPS* [Shi Jie Mao Yi Zhu Zhi Yu Mao Yi You Guan De Zhi Shi Chan Quan] (China Renmin University Press, Beijing) (1996).

⁶³ See 2006 Special 301 Report; 2007 Special 301 Report; 2008 Special 301 Report.

⁶⁴ WT/DS362/R.

⁶⁵ *Id.* Para. 1.

⁶⁶ *Id.* Paras. 7.451 - 56.

Supreme People's Procuratorate on Several Issues of Concrete Application of Law in Handling Criminal Cases of Infringing Intellectual Property (II) (adopted on 4 April 2007, at the 1422nd Session of the Judicial Committee of the Supreme People's Court and the 75th Session of the Tenth Procuratorial Committee of the Supreme People's Procuratorate, and to be effective on 5 April 2007)',⁶⁷ Therefore, China submitted that the structure of the thresholds can take various circumstance into consideration. Even with that, the Panel did not endorse China's thresholds directly, but consider whether some activity falling below all the applicable thresholds constitutes 'willful trademark counterfeiting or copyright piracy on a commercial scale' under Article 61 of the TRIPS Agreement.⁶⁸ The Panel explained the term 'commercial scale' as 'the magnitude or extent of typical or usual commercial activity' in a given market.⁶⁹ Based on this understanding, the Panel concluded that the US has not established the cases excluded from criminal liability meet the 'commercial scale' standard subject to China's marketplace.⁷⁰

As for the second argument, the US claims that Article 4(1) of China's Copyright Law of 2001 denies the copyright protection to creative works that have not obtained authorization for, or been prohibited from, publication or distribution in China.⁷¹ Nor do authors of such works enjoy the benefit from the remedy provided in Article 46 and 47 of China's Copyright Law.⁷² China responded that works denied by Article 4(1) of Copyright Law was extremely limited in scope, because only works entirely containing unconstitutional or immoral content would be prohibited under this article.⁷³ China contended that it would 'enforce copyright in the legal portion of the original works against copies of an unauthorized edited version, ...[even though] it would not enforce copyright against unedited, prohibited copies of an unedited, prohibited work that failed content review.'⁷⁴ Meanwhile, China attempted to distinguish 'copyright' and 'copyright protection', which means that the works that failed content review are only denied to enforce particularized rights, but not the copyright at the whole. However, the WTO Panel noted that the works prohibited for the purpose of Article 4(1) include not only those containing unconstitutional or immoral content, but also those containing other illegal content banned by other laws and administrative regulations.⁷⁵ The Panel found that China protects works of an edited version that have passed content review but cannot establish it provides copyright enforcement against infringing copies of the unedited version.⁷⁶ On the other hand, the Panel did not follow the US' claim that China's Copyright Law denies copyright protection for works never submitted for content review or works awaiting the results of this review, because the US did not establish a *prima facie* case.⁷⁷ The Panel did find that Article 4(1) of China's Copyright Law denies two categories of works,

⁶⁷ *Id.* Para. 2.2.

⁶⁸ *Id.* Para. 7.479.

⁶⁹ *Id.* Para. 7.545.

⁷⁰ *Id.* Para. 7.681.

⁷¹ *Id.* Para. 7.16.

⁷² *Id.*

⁷³ *Id.* Paras. 7.17-21.

⁷⁴ *Id.*

⁷⁵ *Id.* Para. 7.79.

⁷⁶ *Id.* Para. 7.82.

⁷⁷ *Id.* Para. 7.89.

including ‘works that have failed content review’ and ‘the deleted portion of works edited to satisfy content review.’⁷⁸

With regard to the third argument, the US claims that China’s Customs IPR Regulations create a compulsory scheme that gives priority to disposal options of infringing goods rather than destruction options, which would allow illegal goods to enter the commercial channels, which harm right holders. Moreover, the US argued that China’s custom measures are inconsistent with the provisions of Article 46 and Article 59 of the TRIPS Agreement that require the competent authorities have the full authority to ‘dispose of or destroy confiscated infringing goods’.⁷⁹ Besides, ‘donation to social welfare bodies’ and ‘sale to the right holder’ would cause harm to right holders, and ‘auction’ is not a measure outside the channels of commerce. In response, China noted that its Customs authorities have ‘the authority to order both disposal and destruction of infringing goods’;⁸⁰ both ‘donation to social welfare bodies’ and ‘sale to the right holder’ are measures of disposing the infringing goods outside the channels of commerce in a way to avoid harm to right holders;⁸¹ and, in case of implementing ‘auction’, China’s Customs use a reserve price to ensure such disposal would not harm right holders.⁸² After hearing the arguments of the US, China and third parties, the Panel held that Article 46 and Article 59 provide a selective approach for member states to grant their competent authorities to order remedies ‘in such a manner as to avoid any harm caused to the right holder. This means that Article 46 or Article 59 does not exclude the possibility that authority orders other remedies. Therefore, the Panel noted that China’s Regulations could be consistent with the requirements of the TRIPS Agreement as long as Customs authority had the authority to order other remedies.’⁸³ With respect to measures setting out ‘donation to social welfare bodies’, ‘sale to the right holder’ and ‘auction’, the Panel found that the US did not establish that China’s Customs authorities lack authority to order disposal of infringing goods.⁸⁴ However, the Panel considered that China’s measure that allows release of the infringing goods after removal of the trademark unlawfully affixed ‘in exceptional cases’ is inconsistent with the TRIPS Agreement because the phrase ‘in exceptional cases’ is not limitedly interpreted in light of the objective of the TRIPS Agreement, nor ‘create an effective deterrent to infringement’.⁸⁵

The WTO case of DS362 has significant implications on China’s IP regime. In order to satisfy the requirements of the Panel, China amended its Copyright Law in 2010. The new Article 4 no longer denies copyright protection to works failing content review, but maintains China’s sovereign right to review, approve, or prohibit content as a means of filtering unconstitutional or immoral content. Moreover, the Customs regulations were amended correspondingly. The authority of Customs, except under exceptional circumstance, cannot auction off the infringing goods if the means of disposal is merely removing the infringing

⁷⁸ *Id.* Para. 7.103.

⁷⁹ *Id.* Paras. 7.119, 201.

⁸⁰ *Id.* Para. 7. 197.

⁸¹ *Id.*

⁸² *Id.* Paras. 7. 199-202.

⁸³ *Id.* Para. 7. 244.

⁸⁴ *Id.* Para. 7. 326, 345.

⁸⁵ *Id.* Paras. 391-94.

trademarks from infringing goods.⁸⁶ However, this provision is not applicable to exported infringing goods, or goods infringing copyright or patents. Furthermore, this WTO case urges China to improve the enforcement to comply with the obligations under the international treaties. As a result, strengthening the enforcement of IPRs is recognized as an important strategy in the Outline of National Intellectual Property Strategy.⁸⁷ This file recognizes the significance of improving the court system, optimizing judicial interpretation, and ensuring well-trained human resource for domestic enforcement and border control.⁸⁸ But, the level of protection is still not up to par.

Another WTO case was brought by the US is DS 363/ China — Publications and Audiovisual Products.⁸⁹ The US claimed that China's practices are inconsistent with its WTO obligations concerning some measures (1) restricting trading rights of foreign companies with respect to imported films, audiovisual home entertainment products, sound recordings, and publications; (2) restricting market access for foreign companies with respect to distribution services for publications, audiovisual services and sound recording distribution services. China refuted the US' arguments and asserted these measures aim to establish a content review mechanism rather than restrict trading rights of, or market access for foreign companies.⁹⁰ The Panel held that China's measures constitute a violation of its WTO obligations because only approved companies may import films into China. China disagreed with the Panel and asserted that 'films for theatrical release' should be regarded as 'content', but not be categorized into 'goods'.⁹¹ However, the Appellate Body upheld the Panel's opinion based on its finding that China does not establish clear distinction between 'content' and 'good'.⁹² Besides,

⁸⁶ Regulations on Customs Protection of IPRs, art. 27 (3).

⁸⁷ Outline of the National Intellectual Property Strategy (Promulgated by the State Council of China, June 5, 2008), available at http://www.gov.cn/zwggk/2008-06/10/content_1012269.htm (last visited 07 November, 2013).

⁸⁸ *Id.* Para. 45. 'It shall improve the intellectual property judicial system, optimize the allocation of judicial resources and simplify relief procedures. The establishment of IP tribunal shall be studied.....'; para. 46. 'It shall enhance judicial interpretation for IP. In light of features of IP cases, proceeding systems including expert evidence, expert witness, and technical investigation shall be established and improved, and the pre-judgment interim measure system shall be improved.....'; para. 47. 'It shall improve qualities of law-enforcement personnel for intellectual property, reasonably allocate law-enforcement resources and raise law-enforcement efficiency.....'; para. 48. 'It shall spend more efforts on law enforcement in customs, enhance intellectual property protection at boundaries, and maintain good import and export order, so as to improve popularity of Chinese exports.....'.

⁸⁹ WT/DS363/R, available at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds363_e.htm (last visited 2 November, 2013);

WT/DS363/AB/R, available at http://www.wto.org/english/tratop_e/dispu_e/363abr_e.pdf (last visited 2 November, 2013).

⁹⁰ *Id.* WT/DS363/AB/R, paras. 1-4.

⁹¹ *Id.* Para. 169.

⁹² *Id.* Paras. 199-20.

China argued the restricting measures constitute an exception to its trading obligations because of their purpose of securing public morals. The Panel and the Appellate Body did not agree. They considered that China failed the ‘necessary’ test because the alternative measures have been proposed by the US, which means an alternative way is reasonably available to China.⁹³ Another key issue of this case is whether ‘sound recordings distribution services’ covers the distribution services of sound recordings in non-physical form. The Panel held that the electronic distribution of sound recording services is included under the framework of General Agreement on Trade in Services (GATS); therefore, any measure prohibiting foreign companies from distributing sound recordings in electronic form is in violation of the national treatment provision.⁹⁴ China claimed the Panel’s ruling errs in analyzing the meaning of the term ‘sound recordings distribution services’ in light of the object of the treaty.⁹⁵ The Appellate Body rejected China’s claims and explained that the term ‘sound recordings distribution services’ should be interpreted in a generic way that is consistent with the customary rules of public international laws; therefore, the term can be extensively applied to the distribution in non-physical form.⁹⁶

China has made considerable efforts to implement these rulings and recommendations of the DSB.⁹⁷ On 12 July 2010, China and the US informed the DSB that they had reached an agreement allowing China to implement the rulings and recommendations of the DSB within 14 months from the date of adoption of the Appellate Body and Panel reports.⁹⁸ In order to fulfill the obligation under the WTO, China has amended laws and legal regulations concerning the measures at issue, including Regulations on the Management of Publications, Regulations on the Management of Audiovisual Products, Provisions on the Administration of the Publications Market, Catalogue of Industries for Guiding Foreign Investment, Measures for Administration of Subscription of Imported Publications by Subscribers, Measures on the Administration of Importation of Audiovisual Products, Several Opinions of the Ministry of Culture on Development and Administration of Network Music, and so on.⁹⁹ Significantly, in February 2012, China and the US concluded Memorandum of Understanding between the PRC and the US Regarding Films for Theatrical Release.¹⁰⁰ In this Memorandum, China and the US reach a series of agreement, including (1) permitting 34 foreign films into China annually subject to a revenue-sharing contract;¹⁰¹ (2) increasing the percentage of revenue allocated to the US’ enterprises to 25%;¹⁰² (3) confirming a competition market for distribution and no barriers to the US’ enterprises contracting with approved Chinese enterprises regarding distribution of imported

⁹³ *Id.* Para. 415.

⁹⁴ *Id.* Paras. 338-39.

⁹⁵ *Id.* Para. 415.

⁹⁶ *Id.* Para. 397.

⁹⁷ Status Report by China, WT/DS363/17/Add.15.

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ Memorandum of Understanding between the People's Republic of China and the United States of America Regarding Films for Theatrical Release, available at <http://www.state.gov/documents/organization/202987.pdf>.

¹⁰¹ *Id.* Para. 1.

¹⁰² *Id.* Para. 2.

films;¹⁰³ and (4) ensuring a transparent process for content review.¹⁰⁴

In this regard, China needs to be forced to go to its treaty obligations. Since the measures at issue involve more cultural and administrative matters than other disputes, China experienced serious difficulties in the process of implementation. On the one hand, China lists the conformity with the WTO rules in order of priority; on the other hand, China still tries to hold controlling power to control import and distribution of content works. In fact, the dispute involved in Case DS363 is not purely an issue in the field of trade, but a complex outcome of the contemporary political system and administrative management system of China. The WTO regulations are extremely useful to make China implement its member obligations, such as urging China to amend its laws to be consistent with the WTO rules. However, this mechanism has limited abilities to promote China to establish a complete competition market for content works as expected by those large culture-exporting countries, because the control over content works involving political and administrative matters could be part of national sovereignty as long as the controlling measures do not violate the international laws. Therefore, a promising solution may be achieved along with the progressive liberalization of the Chinese political system. It can be expected that enforcing IP treaties would stimulate externalization in China and promote free speech.

Anyway, the US that utilizes multiple means including Section 301 and the mechanism of DSB has become a constant source of external pressure on China to improve its IP system.

Meanwhile, the pressure also originates from other developed countries. The developed countries earn huge profits through technology transfer and transactions of technology-intensive products in Chinese markets. Consequently, they are urging China to improve the level of IP protection, even though their power is much less than that of the US. For example, Japan has applied for participating in the accusation brought by the US against China as the 'third party'.

It merits noting that EU, different from the US that usually uses trade sanctions and retaliation as a tool to putting pressures on China, prefers to promote cooperation between it and China to strengthen IPR enforcement in China. In fact, some empirical evidence has showed that "a coercive policy towards IPR protection is misconceived and ineffective in obtaining the desired results".¹⁰⁵ In order to achieve this objective, EU successfully implemented IPR2, an important project, from 2007 to 2011. It targets 'the reliability, efficiency and accessibility of the IP protection system, aimed at establishing a sustainable environment for effective IPR enforcement in China'.¹⁰⁶ IPR2 mainly focuses on capability building and IPR enforcement, hence implements a series of training and conference on improving IP management and administration. For instance, in 2010, IPR2 cooperating with the Ministry of Science and Technology (MOST) trained 200 representatives of local department and industry from different locations,

¹⁰³ *Id.* Para. 4-8.

¹⁰⁴ *Id.* Para. 9.

¹⁰⁵ Shi, Wei, & Weatherley, Robert, *Harmony or Coercion? China-EU Trade Dispute Involving Intellectual Property Enforcement*, 25 Wisconsin International Law Journal 439, 439 (2007).

¹⁰⁶ A Milestone for EU-China Co-operation on the Protection and Enforcement of Intellectual Property Rights, available at <http://www.ipr2.org/aboutipr2.html> (last visited 07 November, 2013).

which aimed to build the capability of local IP departments to develop IP management strategies, and to build the capability of small and medium enterprises to use and protect their IPRs both at home and abroad.¹⁰⁷ The positive outcome of this training session is a better understanding of how to access IP resources of EU and China, how to develop IP strategies and creates a fair IP environment, and how to follow the rules of EU and international practice in general.¹⁰⁸ Similarly, the training is also provided for Chinese scholars. Some scholars of Chinese IP authorities are selected to pursue a LL.M program that covers the legal framework of the international IP system. It is to offer a global perspective for Chinese young officials to deepen their knowledge on IP, and thereby to strengthen the capability of IPR enforcement in China in the long term.¹⁰⁹ The students present their experience in this program: “During each class, the professors and practitioners do not only present the latest developments of the legal instruments of IP but also strategic and useful skills in dealing with real-life cases”,¹¹⁰ “the wide range of courses and seminars greatly broadened [the] vision and mind in the IP world”,¹¹¹ and such. This form of training would achieve success in capacity building of IP authorities, given that dissemination of IP knowledge among young officials promotes the evolution of Chinese IP protection system and the progress of its harmonization with international framework. Moreover, IPR2 also hosts a training course for professionals from key IP authorities to achieve a deep understanding of the functioning of IPRs. The content of training mainly includes a detailed introduction to European IP laws and enforcement practices in European countries, and the importance and function of IPRs in a European - Chinese business context.¹¹²

Furthermore, IPR2 led to increasing IPR enforcement in China, especially in cooperation between customs and right holders in the EU and China. The workshops between customs experts were held four times, respectively in November 2009, March 2010, November 2010, and May 2011.¹¹³ Chinese and EU customs exerted efforts in the following aspects: (1) to establish a stable mechanism of information exchange for analysis of seizures, trends and general

¹⁰⁷ EU-China Training on IP management, available at http://www.ipr2.org/index.php?option=com_content&view=article&id=1331:eu-china-training-on-ip-management&catid=107:capacity-building&Itemid=82 (last visited 5 October, 2013).

¹⁰⁸ *Id.*

¹⁰⁹ Chinese Masters Graduates of European IP Law, available at http://www.ipr2.org/index.php?option=com_content&view=article&id=1325:chinese-masters-graduates-of-european-ip-law-2009-2010&catid=107:capacity-building&Itemid=82 (last visited 4 October, 2013).

¹¹⁰ *Id.*

¹¹¹ *Id.*

¹¹² EU-China Training on IP European Intellectual Property Law, available at http://www.ipr2.org/index.php?option=com_content&view=article&id=1359:eu-china-training-on-ip-european-intellectual-property-law&catid=107:capacity-building&Itemid=82 (last visited 5 October, 2013).

¹¹³ EU-China Customs Action Plan: 4th Expert Group Meeting, available at http://www.ipr2.org/index.php?option=com_content&view=article&id=1407:eu-china-customs-action-plan-4th-expert-group-meeting&catid=101:-enforcement&Itemid=84 (last visited 5 October, 2013).

risk information; (2) to develop networks in important ports and airports to target high risk goods; (3) to share experience with regard to providing seizure information to assist other authorities to stop production of infringing goods and destroy the distribution network; and (4) to develop the partnership in trade business between the EU and China.¹¹⁴ These measures directly increased the capability of customs for data exchange, as well as the opportunities for right holders to participate the IPR enforcement system. Besides, IPR2 holds ‘moot courts’ to simulate enforcement proceedings for infringing cases, which offers Chinese professionals a good understanding of the methodology and reasoning of court decisions with a comparative perspective between the EU and China.¹¹⁵ It gives Chinese professionals a close view to the similarities and differences of IP enforcement procedures and practices between different legal systems. IPR2 also contributes to training courses that Chinese judges pursued in the National Judges College.¹¹⁶ In order to build judges’ capacity with more comprehensive knowledge, the National Judges College offers a series of courses to support their professional development. In light of the increasing number of IP cases and the complexity of technicality, building capacity of judges is quite important for IPR enforcement in a long term. The efforts of IPR2 not only confirm such importance, but also present the frankness and willingness of the EU to assist China in improving its enforcement capability.

In conclusion, China is always under pressure from the advanced countries, which takes the form of force and dialogue. Both of them help China improving IP protection and enforcement. In comparison, the form of dialogue seems a more preferable way for China, because it will not expose China to the risk of trade retaliation, and can help China to build its internal capability to improve the IP protection environment. Indeed, the challenges China is facing now are not caused by the weak legislation but the weak enforcement capability. The pressure from the WTO suits and trade retaliation can perhaps raise China’s concern and thereby promote IP protection to some extent, but it is not beneficial to solve the fundamental problems that cause the inefficiency of IP enforcement in China. In this regard, China will benefit more from the form of the dialogue with friendly assistants.

2.2.2 Pushed by International Organizations

The WIPO and the WTO are the most important international organizations pushing China’s progress. The WIPO played a major role at the formation stage of

¹¹⁴ *Id.*

¹¹⁵ Protecting IPR at Trade Fairs: Enforcement Proceedings in A Moot Court Atting, available at

http://www.ipr2.org/index.php?option=com_content&view=article&id=1260:protecting-ipr-at-trade-fairs-enforcement-proceedings-in-a-moot-court-setting&catid=101:-enforcement&Itemid=84 (last visited 5 October, 2013).

¹¹⁶ EU-China Training with the National Judges College, available at http://www.ipr2.org/index.php?option=com_content&view=article&id=1182:eu-china-training-with-the-national-judges-college&catid=101:-enforcement&Itemid=84 (last visited 5 October, 2013).

China's IP protection. Since China became a contracting country of the WIPO, it has ratified a series of international conventions and agreements, which are embedded in corresponding national laws. For example, the first Patent Law was formulated referring to the Paris Convention and the first Copyright Law was framed based on the Universal Copyright Convention. Moreover, after joining the Berne Convention, China revised its copyright laws to comply with its obligations.

Furthermore, China's WTO membership is another source of pressure. It is well known that the TRIPS agreement, one of the most important agreements in the WTO system, established a minimum standard for IP protection. Pursuant to the Protocol of Accession for China, China must comply fully with the TRIPS Agreement upon its entry into the WTO. After access to the WTO, China has devoted itself to reforming its IP system, fearing the retaliation that may be incurred following any violation. China has launched three rounds of amendments in IP laws, which has brought deep changes to Chinese society.

2.3 Conclusion

This chapter discusses the determinants of IP regimes and explores how these determinants influence the Chinese IP system. It is found that although IP protection is generally regarded as a legal issue, this is not the whole picture. The level of IP protection is determined by numerous factors including economic considerations, cultures, history, morality, social ideology, foreign pressure and so on. Nations develop their IP systems based on their national situation; at the same time, they have to make efforts to harmonize their IP systems with the international standards. In addition, the pressure imposed by foreign governments and international organizations contributes to China's achievement as well. In view of China's economic and technology development, it can be concluded that China will have stronger will to strengthen IP protection in its self-interests. Just like what Professor Yu said, China will experience a crossover "from pirate to holdout to enforcer" in the near future.¹¹⁷

¹¹⁷ Yu, Peter K., *Access to Medicines, BRICS Alliances, and Collective Action*, 34 *American Journal of Law & Medicine* 345, 391 (2008).

Chapter 3

A Reflection on China's Patent System

3.1 The historical development of China's Patent Law

The history of patent ideology in China can be tracked back to hundreds of years ago. In the Qing Dynasty,¹ a leader of the Taiping Heavenly Kingdom, Mr. R. G. Hong, suggested establishing a system for protecting inventions in his famous publication, namely 'ZI ZHEN XIN PIAN'; and shortly after that, Emperor Guangxu granted an exclusive right to an innovative technology of mechanical weaving in 1882.² In 1898, the Qing government enacted the Reward Regulations on the Development of Technology, but in the end this did not enter into force. Although this policy implies the encouragement of technological innovation, it is not a real patent law because it does not include examination procedures and provisions of exclusive rights.³ Shortly thereafter, the Beiyang government promulgated the Provisional Regulations on Technology Reward in 1911, under which a patent could be granted to an invention or an improved technology.⁴ It is the first time the elements of the patent system, such as patentable subject matters, the first-to-file principle, patent transfer, legal liabilities and so on were introduced. The first patent law in Chinese history was enacted in 1944 when China was controlled by the Kuomintang.⁵ Under this patent law, there were three kinds of patents: invention, utility model and new design, being similar to the modern patent law. However, only a few patents were granted at that time. Since the establishment of the People's Republic of China, several regulations concerning the protection of inventions were promulgated from 1950 to 1978, but they did not actually constitute patent law. During this period, the mechanism for stimulating innovation was to reward scientific and technological achievements.⁶

Overall, the sluggish development of the patent system is attributed to two factors: the economic structure of Chinese society and traditional Chinese culture. For thousands of years, China had developed a self-sufficient agricultural-based

¹ A. D. 1616-1911.

² Zheng, Chengsi, On Intellectual Property [Lun Zhi Shi Chan Quan] (Social Science Academic Press, Beijing) 3-18 (2007).

³ Zheng, Chengsi, Intellectual Property [Zhi Shi Chan Quan] (Law Publishing House, Beijing) 10 (1999).

⁴ Available at

<http://www.bjkw.gov.cn/n1143/n1240/n1465/n2261/n14623/n14728/n14968/468576.html> (last visited 3 July, 2010).

⁵ Zheng, Chengsi, Textbook for Intellectual Property Law [Zhi Shi Chan Quan Fa – Jiao Cai] (Law Publishing House, Beijing) 232 (1997).

⁶ Wang, Yankun, Social Operation of Scientific Reward [Ke Ji Jiang Li De She Hui Yun Xing] (Huazhong University of Science Technology Publishing, Wuhan) 34 (1993).

economy. China paid little attention to developing industries, which did not create good conditions for developing a patent system. On the other hand, influenced by Confucianism, China's traditional culture advocates knowledge dissemination and sharing free of charge. This means that private rights to intellectual creations could not be respected fully in Chinese society. This chapter has no intention of reviewing the historical development before the establishment of the PRC in detail, but only focuses on the modern patent system in China.

Since adopting 'the policy of reform and opening up', China has launched three legislative campaigns. In the first campaign, which took place in the 1980s, China started to establish an intellectual property (IP) system in response to international pressure and domestic needs. At this stage, the Patent Law was enacted in 1984. Even though this law provided limited protection for IP from today's point of view, it was of great significance because it demonstrated China's transformation from a country without a modern IP system to one with a comprehensive and systematic IP system. The second revolution, lasting from 1990 to 2002, brought China closer to the international standard for IP protection. At this stage, China continued its efforts to increase the level of IP protection. Meanwhile, threats of sanctions by the United States and a subsequent Sino-US Memorandum of Understanding on IP Rights (1992 MOU) resulted directly in the first round of amendments to IP laws.⁷ In 1992, China revised the Patent Law, and announced the Implementation Regulations of the Patent Law. In order to join the WTO successfully, China launched the second amendment to the Patent Law in 2000. China's attempts led to its primary success in complying with the minimum standard of IP protection requested by the TRIPS Agreement.⁸ The latest campaign, launched around 2008, aimed to optimize the IP system to keep up with the pace of globalization and to meet the needs of the domestic industrial and cultural sectors. Since the Action Plan on IPRs protection 2006 was issued and the Outline of the National IP Strategy was released by the State Council of China in 2008, China has started on the third amendment of its IP laws and related regulations.⁹ The three major IP laws, the Patent Law, the Copyright Law and the Trademark Law, together with their corresponding Implementation Regulations, were subsequently revised. This round of amendments demonstrates China's great determination and efforts to develop the IP system. It extends the scope of IP protection, clarifies legal language, the systematizing laws, doctrines, jurisprudence and procedures and so on.

China's achievements can also be observed with regard to its presence in the international community. Since 1980, China has ratified a variety of international treaties and conventions relating to IP protection. In the 1980s, it joined the WIPO

⁷ Yang, Deli, *The Development of Intellectual Property in China*, 25 World Patent Information 131, 131-42 (2003).

⁸ Liu, Chuntian, *The Achievements and Challenges China Faces in A Decade Since Access to the WTO [Ru Shi Shi Lian De Cheng Jiu Yu Tiao Zhan]*, 10 Intellectual Property [Zhi Shi Chan Quan] 15, 15-18 (2011).

⁹ China's Action Plan on IPR Protection 2006 (Promulgated by the State Office of IP Protection of China, April 30, 2006), available at <http://www.china.org.cn/english/China/167370.htm> (last visited 24 July, 2010); the Outline of the National IP Strategy (Issued by the State Council of the People's Republic of China on June 5, 2008), available at http://www.gov.cn/english/2008-06/21/content_1023471.htm (last visited 24 July, 2010).

(in 1980), and soon afterward ratified the Paris Convention.¹⁰ In the 1990s, it signed almost all the important international IP conventions, including the Patent Cooperation Treaty.¹¹ In 2001, China became a member party of the WTO. Since then, the TRIPS Agreement, a document of the Uruguay Round of the WTO, has been one of the most important references for IP legislation in China.

This chapter briefly reviews the historical development of the patent law to illustrate China's dramatic transformation, discusses the latest amendment and the implications, analyzes sensitive issues concerning IP protection and proposes optimal solutions to these issues based on comparative studies of different legal systems.

3.2 The improvement of China's patent system in the last twenty years

The Patent Law of China came into force in 1984, and was subsequently revised three times in 1992, 2000 and 2008. Based on the national situation and some Western concepts, the 1984 Patent Law established a basic framework for IP protection. It provided protection for three types of patents, namely inventions, utility models and designs. Similar to many other patent systems in the world, it adopted a first-to-file system, in which the first entity that files a patent application is granted the patent.¹² As regards examination procedures, it adopted two approaches to examine different types of applications. The one was used for invention patent applications, in which a preliminary examination, earlier publication and a substantive examination were necessary procedures for granting a patent. The other, designed for utility model and design applications, was much less complicated than the first, as only a preliminary examination was required and both earlier publication and a substantive examination were not required.¹³ Furthermore, the 1984 Patent Law acknowledged the principles of national treatment, right of priority and independence of patents, demonstrating its consistency with the Paris Convention even though China had not ratified it when this patent law was enacted.¹⁴ It is worth mentioning that, since then, a 'dual-track' system has been established to ensure IP enforcement, which has provided parallel protection through administrative and judicial routes.¹⁵ Nevertheless, it can be observed that the scope of subject matters was very limited, the duration of protection was short and private interests were not adequately recognized under this patent law.¹⁶ Overall, although this patent law offered protection at a relatively

¹⁰ Paris Convention for the Protection of Industrial Property, was signed in 1883, and subsequently revised in 1890, 1911, 1925, 1934 1958, 1967, and 1979. China ratified it in 1985.

¹¹ China ratified the Patent Cooperation Treaty in 1994.

¹² The Patent Law of China, it was promulgated in 1984 and entered into force on April 1, 1985, art. 9.

¹³ *Id.* art. 34, 35 and 40.

¹⁴ *Id.* art. 18, 29, 30 and 36.

¹⁵ *Id.* art. 63, 64 and 65.

¹⁶ Under the 1984 Patent Law of China, the duration of protection for invention patents was 15 years. Moreover, the rules on the employee invention almost ignored the right of inventors, because the inventor of an employee invention could not obtain the ownership of a patent in any case, and the rules on remuneration for

low level, it is of special significance in view of the circumstance at that time that people had serious doubts as to whether the patent system could work for improving technology development.¹⁷

The first amendment of the Patent Law was pushed by the 1992 MOU. It made substantial progress. First, food, pharmaceuticals and chemicals were incorporated into the patentable subject matters.¹⁸ Second, under this revision, protection was offered not only for the patented product and process, but also provided for the product directly obtained from the patented process.¹⁹ Third, the duration of an invention patent was extended to 20 years.²⁰ Fourth, granting a compulsory license was allowed in the case of a national emergency or any extraordinary state of affairs.²¹ Fifth, the pre-grant opposition procedure was replaced by the post-grant revocation procedure.²² Sixth, the doctrine of right to priority could be applied where an application for the invention patent or utility model was first filed in China.²³

China's motivation to join the WTO led to the second round of revisions in 2000, which aligned the Patent Law with the TRIPS Agreement. Generally, this amendment strengthened IP protection and facilitated procedures of patent application, examination and assignment. It clarified the ownership of employee inventions;²⁴ recognized the right to remuneration of the employee inventor;²⁵ provided patentees with a new exclusive right to 'offer to sell';²⁶ confirmed that using, selling and offering to sell a patented product without the license of the patentee would be an infringement, even where an act in good faith was concerned;²⁷ and created a system of pre-trial injunction.²⁸ Furthermore, it cancelled the revocation procedure to expedite the process of patent granting.²⁹ In addition, it simplified procedures of assigning patents and applying for patents in other countries.³⁰

The latest amendment made in 2008 has created further consistency with international positions. In total, it adds 4 new articles, removes 4 articles and

the employee invention remained unformulated. In addition, it proposed situations for granting compulsory licenses in a broad scope, which resulted in a high possibility of compulsory licenses being granted.

¹⁷ Ma, Ning, *Talking about the Chances of Value Orientation of China's Patent Law from a Perspective of the Third Round of Patent Law Amendments* [Cong Zhuanli Fa Di San Ci Xiugai Tan Zhongguo Zhuanli Lifa Jiazhi Quxiang De Bianhua], 19 *Journal of Intellectual Property* 69, 69-74 (2009).

¹⁸ The Patent Law of China of 1992, art. 25.

¹⁹ *Id.* art. 11.

²⁰ *Id.* art. 45.

²¹ *Id.* art. 52.

²² *Id.* art. 41.

²³ *Id.* art. 29.

²⁴ The Patent Law of China of 2000, it was promulgated on 25 August 2000 and came into force on 1 July 2001, art. 6 and 8.

²⁵ *Id.* art. 16.

²⁶ *Id.* art. 63.

²⁷ *Id.*

²⁸ *Id.* art. 61.

²⁹ *Id.* art. 46.

³⁰ *Id.* art. 10 and 20.

revises 28 articles. These changes are targeted at promoting national innovation capacity and building a more advanced IP regime in China. The major contributions and implications are discussed below.

An 'absolute standard'

Above all, the new Chinese patent law (NCPL) enhances the novelty requirement by introducing an 'absolute standard'. In other words, any public disclosure prior to the filing date of the patent application, no matter where in the world, would be relevant for novelty.³¹ Thus, the standard of novelty as regards public use is raised from 'in China' only to 'anywhere in the world'.

The absolute standard of novelty complies with the principle of flexibility under the TRIPS Agreement, because it does not give an interpretation of the criterion of novelty. The rationale behind the novelty requirement is to prevent the granting of exclusive rights to something already available, which may cause unjust monopolies. Under the TRIPS Agreement, the principle of flexibility allows countries to decide what kinds of innovations are worth rewarding.

The new standard is expected to promote the quality of patent applications. It does not allow applications for existing technologies in the world. The strict standard prevents the opportunistic behavior of searching for existing technologies that have not yet been used or made known publicly in China and applying for patents for them, thus reducing the costs of manufacture or subsequent R&D, which is carried out based on these technologies. From this point of view, this higher standard regarding novelty could benefit subsequent innovations and encourage competition.

Clarifying compulsory licenses

The new patent law clarifies the conditions for compulsory licenses and adds some new cases for granting compulsory licenses. First, it revises the provision regarding refusal to license. Under the previous patent law, compulsory licensing would be available if an applicant who satisfies the relevant requirement cannot obtain a voluntary license on reasonable terms. This stipulation is criticized because it only emphasizes the unavailability of a voluntary license, but ignores the fact that refusal to license does not by itself necessarily impair the potential market and result in the abuse of IP rights.³² Generally, the patentee may refuse to license due to business considerations. If such a refusal does not unfairly limit competition or impair the public interest, it should not be regarded as abuse of rights. Consequently, the NCPL has removed the previous provision, divided the forms of abuse into two categories, namely insufficient exploitation and anti-competitive activities, and listed the refusal to license as a necessary condition of insufficient exploitation. In detail, in the case of insufficient exploitation, where the patentee fails to exploit or sufficiently exploit the patent from three years after the grant of the patent or four years after filing it, the patent administrative department under the State Council has the authority to grant a compulsory

³¹ The Patent Law of China of 2008, it was promulgated on 27 December 2008 and came into force on 1 October 2009, art. 22.

³² Nguyen, Tu T., *Competition Law and Access to Pharmaceutical Technology in the Developing World*, 28 Biotechnology Law Report 693, 693-715 (2009).

license.³³ In order to clarify the concept of insufficient exploitation, the Implementing Regulation of the Patent Law, released in 2010, gives a further explanation. It entails a situation where the method or scale of exploiting the claimed patent cannot meet the domestic need for the patented work.³⁴ Moreover, an applicant who claims insufficient exploitation must prove that he has made efforts to obtain a voluntary license but failed. As regards the second form of abuse, anti-competitive activities, the NCPL has added a provision to counter them.³⁵ Under this rule, a compulsory license would be granted, where the patentee's use is identified as a negative monopolistic activity, to alleviate a perceived anticompetitive effect caused by such an activity.

Moreover, the NCPL reconfirms that the patent administrative department can issue compulsory licenses for manufacturing patented medicines in the case of a national emergency or any extraordinary state of affairs, or for reasons regarding public security.³⁶ The patented medicine in this case refers to 'any patented product or product directly obtained according to patented processes in the medical and pharmaceutical field to address public issues.'³⁷ At the same time, it has added an article pertaining to compulsory licenses for exportation. Under this new article, a compulsory license may be issued for public health reasons to allow the manufacturing of patented medicines and exporting to qualifying countries under international treaties that China has entered into.³⁸ This provision is generally parallel to the Doha Ministerial Declaration on the TRIPS Agreement and Public Health (the Doha Declaration), which aims to promote access to affordable medicines for the interest of public health.³⁹ Considering the importance of pharmaceuticals for public health, the Doha Declaration and Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health (Paragraph 6 Decision) distinguish drugs from other traded commodities.⁴⁰ The Paragraph 6 Decision waives the requirement of Article 31(f) and allows member countries to produce generic copies of patented drugs under compulsory licenses and export them to eligible importing countries that have insufficient or no manufacturing capacities. Therefore, China's new revision concerning compulsory licenses is consistent with the waiver system under the Paragraph 6 Decision. In fact, in 2005, the Measures to Implement Public Health-Related Compulsory Licensing enacted by the State Intellectual Property Office of China (SIPO) definitely allowed compulsory licenses for exportation.⁴¹ Although it seems that the NCPL merely repeats the administrative regulations mentioned above, it

³³ *Supra* note 31, art. 48(1).

³⁴ *Id.* art. 48(2).

³⁵ Implementing Regulation of the Patent Law (2010), art. 73.

³⁶ *Supra* note 31, art. 49.

³⁷ *Supra* note 35.

³⁸ *Supra* note 31, art. 50.

³⁹ Declaration on the TRIPS Agreement and Public Health, Nov. 14, 2001, 4th Sess., Doha Ministerial Conference, WT/MIN(01)/DEC/W/2 (Nov. 20, 2001).

⁴⁰ WTO General Council, Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, (hereafter 'Paragraph 6') Doc. No. 03-4582 WT/L/540 (Sept. 2, 2003).

⁴¹ Measures to Implement Public Health-Related Compulsory Licensing (2005), art. 9.

elevates the hierarchy of the provision so that it offers a better foundation for implementing this doctrine.

These provisions aim to establish a dynamic market, ensure public interests, and especially help less-developed countries gain access to essential technologies and products. Even though no compulsory license has been issued in China yet, successful practice in other countries has illustrated its positive effects on promoting competition and reducing the price of medicines. First, the patentee would be challenged if it exploits the claimed patent in an anticompetitive way. For example, in the past few years Abbott Laboratories was involved in several lawsuits due to its false use of its monopoly position concerning the Norvir AIDS drug to inflate the price unreasonably.⁴² Similarly, in 2005, AstraZeneca, another leading biopharmaceutical company, was fined 60 million euros for misusing patent systems to prevent generic competitors from entering into the relevant market.⁴³ Second, the provision regarding compulsory licenses may help the poor obtain cheaper medicines. For instance, from 2002 Zimbabwe issued several compulsory licenses to allow Zimbabwean registered companies to produce the patented antiretroviral drug on the condition that the produced drugs would be supplied to national health institutions at a controlled price. Another example is Brazil. Because the negotiations with the drug's patentee Merck & Co. on price reduction had failed, the Brazilian government issued compulsory license provisions for permitting the importation and production of generic drugs, efavirenz. Thus, the price patients paid for this drug per day were reduced from US\$1.56 to \$0.45 by importing generic Indian products.⁴⁴

China seems to have quite a conservative attitude toward the implementing of compulsory licensing. This may be attributed to the external political pressure. Even though China has several times experienced serious public health crises, it always adopts a prudent attitude toward this issue. In fact, it would be sensible for China to apply compulsory licensing for public interest reasons within the flexibility system of the TRIPS Agreement and the Doha Declaration. Under the international legal framework, the grounds for granting compulsory licenses include price fixing, barriers to entry, refusal to license, undue market-concentrating mergers and barriers to parallel imports. In a nutshell, China could consider implementing this system when necessary rather than use it as an ornament.

⁴² These lawsuits were brought by the U.S. Food and Drug Administration, international organizations, a group of generic drug makers, retailers and wholesalers, etc., available at <http://www.whatisaids.com/pharma.htm>; <http://www.actupny.org/reports/abbottgreed.html> (last visited 23 September, 2010); also see *Pharmalot, Abbott Settles Tri-Cor Litigation For \$184 Million*, available at

<http://www.medworm.com/rss/search.php?qu=abbott&t=abbott&r=Exact&f=tag&o=r&page=2> (last visited 20 November, 2010).

⁴³ *Competition: Commission fines AstraZeneca €60 million for misusing patent system to delay market entry of competing generic drugs*, available at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/737> (last visited 20 November, 2010).

⁴⁴ *Alcorn, Keith, Brazil Issues Compulsory License on Efavirenz*, available at <http://www.aidsmap.com/en/news/0550CE62-3F90-4603-932C-EF69E1B4485D.asp> (last visited 20 November, 2010).

Accepting International Patent Exhaustion

The new patent law re-affirms patent exhaustion and accepts the concept of international patent exhaustion. Article 69 definitely states that where a product is sold or licensed to be sold by the patentee, such a product can be used, offered for sale, sold, or imported.⁴⁵ Compared with the previous patent law, the right to import under the doctrine of patent exhaustion is a new addition, which demonstrates that parallel imports of a patented product into China would no longer be deemed a patent infringement. This amendment is expected to open the window for parallel imports and promote access to the patented products from cheaper international sources.

The international exhaustion policy allowing parallel imports has profound implications for Chinese consumers, especially in the pharmaceutical sector. Many international leading manufacturers adopt price discrimination policies across different markets; consequently, the parallel trade is meaningful for importing countries to be able to increase access to important products. Parallel imports directly benefit domestic consumers, enabling them to obtain cheaper commodities from foreign markets. Moreover, parallel imports can be utilized as negotiating leverage in the sense that original manufacturers might agree to supply at lower prices when faced with the threat of parallel imports. On the other hand, this policy may also have some potential negative impacts on domestic industries, especially in the long run. The enthusiasm for R&D would be dampened due to the free ride permitted by parallel imports and profit reductions suffered by the original manufacturers.⁴⁶ As a result, consumers' welfare would 'suffer over the long-term as declines in R&D would bring fewer new therapies to the market.'⁴⁷ Nevertheless, overall the benefits would outweigh the disadvantages at this stage. It should be noted that China is still a low-income country, where a lot of poor people cannot afford expensive but requisite commodities, such as life-saving drugs. Moreover, domestic firms have insufficient innovation capacity for developing requisite products.

Introducing the 'Bolar exemption'

The 'Bolar exemption' was newly added in the third round of amendments, under which the manufacture, use and importation of patented drugs or medical devices for the limited purpose of obtaining regulatory approval are exempted from infringement.⁴⁸ Therefore, pharmaceutical companies are allowed to use patented drugs to obtain regulatory approval prior to their expiry without the

⁴⁵ Supra note 31, art. 69(1).

⁴⁶ Maskus, Keith E., *Parallel Imports in Pharmaceuticals: Implications for Competition and Prices in Developing Countries* (2001), available at http://www.wipo.int/about-ip/en/studies/pdf/ssa_maskus_pi.pdf (last visited 19 September, 2010).

⁴⁷ Barfield, Clause E. & Groombridge, Mark A., *Parallel Trade in the Pharmaceutical Industry: Implications for Innovation, Consumer Welfare, and Health Policy*, 10 *Fordham Intellectual Property Media & Entertainment Law Journal* 185 (2006).

⁴⁸ Supra note 31, art. 69(5).

patentee's license. Without the 'Bolar exemption', pharmaceutical companies would become entangled in disputes if they were to use the patented work for regulatory approval without permission. Before this amendment, a case related to a clinical trial attracted widespread attention and raised the question as to whether the use of a patented work for obtaining regulatory approval constitutes patent infringement. In this case, Sankyo Company of Japan and Shanghai Sankyo Pharmaceutical Company accused Beijing Wansheng Drug Company of using the patented matter without the patentee's permission.⁴⁹ The court finally dismissed the plaintiff's claims by holding that the defendant was using the patented matter merely for the purpose of research and regulatory review. Due to absence of a 'Bolar exemption' provision, the court asserted that using a patent for research and regulatory review does not constitute infringement because it does not fall into the category of infringement described in Article 11, which requires a business purpose.⁵⁰ Apparently, the court recognized that the complex and time-consuming process of seeking regulatory approval for a new drug would delay generic drugs from entering into the market, thereby actually extending the life of the patent and distorting the original legislative intention. However, it is unconvincing to argue that seeking regulatory approval does not have any business purpose at all. Article 11 of the Patent Law 2000 prohibits any use of a patent for business purposes without the patentee's permission, while it does not define the scope of business purposes.⁵¹ It is undeniable that using patented drugs for regulatory approval is ultimately targeted at success in sales. In this regard, it would be more sensible to state that seeking regulatory approval does not involve direct business purposes. Therefore, the new provision of 'Bolar exemption' offers a clear guideline on this issue by definitely allowing the exploitation of patented drugs or medical devices for the limited purpose of obtaining regulatory approval. It would benefit the public in accessing pharmaceuticals by facilitating generic competitors to enter into markets.

The 'Bolar exemption' is reconfirmed in Canadian Pharmaceuticals, where the WTO Panel held that the regulatory exception does not violate the requirement of the TRIPS Agreement.⁵² This case encourages generic drug companies to engage in R&D before the expiration of the patent so that new products can launch without an unfair delay.

At present, the generic industry has begun to hit its stride with the increasing expiration of drug patents. A variety of blockbuster drugs will lose their patent protection in the next few years.⁵³ Chinese generic drug companies, which contribute to China's prominent position in the global generic drug industry,

⁴⁹ *Sankyo Co., Ltd & Shanghai Sankyo Pharmaceutical Co., Ltd v. Beijing Wansheng Drug Industry Co., Ltd.*, *Erzhongminchuzi No.4134*, 2006.

⁵⁰ *Supra* note 24, art. 11.

⁵¹ *Id.*

⁵² WTO Panel Report on Canada – Patent Protection of Pharmaceutical Products, WT/DS114/R, available at <http://docsonline.wto.org> (last visited 9 November, 2011).

⁵³ Kathy Method, *Going, Going, Gone-Patents Set to Expire Soon on Many Brand-name Drugs*, available at <http://drugtopics.modernmedicine.com/drugtopics/Modern+Medicine+Now/Patent+s-soon-to-expire-for-many-brand-name-drugs/ArticleStandard/Article/detail/617015> (last visited 9 November, 2011).

should pay more attention to seizing such market opportunities by using the ‘Bolar exemption’. Accordingly, more efforts should be paid to patent information retrieval, market acquaintance, further R&D and so on.

Other revisions

In order to strengthen patent protection further, the new patent law expands protection for design patents to include the right of offering for sale, codifies the existing practice based on judicial interpretations for granting preliminary injunction and evidence preservation, increases the upper limit of statutory damages for patent infringements to RMB 100,000 and so on.⁵⁴

These new revisions present the certain ambitions. They are primarily expected to improve incentives for intellectual creation and promote the implementation of patents. By introducing an ‘absolute standard’ for the novelty requirement, the patent law not only aims to relieve the difficulties caused by the flood of low quality patent applications, but also to improve the overall quality of patents. New stipulations concerning the compulsory license and ‘Bolar’ exemption are expected to prohibit abuses of exclusive rights and strike new balance between the interests of right holders and the public. Despite such gradual improvements, the actual effects of these revisions are still doubtful. For example, the patent quality cannot be greatly improved by only adding an ‘absolute standard’ for the novelty requirement because of the protection pattern for the utility model in China, which will be discussed in the next section. Moreover, the new increased upper limit of statutory damages for patent infringement still seems very limited, especially for large investments in patent research and development. It will have little effect on deterring potential infringement or remedying the loss of right holders.

3.3 Contentious issues in the current patent system

As mentioned above, the three rounds of revisions bring China’s IP Laws closer to the international standard. Nevertheless, some issues in this regime remain controversial and unsolved due to multiple factors, such as legislative tradition, social resources and others. To some extent, China’s Patent Law literally transplants advanced approaches from other legal systems but more time is needed to get used to it and internalize it.

Several rounds of revision of laws clearly present China’s intention to establish a more effective system in order to facilitate patent applications and stimulate innovative activities. Despite the progress already achieved, China is still endeavoring to improve the efficiency of IP protection, balance the interests between right holders and the public, and prevent rampant infringement. This section discusses some sensitive issues existing in the current patent law, together with a comparison of different patent systems.

⁵⁴ *Supra* note 31, art. 2, 5, 11, 26, 65, 66 and 67.

3.3.1 A particular protection pattern of the utility model

Under the Patent Law, there are three types of patents: invention, utility model, and design. 'Invention' refers to a new technical solution relating to a product, a process or its improvement.⁵⁵ 'Utility model' means a new technical solution pertaining to a product's shape, structure or their combination.⁵⁶ In addition, both the invention and utility models should involve an inventive step and be susceptible to application.⁵⁷ 'Design' refers to a new design of the appearance of a product, which creates the aesthetics and is suitable for industrial application.⁵⁸

China has adopted a special legislative style that incorporates the utility model into the category of patents.⁵⁹ The utility model system aims to encourage innovation by granting protection for small innovations that cannot meet the inventiveness requirement of an invention patent and expediting the examination procedure. However, both the lower inventiveness requirement and a registration procedure only have resulted in numerous trivial patents and the fragile quality of utility model patents. Furthermore, the fact that courts have quite limited authority to assess the validity of a utility model makes it laborious to seek remedies in the case of infringement.

Like the invention patent, a utility model means an exclusive right to prevent any exploitation of the subject matter without the patentee's permission, which precludes others from using, producing, selling, offering to sell and importing it. In other words, the scope of protection of a utility model is almost the same as that of an invention. The major differences between the invention and the utility models exist in the application procedures, which are explained in the following four points. First, methods and processes are excluded from eligible subject matters for utility model protection, while they are allowed to apply the invention patent.⁶⁰ Second, the requirement of inventive steps for a utility model is lower than that for an invention. According to Article 22(3), an invention patent should have prominent substantive features and represent notable progress, but a patentable utility model is only required to have substantive features and represent progress.⁶¹ In fact, even though the legislators have attempted to express the different requirements between them by using the words 'prominent' and 'notable' in the legal terms, it is really difficult to assess precisely what the inventive level of a claimed art is in practice. Third, the examination procedure for a utility model patent application is much simpler and easier than that for an invention patent. In the case of a utility model application, the SIPO only implements the preliminary examination before deciding to grant a patent or reject the application. Under this procedure, a utility model patent will be granted without a substantive

⁵⁵ *Supra* note 31, art. 2.

⁵⁶ *Id.*

⁵⁷ *Supra* note 31, art. 22.

⁵⁸ *Supra* note 55.

⁵⁹ Other than in China, there are generally two protection styles pertaining to the utility model. One is to grant a separate exclusive right to the utility model, such as in Germany and Japan. The other one is not to provide special protection for technical solutions that involve a less inventive contribution, such as in the US and the Netherlands.

⁶⁰ *Supra* note 55.

⁶¹ *Supra* note 31, art. 22(3).

examination provided that the formal requirements are satisfied. By contrast, the examination procedure for an invention patent application involves a substantive examination, which evaluates whether the application meets the requirements of novelty, inventiveness and practical applicability.⁶² Fourth, the maximum duration of protection for a utility model, ten years, is shorter than that for an invention.⁶³

In order to analyze the rationality of the utility model system, it is necessary to review the history and rationale behind it. Utility model protection can be traced back to 1891, when the Utility Model Law was enacted in Germany, which was a precedent offering protection for utility models in the world. At that time, the Patent Law of Germany denied the patentability of inventions in the absence of sufficient inventiveness. Nevertheless, the needs from the industrial sector pushed the development of protection for some small inventions involving lower inventiveness and susceptible to industrial application. Accordingly, the Utility Model Law was created as a system to fill a gap between patent protection and no protection. Such a system has been modeled subsequently by other countries, such as Japan and many European continental countries.⁶⁴ Moreover, the current Utility Model Law of Germany is still the benchmark, under which any new invention involving an inventive step and susceptible to industrial application can obtain protection.⁶⁵ More importantly, this system has three outstanding features: the lower requirement of inventiveness, the simplified examination procedures and the convertible application system allowing the conversion of a utility model application to a patent application.

Other than the German pattern, another approach is different from the traditional patent protection, namely the short-term patent. Such a patent expedites the procedures of examination and approval, costs less and confers the same rights, but for a shorter period of protection compared with a traditional patent. However, distinguishing from the utility model pattern, the short-term patent requires an inventive step to be the same as the traditional one; therefore, it is usually referred to as a second-tier patent.⁶⁶ The Netherlands, Belgium and France have adopted this pattern in view of its expedited procedures and intact quality.

The utility model protection in China, to some extent, can be viewed as a result of learning from the West. However, distinguishing from the German pattern and the short-term patent pattern, China does not enact a separate law for utility model protection, but incorporates it into patent law. It does not require that the utility model reaches the same standard of inventiveness as an invention patent. This could offer excessive protection for trivial patents, which potentially impairs the public interest and thereby hinders innovation from a long-term perspective.

⁶² *Supra* note 31, art. 36, 37, 39 and 40.

⁶³ *Supra* note 31, art. 42. The maximum duration of protection for an invention is twenty years, counted from the date of application.

⁶⁴ Richards, John, *Utility Model Protection throughout the World*, available at <http://www.ipo.org/AM/Template.cfm?Template=/CM/ContentDisplay.cfm&ContentID=25244> (last visited 10 January, 2011).

⁶⁵ *Utility Model Law of Germany* (2005), art. 1(1).

⁶⁶ *Forms of Legal Protection for Technical Inventions*, available at http://www.ipr-helpdesk.org/documents/invencionesTecnicasBP_0000001055_00.xml.html (last visited 10 January, 2011).

At present, the utility model patent has been an essential component of China's patent pool; however, the quality appears to leave much to be desired. It is undeniable that at the initial stage, when the national innovation capacity was relatively low, the utility model system greatly contributed to encouraging domestic innovation, which is verified by increasing applications and grants for utility models in these years.⁶⁷ As shown in Table 3.1, the number of applications and grants for utility models has increased annually and the proportion of the utility model grants has always remained above 35%. On the other hand, Table 3.2 illustrates that utility model patents, indicating a low level of innovativeness, constitute the major part of all the patents. Moreover, according to the SIPO's statistics shown in Fig.3.1, the majority of the domestic utility models are maintained in force for only 2-4 years, much shorter than the maximum duration under the patent law.⁶⁸ This implies the poor quality of utility models in general.

Table 3.1 Applications and grants of utility models from 1985-2009

Year	Amount of Applications	Percentage of the total patent applications (%)	Amount of Grants	Percentage of the total patent grants (%)
1985-1990	102295	61.6	49009	79.5
1991-1995	214402	60.4	151316	73.2
1995-2000	277437	43.1	199527	54.2
2001	79722	39.2	54359	47.6
2002	93139	36.9	57484	43.4
2003	109115	35.4	68906	37.8
2004	112825	31.9	70623	37.1
2005	139566	29.3	79349	37.1
2006	161366	28.2	107655	40.2
2007	181324	26.1	150036	42.7
2008	225586	27.2	176675	42.9
2009	310771	31.8	203802	35.0

Source: The data have been collected and calculated according to the data published on the website of the SIPO.

Table 3.2 Patent grants for inventions, utility models, and designs from 2005 to 2009

Year	Total grants for three kinds of	Invention	Utility model	Design

⁶⁷ Before 1990, China's GDP was less than 1700 billion RMB; modern higher education was just at the primary stage; and domestic innovative activities were mainly engaged in by state-owned enterprises.

⁶⁸ SIPO, Briefing of Patent Statistics, available at http://www.sipo.gov.cn/sipo2008/ghfzs/ztjtb/201003/t20100329_509611.html (last visited 10 January, 2011).

	patents	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
2005	214003	53305	24.9	79349	37.1	81349	38.0
2006	268002	57786	21.6	107655	40.2	102561	38.2
2007	351782	67948	19.3	150036	42.7	133798	38.0
2008	411982	93706	22.7	176675	42.9	141601	34.4
2009	581992	128489	22.1	203802	35.0	249701	42.9

Source: The data have been collected and calculated according to the data published on the website of the SIPO.

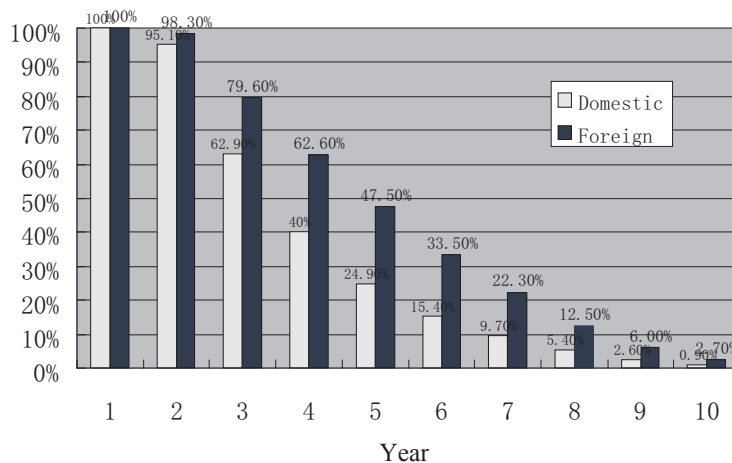


Figure 3.1 Percentage of valid utility models from the 1st year to the 10th year
Source: The data have been collected from the website of the SIPO.

The disappointing situation is caused by the examination procedure of the utility model. No substantive examination results, in the sense that utility model patents are glutted with trivial innovations. Nowadays, increasing trifling patents have raised concerns as to whether the quality of patents is poles apart from the objective of the patent system.⁶⁹ Granting the exclusive right to valuable innovations, which is at the expense of the public interest in the short term, aims to promote technological development in the long term. However, it is really hard to achieve such a long-term objective in the case of trivial patents. On the one hand, a profusion of trivial patents will raise the cost of follow-up innovations by imposing disproportionate licensing fees upon subsequent innovations.⁷⁰ On the other hand,

⁶⁹ Marson, Ingrid, UK Patent Office Considers Problem Of Trivial Patents (2006), available at <http://www.zdnet.co.uk/news/regulation/2006/02/07/uk-patent-office-considers-problem-of-trivial-patents-39251041/> (last visited 15 January, 2011).

⁷⁰ Fromer, Jeanne C., *The Layers of Obviousness in Patent Law*, 22 Harvard Journal of Law & Technology 75 (2008).

‘granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may, in case of patents combining previously known elements, deprive prior inventions of their value or utility.’⁷¹

Moreover, the absence of a substantive examination for a utility model application leads to a high probability that its validity could be challenged if a dispute occurs. Under the Patent Law of China, any substantive examination procedure, even a novelty examination, is not required before granting a utility model patent. As a result, in an infringement case, the claimed infringer usually challenges the validity of the utility model as a defense. Under this circumstance, the court should suspend the trial until the Patent Re-examination Board makes a decision regarding the validity of the claimed patent. Although the related judicial interpretations also provide that the court may continue the trial under some special circumstances, the court would like to leave this work to the Patent Re-examination Board, on condition that it applies extreme caution.⁷² Moreover, even though a decision has been made by the Patent Re-examination Board, any party dissatisfied with the result can bring an administrative action against it. Thus, an infringement lawsuit is generally time-consuming. Whatever the final result is, dilatory procedures might make it difficult for one party to safeguard its interests. Indeed, many claimed infringers intentionally delay the lawsuit by challenging the validity of the utility model. An effective approach to solve this problem is to allow the court to decide the validity of the utility model, which is discussed in the latter section.

In addition, if utility model litigation involves a claim for injunctions, the issue as to whether the court should assume the utility model to be valid becomes more complex. In Germany, there is a very low possibility of a preliminary injunction being granted in utility model litigation. Even where an interim injunction is concerned, the court generally seems unwilling to issue it unless the proprietor can prove its validity.⁷³ Under China’s Patent Law, few provisions regarding injunctions are available, especially in the case of utility models. A suspended lawsuit in particular places the court in a dilemma as to whether an injunction should be issued. In my opinion, it would be more feasible if the court were allowed to establish a *prima facie* in validity, unless rebutted, which would be sufficient to prove the validity of the utility model, as regards the issuing of injunctions.

This section has no objection to protection for utility models, but aims to resolve difficulties caused by the current system. The first difficulty is related to the low quality of utility model patents. The second is that the court normally has no authority to determine the validity of the utility model and has to suspend the

⁷¹ 127 S. Ct. (2007). at 1741.

⁷² Several Provisions of the Supreme People’s Court on Issues Concerning Applicable Laws to the Trial of Patent Controversies (2001). Under Article 9, the court can decide not to suspend the trial, where the searching report does not show any element leading to the loss of novelty and inventiveness; or evidence clearly proves the claimed art falls into the category of prior art; or no sufficient evidence to support the defendant’s challenge; or other circumstances.

⁷³ The German Utility Model - An Introduction, available at <http://www.jenkins.eu/pi-spring-2004/the-german-utility-model---an-introduction-.asp> (last visited 10 January, 2011).

trial unless the case falls into the category listed in the relevant judicial interpretations.

The first problem pertains to the examination procedure, which is a common issue for countries that adopt utility model protection. This system has its outstanding advantages, especially the lower requirement of inventiveness and the expedited examination procedure. The simplified examination procedure can protect the subject matter promptly and avoid excessive use of social resources for assessing some small innovations. Nonetheless, every coin has two sides. Actually, the poor quality of the utility model is mainly caused by the simple examination procedure that does not involve a substantive inquiry. It is undeniable that scarce social resources do not permit the utility model examination to go through the entire procedure of a substantive examination in the same manner as the invention patent examination. However, such a simple examination procedure might encourage opportunistic behavior and place an unfair obstacle in the way of subsequent innovations. These outcomes deviate from the fundamental objectives of protecting utility models. Consequently, a practical approach is to require a novelty inquiry prior to granting the utility model certification, since this only involves information retrieval.⁷⁴ In fact, it is a trade-off between the quality of the utility model and the efficiency of the procedure.

The second issue is related to whether the courts have authority to determine whether the utility model is valid. Although the patent law provides that the reports of information retrieval and assessment made by the SIPO can be used as references in litigation, it does not mention whether the court should identify the validity of the claimed patent simultaneously.⁷⁵ Under the relevant judicial interpretations, in the case of a dispute of utility model infringement, the court should suspend the trial and await the decision of the Re-Examination Board if the defendant challenges the validity of the utility model, unless the circumstance falls into the category explicitly stipulated in the judicial interpretations.⁷⁶ In other words, the court may continue the trial without suspension and make a decision on the dispute if the aforementioned exceptional circumstances occur. However, the judicial interpretations do not go further regarding whether the court can make an assessment about the validity of the claimed utility model. This implies that even though the court has rejected the infringement claim based on the finding that the claimed utility model is a prior art, the court would be reluctant to hold directly that it is valid.

Such a confusing situation is largely attributed to two reasons: the administrative character of granting a patent and the incompetence of the court in validity assessment.

⁷⁴ Institutes that provide services of novelty retrieval normally complete this work within 15 working days, available at <http://www.whlib.cas.cn/xxfw/kjcx/> (last visited 10 February, 2011); also see http://www.las.ac.cn/subpage/subframe_list.jsp?SubFrameID=1016 (last visited 10 February, 2011); also available at <http://www.lib.xjtu.edu.cn/lib75/help/faq/faq.jsp?FileID=sort&Keyword=%BF%C6%BC%BC%B2%E9%D0%C2%A1%A2%B4%FA%B2%E9%B4%FA%BC%EC%B7%FE%CE%F1> (last visited 10 February, 2011).

⁷⁵ *Supra* note 31, art. 61.

⁷⁶ *Supra* note 72.

Granting a patent is generally regarded as an administrative decision; as a result, the court cannot directly revise a wrong administrative decision. Under the Administrative Litigation Law, while the court can revoke a wrong decision, it cannot revise it directly.⁷⁷ However, it is necessary to rethink the administrative nature of the patent. Numerous literatures have revealed that the IP right derives not from licensing by the government, but from the innovation itself.⁷⁸ Based on their private character, patents are nondiscretionary, transferable and irrevocable, and are totally different from licensing rights.⁷⁹ Unlike a licensing agency, the SIPO cannot determine the yardsticks of patentability and has no discretion to refuse applications that may be used in an incorrect way.⁸⁰ In addition, if the patent grant is a specific administrative activity, the administrative authority should be held liable for its errors that harm the administrative counterpart under the administrative doctrines. However, no governmental authority in the world applies this. Although the patent system of China and some scholars endorse the notion that the administrative law doctrines should be applied in examining the validity of a patent, it is not convincing because this opinion conflicts with the principle that a patent is a kind of private right.⁸¹ Therefore, patent granting is an identification of a civil right, but not administrative licensing. Accordingly, the court has the authority to identify the validity of the utility model directly in an infringement lawsuit. In fact, the Higher People's Court of Beijing has attempted to adopt this approach in some cases pertaining to design patent disputes.⁸²

Second, there is a prevailing opinion that the decision made by the SIPO would be more reliable than the one made by judges because the experts of the SIPO have more competence than judges in examining technical problems. However, solving problems regarding competence and human sources cannot be at the expense of denying the court's authority to identify a civil right. Indeed, as regards the assessment of technical issues, the competence of the Re-Examination Board is more professional than that of the court. Therefore, the court may

⁷⁷ Administrative Litigation Law of 1990, art 54(2).

⁷⁸ Kitch, Edmund W., *The Nature and Function of the Patent System*, 20 J. L. & Econ. 265 (1977); also see Dam, Kenneth W., *The Economic Underpinnings of Patent Law*, 23 J. Legal Studies 247, 253-56 (1994); also see Wu, Handong, *Evaluation of the Intellectual Property in China and Suggestion on Legislations* [Zhong Guo Zhi Shi Chan Quan Zhi Du De Ping Jia Yu Fan Si] (Intellectual Property Press, Beijing) 154-55 (2008); also see Liang, Zhiwen, *The Legal Attribute of the Patent Grant* [Zhuan Li Shou Quan Xing Wei De Fa Lv Xing Zhi], 2 Administrative Law [Xing Zheng Fa Yan Jiu] 33, 33-36 (2009).

⁷⁹ Kerr, Orin S., *Rethinking Patent Law in the Administrative State*, 42 William & Mary Law Review 127, 127-94 (2000).

⁸⁰ *Id.*

⁸¹ Articles 54 and 55 of the Patent Law of China (2008) confirm that the validity of the patent should be considered under the administrative judicial procedures. Based on the statutes in the existing law, Dr. H. He argues that a patent invalidation case would not be viewed as a civil patent, but as an administrative case. H. He, *Patent Invalidation Procedure: Limits of Judicial Power and Judicial Certainty*, 3 China Patent & Trademarks 3 (2009).

⁸² The Higher People's Court of Beijing dismissed the appeal and asserted that the invalidity identification made by the Beijing First Intermediate People's Court is not illegal. Case No: 2007 Gao Xing Zhong Zi, 204, 205, 206.

delegate the SIPO or the Re-Examination Board to provide an assessment report on the novelty, inventiveness and practical applicability as a reference. Based on the experts' opinion, the court then decides on the infringement dispute, together with the validity of the patent. Thus, a long suspension of the trial can be avoided.

3.3.2 Substantive requirements for patentability-especially for inventiveness inquiry

The Patent Law of China lays down several substantive requirements for granting a patent, including novelty, inventiveness and practical applicability. It adopts the 'absolute standard' for the novelty inquiry, which means that any public disclosure anywhere before the filing date will cause the subject matter sought to be patented to fail to fulfill the requirement of novelty. This new provision is to protect against unjust monopolies and prevent the granting of exclusive rights to something already available. This problem has been discussed in section 3.1 and will therefore not be dealt with any further here.

Inventiveness is the second substantive requirement for a patent. Under Article 22, inventiveness means that compared with the prior art, an invention sought to be patented has prominent substantive features and shows notable progress, and a utility model has substantive features and shows notable progress.⁸³ However, the Patent Law does not provide more details about the terms 'substantive features' and 'notable progress'. Fortunately, the new Guidelines of Examination for Patents (hereafter 'Guidelines') give some interpretations of these two terms.⁸⁴ Under the Guidelines, 'prominent substantive features' means that an invention is not obvious to a person skilled in the art.⁸⁵ The 'person skilled in the art' should be understood to be a practitioner who is assumed to be skilled in the relevant field, who possesses all the common general knowledge of the art prior to the filing date or the date of priority, is able to access all the prior art and has the capacity of implementing routine work and experimentation before the relevant date but does not have the capacity of innovation.⁸⁶ Moreover, 'notable progress' means that, compared with the prior art, the technical features of an invention can have an advantageous technological effect.⁸⁷

Under the Guidelines, an examination of the 'substantive features' is the same as a non-obviousness inquiry, in which the 'problem-solution approach' is adopted. This approach is divided into three steps. First, identifying the closest prior art. The closest prior art refers to an art that is the most relevant to the claimed invention among all the prior arts. Some factors should be considered in determining the closest prior art, such as the field the prior art arises from, the technical features, the technical effect and so on.⁸⁸ Even if the prior art does not exist in the same field as the claimed invention, it can be regarded as the closest prior art as long as it can achieve the function of the claimed invention and discloses more technical features

⁸³ *Supra* note 57.

⁸⁴ Guidelines of Examination for Patents (2010).

⁸⁵ *Id.* Chapter 4 of Part 2, art. 2(2).

⁸⁶ *Id.* art. 2(4).

⁸⁷ *Id.* art. 2(3).

⁸⁸ *Id.* art. 3(2)(1)(1).

than other prior art. Moreover, the Guidelines expressly underscore that when determining the closest prior art, the technical solution existing in the same field as the claimed invention should be the first priority for the consideration of the Patent Office.⁸⁹ Second, determining the distinguishing features of the invention and the technical problems that the invention attempts to solve. In the obviousness inquiry, the examiner should ascertain the differences between the claimed invention and the closest prior art for defining the distinguishing features of the former. Then, the technical problem that the invention attempts to solve should be determined.⁹⁰ Third, examining whether the distinguishing features are obvious to a person skilled in the art. At this stage, the key point is ‘whether there is any teaching in the closest prior art as a whole that would have incited the skilled person to modify or adapt the closest prior art to solve the objective technical problem while taking account of that teaching...and thus achieving what the invention achieves.’⁹¹ If such teaching were found, this would constitute obviousness.

The obviousness inquiry for a utility model is basically the same as that for an invention, with the exception of the requirement regarding the innovative level and the scope of the prior art. The inventiveness requirement for a utility model does not require ‘prominent’ substantive features and ‘notable’ progress, but merely substantive features and progress. Moreover, as regards an invention application, the closest prior art may exist not only in the same technical field as the application but also in a different technical field. In addition, the examiner may cite more than two items of the prior art as references to assess the inventiveness of the invention. By contrast, when determining the closest prior art of a utility model, only the technical solutions in the same technical field will be considered; and the closest prior art used for assessment would normally not be more than two items.⁹²

The third requirement of patentability, industrial applicability, means that an invention or a utility model must be susceptible to industrial application and produce advantageous effects.⁹³ The industrial application widely covers the application in the sectors of industry, agriculture, transportation, and so on.

Overall, the Guidelines detail the standards of novelty, inventiveness and practical applicability, and especially underscore the requirements of the obviousness inquiry. Furthermore, the Guidelines require the examiner to disregard all technological advancements that have taken place after the priority date, which avoids hindsight bias in decision-making. This should also be appreciated because ‘for many inventions that seem quite obvious, there is no absolute predictability of success until the invention is reduced to practice.’⁹⁴ In other words, although some inventions are apparently obvious, they are not obvious in law.⁹⁵

However, there are at least two problems regarding the obviousness inquiry. The one pertains to the scope of the prior art; and the other relates to the content of an obviousness inquiry.

The Guidelines narrowly limit the scope of the prior art. When selecting the closest prior art, although the reference from a different technical field is allowed,

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² *Supra* note 84, Chapter 6 of Part 4, art. 4.

⁹³ *Supra* note 84, Chapter 5 of Part 2, art. 2.

⁹⁴ *In re O’Farrell*, 853 F.2d 894, 903 (Fed. Cir. 1988).

⁹⁵ *Id.*

the reference from the same technical field should be made the first priority for consideration. More importantly, a prior art having a similar purpose or effect as the invention is always of the first consideration. Thus, if the purpose, effect, or technical field were regarded as a standing point for selecting the closest prior art, the scope of the prior art would be much smaller than it ought to be. It should be noted that expanding the prior art base is of great benefit for raising the threshold of nonobviousness and thereby improving patent quality. In fact, the ‘problem-solution approach’ is similar to the ‘teaching, suggestion or motivation’ (hereafter ‘TSM’) test, under which a patent claim would be regarded as obvious if there is a suggestion or teaching in the prior art to combine previously known elements.⁹⁶ However, the rigid application of the TSM test is severely criticized by the US Supreme Court because the references that are not directed at the same technical problem are almost excluded from the scope of the prior art.⁹⁷ The Supreme Court held that ‘the obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents’, and asserted that ‘any need or problem known in the field of endeavor at the time of invention and addressed by the patent [as] a reason for combining the elements in the manner claimed’ should be taken into consideration in determining the prior art.’⁹⁸ This exhorts the examiner and the court to look more broadly at the relevance of the prior art.⁹⁹

Furthermore, the Guidelines do not explicitly stipulate the content of an obviousness inquiry, but just state broadly that the examiner should consider not only the technical solution itself, but also its purpose, effect and technical field.¹⁰⁰ However, it rarely mentions what the object of an obviousness inquiry is; nor does it mention whether the object should be viewed as a whole or whether its elements should be assessed separately. Professor Fromer expresses his opinion on this issue, stating that both conception and reduction to practice, two layers of nonobviousness, constitute the content of the obviousness inquiry.¹⁰¹ Conception is ‘the formation in the mind of the inventor of a definite and permanent idea of the complete and operative invention, as it is thereafter to be applied in practice.’¹⁰² And reduction to practice refers to the embodiment of the conception that works properly for its desired purpose. Generally, there are three circumstances in which nonobviousness may probably occur. First, the conception of an invention is wonderful, but reduction to practice seems relatively straightforward. Second, the conception is commonplace, but reduction to practice is complicated. Third, an invention involves inventiveness both in the novel conception and process of reduction to practice. Recent case law of the US underscores a flexible approach to assess the obviousness by considering the two layers of nonobviousness as a

⁹⁶ *Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1579 (Fed. Cir. 1997).

⁹⁷ *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1741-42 (2007).

⁹⁸ *Id.*

⁹⁹ Lee, Justin, *How KSR Broadens (Without Lowering) the Evidentiary Standard of Nonobviousness*, Annual Review, 23 Berkeley Tech. L.J., 15 (2008).

¹⁰⁰ *Supra* note 85, art. 3(1).

¹⁰¹ *Supra* note 70.

¹⁰² *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

whole.¹⁰³ In other words, if the degree of nonobviousness in one layer is sufficient, a relatively lower degree of nonobviousness in the other layer is required to find nonobviousness. This flexible approach would have implications for properly assessing complex technologies, such as biotechnology, pharmaceutical technology and so on, because they normally involve a complicated process of the reduction to practice so that it is far from straightforward. Under this circumstance, it would be relatively fair to offset a lower standard for the conception inquiry to determine whether the invention is nonobvious.

Based on the analysis, the following suggestions are hereby proposed to optimize the relevant statutes. Above all, the connotation of inventiveness should be clarified by identifying it as nonobviousness directly. According to the Patent Law of China, inventiveness might be found where an invention or a utility model involves both substantive features and notable progress. However, the law does not give a further explanation of these two elements. As a supplement, the Guidelines provide that the substantive feature should be understood as nonobviousness. It is unclear why nonobviousness is not used to describe inventiveness in the patent law. Such an indirect approach complicates the matter. Furthermore, it should be noted that the Guidelines are an administrative regulation, which is subordinate to the patent law, but cannot replace it. Therefore, it would be better to codify the term of nonobviousness in the patent law rather than in the Guidelines.

Second, in an obviousness inquiry, it is not sensible to take only the purpose, effect, or technical field as a standing point in selecting the closest prior art, because it would unreasonably narrow the scope of the prior art. Any reference inciting the combination of the elements in the claimed manner should be considered. Thus, a higher threshold of inventiveness is expected to prevent the granting of patents to trivial innovations.

Third, it would be better to detail the content of the obviousness inquiry in the Guidelines. It is necessary for the authority to consider whether the subject matter should be viewed as a whole or whether its elements should be assessed separately in the obviousness inquiry. Under the Guidelines, all the components of an invention should be considered as a whole in the obviousness inquiry. It implies a doctrine that all the elements pertaining to obviousness should be considered as a whole as well.¹⁰⁴

3.3.3 Indirect infringement

The doctrine of indirect infringement is to offer the patent holders some remedy when it is impossible for them to claim direct infringement. This circumstance would occur if one party purposely induces other parties to infringe the patent, or one party who knows the patent supplies a substantial component of the patent to other parties to use it in an infringing way. Although this rule is widely adopted by the patent systems of the US, EU, Japan and Korea, it remains debatable in China due to the concern about the excessive protection for patents. Consequently, the suggestion of introducing the doctrine of indirect infringement is not accepted in the third amendment of China's Patent Law.

¹⁰³ *Supra* note 97.

¹⁰⁴ *Supra* note 85, art. 6(4).

Under the patent law, the scope of protection for a patent is determined by its claims. When determining infringement, it is necessary to compare the claims of a patent with the claimed product or process. If the claimed product or process contains technical features identical or equivalent to all the technical features described in the patent claims, the court will determine that there is a case of infringement. By contrast, there is no infringement where the allegedly infringing product or process does not cover all the technical features described in the claim or contains more than one technical feature that is neither identical nor equivalent to any technical feature of the claimed patent.¹⁰⁵ This is known as the all-element rule, which is susceptible to literal and equivalent infringement.

Generally, patent infringement can be divided into two categories: direct infringement and indirect infringement. The former means that one party singly completes the infringement. The latter means that multiple parties jointly infringe the patent, but each party performs differently. The Patent Law of China details the elements of direct infringement.¹⁰⁶ As regards indirect infringement, only the provision regarding joint infringement in the Tort Law can be used to deal with this issue.

In the case of indirect infringement, the judicial practice in China presents two opinions.

The first is that the sale of a component of a patented device, which consists of the essential elements of a patent, can be viewed as satisfying the rule of ‘all the elements’. Under this circumstance, supplying the components of a patented device should be determined as direct infringement. The judges of *Mr. Zhang v. Company York et al.* held this opinion.¹⁰⁷ In this case, the plaintiff, Mr. Zhang, held a patent (the patent number: ZL 00103523.1), which contains four necessary technical features in the claim: (1) a kind of split water chiller/heater unit which includes a compressor for a cooling system, outdoor air cooling-heat exchanger, four-way directional valve, indoor water-cooling heat exchanger and circulating pump; (2) a compressor, an outdoor air cooling-heat exchanger, and a four-way directional valve are located in a chamber; (3) an indoor water-cooling heat exchanger and a circulating pump are located in another chamber; and (4) two chambers are connected by a frozen pipe. The claimed product supplied by the defendant does not have the frozen pipe used to connect the two chambers, which is the only difference compared to the patented device. Beijing Higher Court held that although the claimed product did not contain the frozen pipe, it ‘actually’ contained the necessary technical features in view of the two interfaces on the two chambers reserved for assembling the connecting frozen pipe; therefore, the claimed product ‘actually’ comprised all the elements of the patent’s claim, thereby infringing the patent. This case has generated an issue as to whether it is sensible to assume that the supplier carried out the uncompleted steps. With such an assumption, the requirements of the all-elements rule are satisfied; nevertheless, it is difficult to deny that the reasoning involved is too far-fetched.

¹⁰⁵ The Interpretation of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (2009), art. 7.

¹⁰⁶ *Supra* note 29, art. 60.

¹⁰⁷ *Mr. Zhang v. Company York*, Decided by Beijing Higher Court on 17 March 2004.

The second opinion is to regard this case as joint infringement subject to the tort law.¹⁰⁸ Tort law provides that two or more persons who commit tort and cause harm to others should be jointly and severally liable.¹⁰⁹ Moreover, tort law also stipulates that the person abetting or aiding another person in committing a tort should be jointly and severally liable.¹¹⁰ Indeed, without the doctrine of indirect infringement, patent holders may rely on the doctrine of joint infringement to prevent patent infringement conducted by multiple parties. However, it should be noted that joint infringement may be determined only if direct infringement occurs. In other words, under the doctrine of joint infringement, the patent holders cannot bring action against the potential infringement before the patent is actually infringed. Supposing that there were a lot of individual purchasers who bought the substantial components of a patented device from one seller, the effective measure to stop the infringement would be to bring actions against the seller as soon as possible, but not to sue each individual purchaser until he/she completes the infringement. In this regard, the provision regarding joint infringement is insufficient to prevent indirect infringement.

The doctrine of indirect infringement in US patent law was established in *Wallace v. Holmes*.¹¹¹ In this case, the defendants manufactured and sold burners that are substantially the same as a component of the plaintiff's patent. The court held that the patent was infringed because the defendants' acts in concert with the production of other components of the patent caused the infringement. Subsequent cases, such as *Bowker v. Dows*, *Carbice Corp. of America v. American Patents Development Corp.*, and etc., rapidly developed this doctrine.¹¹² Ultimately, the doctrine of indirect infringement was adopted in 35 U.S.C. § 271. Section 271 divides the indirect infringement into two categories: actively inducing infringement of a patent; and selling a component of a patented work that constitutes an essential part of the patent. In detail, section 271(b) provides that 'Whoever actively induces infringement of a patent shall be liable as an infringer.'¹¹³ Section 271(c) imposes the liability on the person who sells, offers to sell or imports into the US 'a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use.'¹¹⁴ Similarly, since this doctrine is effective for stopping the infringement at the source, it has been widely adopted in the EU countries, Japan, Korea and other countries. For example, the German Patent Act prohibits 'supplying or offering to supply within the territory' to other persons 'means

¹⁰⁸ Jiang, Ze P., Determining on Patent Infringement (2005), available at <http://www.chinaiprlaw.com/html/susongjiangzuo/20041208/2808.html> (last visited 15 March, 2011).

¹⁰⁹ Tort Law of China (2009). art. 8.

¹¹⁰ *Id.* art. 9.

¹¹¹ 29 F. Cas 74 (C.C. Con 1871) (No. 17,100).

¹¹² *Bowker v. Dows*, 3 F. Cas. 1070, 1071 (C.C.D. Mass. 1878) (No. 1,734); *Carbice Corp. of America v. American Patents Development Corp.* 283 U.S. 27, 29-30 (1931).

¹¹³ 35 U.S.C. § 271(b) (2000).

¹¹⁴ *Id.* § 271(c).

relating to an essential element of such invention for exploiting the patented invention' without the consent of the patentee.¹¹⁵

In order to avoid excessive protection, the patent systems normally provide definite guidelines for the elements of indirect infringement.

First, indirect infringement should involve the acts of offering or delivering means that are related to an essential element of a patented device or process. The conception of an essential element is crucial for outlining the scope of the patent. A German case gives an explanation of the term 'an essential element' in a very broad way. In *Flügelradzähler* (X ZR 48/03 – Impeller flow meter), which was decided in May 2004, the German Supreme Court held that each feature of the patent's claims was the essential element.¹¹⁶ The court required that the claimed means must 'have a functional interaction with other elements of the patented device.'¹¹⁷ Two earlier Canadian cases presented a similar view but required that the patent holder had recognized the essential elements in the patent application. In *O'Hara Manufacturing Ltd. et al v. Eli Lilly & Co. et al.* the court held that 'if the specification makes it clear that the patentee regards a particular integer as essential, then it must be treated as essential, but otherwise even if the question is one of construction of the specification I cannot see why one should shut one's eyes to facts of which the patentee must have been aware when framing the specification.'¹¹⁸ Later, in *Martinray Industries Limited et al. v. Fabricants National Dagendor Manufacturing Limited et al.*, this view was reaffirmed.¹¹⁹ In a nutshell, 'each component of a claim will be regarded as essential unless it is clear to one skilled in the art that the inventor knew that the failure to comply with this specific component would have no effect on the way the invention worked.'¹²⁰

Second, the intent of the infringer is a requirement for liability under the doctrine of indirect infringement. In Germany, the plaintiff should prove that the infringer who supplies the means related to an essential element of the patent knows his customer intends to use such means, or the evidence shows that the customer's intention to use is obvious.¹²¹ This 'intent' requirement emphasizes the fact that the infringer is and has been aware that the purchasers will use his product. US patent law provides more detail about this requirement. Since indirect infringement includes two circumstances, namely active inducement and contributory infringement, US patent law provides different requirements for each kind of indirect infringement concerning the conception of 'intent'. As regards inducing infringement, the potential infringer must have the specific intent to induce his customers to commit direct infringement, which covers the circumstance where the potential infringer supplies the means with the instruction

¹¹⁵ German Patent Act, § 10(1).

¹¹⁶ *Flügelradzähler* (X ZR 48/03, 04 May 2004); also see Niels Holder & Josef Schmidt, *Indirect Patent Infringement-Latest Developments in Germany*, 28 European Intellectual Property Review 480, 480-84 (2006).

¹¹⁷ *Id.* Also see Kopf, Korbini, Germany: Patent Infringement Assessed by Commercial Values, available at

<http://www.managingip.com/Article/1255165/Germany---Patent-infringement-assessed-by-commercial-value.html> (last visited 10 November, 2013).

¹¹⁸ 26 C.P.R. (3d) 1 (F.C.A. per Pratte J.A.) (1989).

¹¹⁹ 41 C.P.R. (3d) 1 (F.C.T.D.) (1991).

¹²⁰ *Id.*

¹²¹ *Supra* note 116, Niels Holder & Josef Schmidt (2006).

that purchasers can use the means for a combination that constitutes infringement.¹²² In contrast, the intent to cause direct infringement is not a requirement for constituting contributory infringement, only the supplier's knowledge of infringement is required.¹²³ US case law also affirms that contributory infringement can be determined only if the supplier has known that 'the combination for which his component was especially designed was both patented and infringing.'¹²⁴ In addition, the burden of proof to show the intent of the potential infringer is placed on the plaintiff.

Third, the customers' intent to use the delivered means for infringement is required for determining liability. German law provides that the plaintiff should prove the customers' intention to use the supplied means to infringe a patent. Such intention is irrelevant to the question whether the customers actually use the supplied means. However, the burden of evidence on the plaintiff is heavy because it is really difficult to prove the customer's actual intention without some specific clues. Patent holders usually attempt to prove customers' intent by claiming that quite a few customers buy the means for infringing use. However, as regards this way of providing proof, the Supreme Court established a strict standard in *Flügelradzähler*. It held that the plaintiff must show that there is considerable probability that the means in question will be used in that way.¹²⁵ In addition, the Court addressed the fact that the customers' knowledge of there being considerable probability of infringing usage cannot be counted as evidence showing the customers' actual intention to use the means in that way.¹²⁶ Generally, the unusual configuration, shape or dimensions of a component of a patented device, which can practically not be used in other ways, would make it easy to prove the intent of infringing the patent.

In order to balance the interests between the patent holder and the potential infringer, the potential infringer is entitled to file a defense. A good defense includes exhaustion and using the means for other non-infringing purposes. Under the doctrine of exhaustion, the patent holder cannot prevent others from exploiting his patented product once such a product has been put into the market with his consent. His customers are therefore entitled to keep the product working properly. Accordingly, ordinary repair and replacement of a component are allowed, but replacement of an essential element of the patent is prohibited.¹²⁷ Another feasible defense is to claim that the delivered means are produced for other non-infringing purposes where the means in question have multiple usages. If the defendant can prove that the means he supplied are mainly suitable for substantial non-infringing purposes, it is difficult to regard the defendant's action as indirect infringement.¹²⁸

¹²² *Supra* note 113; also see Charles W. Adams, Indirect Infringement from a Tort Law Perspective, 42 University of Richmond Law Review 635 (2008).

¹²³ *Supra* note 114.

¹²⁴ *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 337 U.S. 476, 488(1964).

¹²⁵ *Supra* note 116.

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ In Germany, as regards this circumstance, identifying indirect infringement still depends on other factors. For example, the court will consider whether the potential infringer has taken necessary measures to prevent direct infringement, which may be performed by its customers. However, 35 U.S.C. § 271(c) directly excludes liability for the circumstance where the sale of 'a staple article or

In addition, under the doctrine of indirect infringement in Germany, the patentee can bring an action and claim for an injunction before the direct infringement actually takes place. Thus, this approach protects the patent in an effective and efficient way. However, the claim for damages still requires that direct infringement has actually occurred.

In a nutshell, the doctrine of indirect infringement means a high level of patent protection, and a useful approach to prevent infringement at the source. Consequently, it is necessary to embed this doctrine into China's patent system. It seems sensible to add an article in China's patent law that:

'(1) A patent shall have the further effect that any third party not having the consent of the patentee shall be prohibited from offering or supplying within the territory to which this Act applies to any other persons, other than such persons authorized to use the patented invention, means relating to an essential element of said invention for use of the invention within the territory to which this Act applies, if said third party knows or it is obvious from the circumstances that such means are suitable and intended for use of the invention.

*(2) Subsection (1) shall not apply when the means are products generally available in commerce, except if said third party intentionally induces the person supplied to commit acts prohibited by Article 11.'*¹²⁹

3.4 Conclusion

The first Patent Law came into force in 1984. After that it was revised three times, in 1992, 2000 and 2008. Although it started based on a very simple framework, after three rounds of revisions, China's patent system has grown more robust. The amendments of 1992 and 2000 succeeded in making the patent law more compatible with the international rules. An impressive accomplishment has been achieved where the following aspects are concerned. It clarifies the ownership of employee inventions, recognizes the right to remuneration of the employee inventor, provides patentees with a new exclusive right to 'offer to sell', confirms that using, selling and offering to sell a patented product without a license from the patentee is illegal, creates a system of pre-trial injunction and so on. In contrast, the amendment of 2008 presents a greater ambition of the legislature to develop a competitive environment adaptable to China's innovation strategies. The new patent law introduces an 'absolute' novelty standard, stipulates the conditions for implementing a compulsory license, accepts the concept of international patent exhaustion and adds some new provisions to encourage competition. Despite these achievements, challenges still exist. The current protection pattern for utility models creates countless trivial patents; the burdensome procedures concerning the validity of patents discourage right holders from seeking judicial protection; and the absence of provisions regarding indirect infringement fosters imitation. Therefore, the patent system needs to continue to strengthen protection and encourage innovation.

commodity of commerce suitable for substantial noninfringing use' is concerned; also see *supra* note 114.

¹²⁹ This clause is basically the same as section 10 of the German Patent Act. Herein, Article 11 refers to that article in China's Patent Law.

Chapter 4

A Reflection of China's Copyright System

4.1 The historical development of China's Copyright Law

4.1.1 Embryonic forms of China's copyright protection in history

Origination of copyright protection is generally deemed to be a derivative of the development of typography. Although the first known movable type system was invented in China,¹ it is regretful that the copyright system was not really introduced until the modern age.

Literature shows that copyright protection in China can at least be traced back to the Song dynasty (A.D.960-1279), not only because the government was able to grant injunctions against the unauthorized reproduction of publications,² but also because the rationale behind this protection contains conceptions of originality.³ In addition, individuals were able to register their works with the imperial authorities to prevent unauthorized reproduction.⁴ Similar practices can also be found in the subsequent imperial history.⁵ Geller confirms the existence of copyright protection in ancient China and asserts that it actually constitutes part of the copyright history

¹ This type made of baked clay was invented around 1040 A.D. by Sheng Bi. This momentous event was recorded by Kuo Shen, a famous scholar in Chinese history, in his work 'Meng Xi Bi Tan'. The part describing this invention was translated into English in Thomas Francis Carter's book, namely 'The Invention of Printing in China and Its Spread Westward' (Columbia University Press, New York) 160 - 61, (1931).

² Zheng, Chengsi, On Intellectual Property [Lun Zhi Shi Chan Quan] (Social Science Academic Press, Beijing) 15 (2007); also see Zheng, Chengsi, *Printing and Publishing in China and Foreign Countries and the Evolution of Concept of Copyright (Part I)*, 4 China Patents & Trademarks 41, 41-43 (1987); also see Zheng, C. S., *Printing and Publishing in China and Foreign Countries and the Evolution of Concept of Copyright (Part II)*, 1 China Patents & Trademarks 47 (1988); also see Zhou, Lin & Li, Mingshan, Research Literatures on China's Copyright History [Zhong Guo Ban Quan Shi Yan Ju Wen Xian] (Chinese Fangzheng Publisher, Beijing) 3 (1999).

³ The scholar in the Song Dynasty, Changwu Duan, put forward an important argument in 'Cong Gui Mao Shi Ji Jie', that his uncle's compilation work should be protected from unauthorized copying, in that it involved the compiler's labour, judgement and investment. This argument is quite similar to the principles of copyrightability of modern copyright laws.

⁴ *Supra* note 2, Zheng, Chengsi (1987).

⁵ *Supra* note 2, Zheng, Chengsi (2007), at 18.

of the world.⁶ Notwithstanding the emergence of sporadic protection such as injunctions against reproductions, the rights of authors were never protected under statute laws until the Qing dynasty (A.D. 1644-1911).⁷

After the establishment of the People's Republic of China in 1949, the government adopted some measures to develop publishing work and protect some authors' rights; nevertheless, they were invalidated by continuous political campaigns. In 1950, shortly after the first national convention of publishing work, a file named Decisions on the Fundamental Principles of Developing People's Publishing Work was made, which pointed out that serving the interests of the public is the first priority of the publishing industry.⁸ Several years later, the central government adopted the policy of 'Giving Free Reign to All Styles of Art and All Schools of Thought' to encourage literary and artistic creation,⁹ which greatly pushed the development of intellectual creation in a short period of time. In addition, the community attempted to ensure authors' remuneration and promote the quality of literary works by allowing the payment of royalties with a uniform standard, which was explicitly stipulated in the Temporary Regulations on Remuneration of Literary and Social Science Books (Draft).¹⁰ Unfortunately, only three months later, the Ministry of Culture promulgated a new policy, abolishing the earlier one, and stated that 'excessively high remuneration for intellectual works would result in special treatment for a small group and isolate them from the public, which would not benefit the whole community.'¹¹ Indeed, China's attitude toward royalties is indicative of the situation of authors at that time.¹² Subsequently, the Anti-Rightist Movement, the Great Leap Forward and the Cultural Revolution were launched successively; as a result, a mass of scholars and writers were imprisoned, tortured and even killed due to their offences against the

⁶ Geller, Paul E., *Copyright History and the Future: What's Culture Got to Do with It?* 47 Copyright Society of the U.S.A. 209, 215 (2000).

⁷ In the Qing Dynasty, the government promulgated the Copyright Act of the Qing, modeled by the copyright laws of Japan and American. See *Supra* note 2, Zheng, C. S. (2007), at 18.

⁸ The important matters in the 50 years since the establishment of the People's Republic of China, available at <http://www.1a3.cn/cnnews/xwsx/200909/6778.html> (last visited 10 July, 2013).

⁹ In April 1956, the central government proposed this policy, namely 'Bai Hua Qi Fang, Bai Jia Zheng Ming' in Chinese, available at <http://www.1a3.cn/cnnews/xwsx/200909/6778.html> (last visited 10 July, 2013).

¹⁰ It was issued by the Ministry of Culture in July 1958. National Copyright Office (eds.), 'The Resolution on the Improvement and Development of Publishing Work', included in the Collective Book on Chinese Copyright System (Liaoning People's Publisher, Shenyang) 54 (1996).

¹¹ *Id.* at 57-58.

¹² Zhou, Lin, *Evolution of Author's Remuneration System and the Changes of the Author's Position in China* [Xing Zhong Guo Gao Chou Zhi Du Yan Bian Yu Zuo Zhe Di Wei De Bian Hua], 8 Journal of Shaoguan University (Social Science) [Shaoguan Daxue Xuebao (Shehui Kexue Ban)] 122, 122-24 (2002).

leader's ideas.¹³ In such an atmosphere of fear and inhibition, authors' rights were trampled on and 'copyright protection in any real form ceased to exist.'¹⁴

The death of President Mao and the termination of the Cultural Revolution stimulated the resumption of attention to copyright protection, even though it was quite limited. Shortly after China's reopening, an agreement regarding reciprocal protection for copyright between China and the US was issued, stating that 'each Party shall take appropriate measures, under its laws and regulations and with due regard to international practice, to ensure to legal or natural persons of the other Party protection of copyrights equivalent to the copyright protection correspondingly accorded by the other Party.'¹⁵ In 1980, China entered into the World Intellectual Property Organization. Notwithstanding endeavors to establish a framework for copyright protection, China seemed reluctant to offer comprehensive protection for intellectual creation. For example, instead of creating specific rights to intellectual works, the General Principles of the Civil Law of 1986 classified the intellectual property right 'as a kind of civil right, independent of property rights and personal rights.'¹⁶

These show that China had not established a modern copyright system in a long history. Despite sporadic protection for artistic and literary creations, such protection had not formed a stable system and continued down the path. Although a new trend toward protecting copyright had ever emerged after the establishment of the PRC, the continuous political revolutions ultimately extinguished the spark of hope.

4.1.2 Reasons for sluggish evolution

The unsuccessful development of the copyright system cannot be isolated from some relevant factors, such as culture, economic level, politics system and so on. Professor Yu addresses that copyright protection is one of the most difficult problems of the 21st century, and copyright piracy cannot be eradicated unless the legislators are willing to consider the interests both of the stakeholders and non-stakeholders.¹⁷ Some scholars simply believe that counterfeiting and piracy are merely the inevitable consequences of inadequate economic development, rather than the outcome of the social culture.¹⁸ However, literature regarding the relationship between copyright protection and local culture seems more persuasive, which indicates that the latter not only has effects on the emergence and

¹³ Sidel, Mark, *Copyright, Trademark and Patent Law in the People's Republic of China*, Tex. 21 Int'l L. J. 159, 263-64 (1986).

¹⁴ Greenberg, Marc H., *The Sly Rabbit and the Three C's: China, Copyright and Calligraphy*, 7 Loy. U. Chi. Int'l L. Rev. 163, 176 (2010).

¹⁵ Agreement on Trade Relations Between the United States of America and the People's Republic of China, July 7, 1979, U.S.-P.R.C., art. VI(5), 31 U.S.T. at 4658.

¹⁶ Xue, Hong & Zheng, Chengsi, *Software Protection in China: A Complete Guide* (Sweet & Maxwell Asia, Hong Kong) 4 (1999).

¹⁷ Yu, Peter K., *Four Common Misconceptions about Copyright Piracy*, 26 Loyola of Los Angeles International and Comparative Law Review 127, 130 (2003).

¹⁸ Shi, Wei, *Cultural Perplexity in Intellectual Property: Is Stealing a Book an Elegant Office?* 32 North Carolina Journal of International Law and Commercial Regulation 1, 4 (2006).

development of copyright laws, but also greatly influences copyright enforcement. Professor Yang points out that ‘culture has profound impact on people’s overall understanding and behavior over IP protection’.¹⁹ Alford believes that the unsuccessful development of the copyright system in imperial China should be partly attributed to the absence of a reciprocal culture in China, because ‘imperial China did not develop a sustained indigenous counterpart to IP law in significant measure because of the character of Chinese political culture.’²⁰ Professor Yu also gives an explanation of why the copyright doctrine had been struggling to reject the fact that the millennia-old standpoint of the Confucians challenged the necessity and expediency of laws.²¹ ‘In a Confucian society, people learn to adjust their views and demands to accommodate other people’s needs and desires, to avoid confrontation and conflict, and to preserve harmony. Litigation, therefore, is unnecessary.’²² Since Confucianism dominated the ideological scene in China during a long and deep period of history, the traditional society universally accepted its belief that the legal system can safeguard the bottom line of justice, but not noble moralities in the context of the whole society. Nevertheless, it seems unduly arbitrary to depreciate the coercive effect of laws on social control. Furthermore, the conception of copyright is not compatible with some crucial moral standards. Traditionally, Chinese people used to regard literary and artistic works as a collective benefit;²³ consequently, it was difficult for them to accept a doctrine that allows exclusive rights to control the use of important materials needed by other social members. In addition, contempt for commerce, a popular value in Confucian society,²⁴ actually hindered the development of commercial activities and the dissemination of literary and artistic works as well. On the other hand, social culture plays a crucial role in the enforcement of copyright laws. Social psychology research has manifested that ‘most people obey the law most of the time because they think it is the right thing to do.’²⁵ Observation also suggests ‘some useful lessons about persuading people to obey copyright law by fostering pro-copyright norms.’²⁶ Normally, social norms are founded on culture, history, the customs of a community and other dominants. However, the overall social environment was not good for the growth of the copyright system in China.

Copyright protection is also relevant to the economic structure of a country, because of its heavy dependence on high esteem for private property. Hayek believes that offering protection for some rights, such as the right to property, is

¹⁹ Yang, Deli, *Culture matters to Multinationals’ Intellectual Property Businesses*, 40 *Journal of World Business* 281, 286 (2005).

²⁰ Alford, William P., *To Steal a Book is an Elegant Offense: Intellectual Property Law in Chinese Civilization* (Stanford University Press) 2 (1995).

²¹ Yu, Peter K., *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post- WTO China*, 55 *American University Law Review* 901, 969-70 (2006).

²² *Id.* at 970.

²³ Yu, Jiangyang, *Protection of Intellectual Property in the P.R.C.: Progress, Problems, and Proposals*, 13 *UCLA PAC. BASIN L. J.* 140, 160 (1994).

²⁴ Yu, Peter K., *The Copyright Divide*, 25 *CARDOZO L. REV.* 331, 360 (2003).

²⁵ Schultz, Mark F., *Fear and Norms and Rock & Roll: What Jambands Can Teach Us About Persuading People To Obey Copyright Law*, 21 *Berkeley Technology Law Journal* 651, 655 (2006).

²⁶ *Supra* note 25.

the precondition of ensuring the market works effectively.²⁷ However, the essential characters of Asiatic society, including dominance of the state over property and self-sufficiency of villages, is not conducive to respect for private property. As described by Marx, in the Asiatic form there is no private property, but only individual possession, and the real proprietor is the community.²⁸ This value judgment controlled Chinese ideology from the Monarchical & Feudalistic Age till the initial stage of 'Reform and Opening-up Policies'.²⁹ It is worth mentioning that during the 1950s, 1960s and 1970s, 'many Chinese were reluctant to acknowledge their roles in creative and inventive activities, and there existed a strong aversion to private property among the Chinese, especially after the Cultural Revolution and the numerous campaigns and class struggles'.³⁰ Therefore, it is not surprising that there was no foundation for accepting the Western concept that 'property is a sacred and inviolable right' for a long period of time.³¹ When protection of individual property has not been a dominant value in a community, it cannot be expected to successfully develop and implement the copyright system.³²

There is also an inherent relationship between copyright protection and freedom of speech. Copyright laws provide protection for authors' creations by endowing them with exclusive rights to use their works, aiming to encourage creation and information dissemination. To some extent, potential economic remuneration serves as an engine of free speech. Even though the copyright system 'encroaches upon freedom of speech . . . this is justified by the greater public good in the copyright encouragement of creative works'.³³ Therefore, whether the copyright system can be established successfully depends largely on the degree of need for encouraging free expression. Meanwhile, it can be deduced that there is very little in the way of internal dynamics of the copyright law-making process in an authoritarian society, in the light of the very limited need for flourishing literary and artistic works by using the copyright system. The strict control exercised by the central government over the expression and dissemination of information, both in the imperial age and in the early years of the People's Republic of China, could hardly allow a copyright system to boom. As Alford criticizes, historically, the motivation for controlling published works was driven by the need for ensuring

²⁷ Hayek, Friedrich, *Individualism and Economic Order* (University of Chicago Press) (1949), later it was translated into Chinese and published by Beijing Economic College Press in 1989, 103.

²⁸ Marx, Karl and Engels, Friedrich, *Marx/Engels Collected Works*, Vol. 1, translated by Chinese Central Compilation & Translation Bureau (People's Publishing House, Beijing) 82 (1995); also see Wu, Handong, *Multidimensional Interpretation On Intellectual Property Rights [Zhi Shi Chan Quan Duo Wei Du Jie Du]* (Beijing University Press, Beijing) 486 (2008).

²⁹ Along with the end of the Cultural Revolution in China (1966-1976), the reform and opening-up policies were launched in 1978.

³⁰ *Supra* note 24.

³¹ This statement was addressed in Article 17 of the 'Declaration of the Rights of Man' of 1789.

³² *Supra* note 14.

³³ Nimmer, Melville B., *Does Copyright Abridge the First Amendment Guarantees of Free Speech and Press?* 17 UCLA L. REV. 1180, 1192 (1970).

that their contents would not improperly challenge the social order rather than the need for protecting authors' property rights.³⁴

4.2 The improvement of China's copyright system in the last twenty years

4.2.1 Two stages of China's modern copyright regime

The recent improvement in China's copyright regime can be classified in two stages: the initial establishment stage and the rapid growth stage. The first stage lasted from 1990 to 2000, when the initial copyright system was established. The first Copyright Law, regarded as a milestone,³⁵ sets up a basic legal framework for copyright protection. It consists of five parts: general provisions, copyright, copyright licensing contracts, publication, performance, sound recording, video recording and broadcasting, and legal liabilities. Despite its roughness, it is undeniable that it covers the necessary contents, including legislative objectives, definition of conceptions, the scope of protection, contents of copyrights and so on. As a result, this period of history came to an end without a modern copyright system. Only one year later, the National Copyright Administration promulgated the Regulations for the Implementation of the Copyright Law of the People's Republic of China,³⁶ providing explanations for the implementation of the Copyright Law in detail. Almost at the same time, the Regulations for the Protection of Computer Software were issued,³⁷ presenting China's attitudes towards fighting against software piracy. These policies, as a useful adjunct to the Copyright Law, provide more details for the application of the law.

The rapid development of the information and communication technologies in the 1990s brought great challenges for China's copyright regime for protecting databases, software and works relevant to the internet environment. 'Concerned about the extensive piracy in audio-visual products and computer software,'³⁸ the US government repeatedly increased pressure on China by imposing economic sanctions. In order to relieve the difficulties in the international trade regime, China had to illustrate further the standpoint of strengthening copyright protection. As a result, the Memorandum of Understanding between China and the United States on the Protection of Intellectual Property in 1992,³⁹ the Agreement Regarding Intellectual Property Rights in 1995⁴⁰ and an accord reiterating China's commitment to IP protection in 1996 were signed.⁴¹ Moreover, China ratified a

³⁴ *Supra* note 20.

³⁵ The first copyright law was adopted at the Fifteenth Session of the Standing Committee of the Seventh National People's Congress on September 7, 1990, and entered into force on June 1, 1991.

³⁶ The Regulations for the Implementation of the Copyright Law of PRC were issued on 30 May, 1991 and entered into force on June 1, 1991.

³⁷ The Regulations for the Protection of Computer Software were issued on June 4, 1991 and entered into force on October 1, 1991.

³⁸ *Supra* note 24.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ *Id.*

series of international treaties to remain in harmony with global society. For example, China acceded to the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) in 1992,⁴² the Universal Copyright Convention (UCC) in 1992⁴³ and the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of Their Phonograms in 1993.⁴⁴

The second stage started around 2001, with the landmark being that China substantially amended the Copyright Law to increase copyright protection.⁴⁵ In order to improve the implementation of the Copyright Law, the central government promulgated the new Regulation on the Implementation of the Copyright Law of the People's Republic of China,⁴⁶ Collective Management of Copyright Regulations⁴⁷ and the Regulations on the Protection of the Right to Network Dissemination of Information (RNDI).⁴⁸ Moreover, the National Copyright Administration released the Measures for the Implementation of Copyright Administrative Punishment⁴⁹ and the Measures for the Administrative Protection of Internet Copyright jointly with the Ministry of Information Industry.⁵⁰ More importantly, China revised the Copyright Law again in 2010. Even though this amendment only involves a few modifications, it in any case suggested a positive attitude toward increasing protection for copyright. Moreover, at international level, China ratified the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) in June 1997,⁵¹ taking a further step forward to being in accordance with the international copyright regime. Currently, China has launched a new round of amendments of

⁴² Berne Convention for the Protection of Literary and Artistic Works (Berne Convention), Sept. 9, 1886, as last revised in Paris, July 24, 1971, 828 U. N. T. S. 221. China decided to accede to it on July 1, 1992.

⁴³ Universal Copyright Convention, Sept. 6, 1952, as last revised in Paris, July 24, 1971, 216 U. N. T. S. 133. China acceded to it on July 1, 1992.

⁴⁴ Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of Their Phonograms, Oct. 29, 1971, 866 U. N. T. S. 67. China signed it on Jan. 5, 1993.

⁴⁵ China amended its Copyright Law in 2001.

⁴⁶ Regulation on the Implementation of the Copyright Law of the People's Republic of China, promulgated on 2 Aug. 2002, entered into force on Sept. 15, 2005, No. 359 of the State Council.

⁴⁷ Collective Management of Copyright Regulations, promulgated on Dec. 28, 2004, entered into force on March 1, 2005, No. 429 of the State Council.

⁴⁸ Regulations on the Protection of the Right to Network Dissemination of Information, promulgated on 18 May, 2006, entered into force on 1 July, 2006, No. 468 of the State Council.

⁴⁹ The Measures for the Implementation of Copyright Administrative Punishment, adopted at the 1st executive meeting of the National Copyright Administration on April 21, 2009, were promulgated on May 7, 2009 and came into force on June 15, 2009.

⁵⁰ The Measures for the Administrative Protection of Internet Copyright were released on April 29, 2005 and came into force on May 30, 2005.

⁵¹ WIPO Copyright Treaty (WCT), adopted in Geneva on December 20, 1996, WIPO Doc. CRNR/DC/94 (Dec. 23, 1996); WIPO Performances and Phonograms Treaty (WPPT), adopted in Geneva on December 20, 1996, WIPO Doc. CRNR/DC/95 (Dec. 23, 1996).

the Copyright Law, as a result of dramatic changes of China's national conditions.⁵² Especially, in the digital environment, New issues involving digital copyright protection have to be considered, such as the right of communication to the public through the internet, the anti-circumvention measure, digital rights management, and so on.⁵³ The copyright law must re-strike an appropriate balance between providing incentives to intellectual creation and ensuring the public interest of access to information.⁵⁴

4.2.2 The dynamic of high-speed development

The orientation of these efforts originated from both China's serious desire to participate in globalization and the domestic needs of its industrial, social and cultural sectors. China made great efforts to amend laws and regulations to be consistent with the WTO's regulations, preparing for its accession to this most influential organization in the world trade regime. China's rapid growth of international trade and investment after its entry to the WTO partly illustrates the impressive achievement as a result of its efforts.

The US, as an important representative of the West, has been urging China to improve legislation, enforcement and international cooperation in the copyright regime. In order to achieve these objectives, the US adopts multiple approaches including negotiation, launching Section 337 investigations,⁵⁵ publishing annual investigation reports on IPRs, filing complaints to the WTO and so on. Since the end of 2004, issues regarding IPR protection have inevitably become a sensitive topic during each visit of the US International Trade Commission (USITC) to China.⁵⁶ In addition, the US has carried out more than 100 Section 337

⁵² Liu, Chuntian, *The Third Round of Amendments of China's Copyright Law Is A Response To Dramatic Changes Of China's National Conditions* [Zhu Zuo Quan Fa Xiu Gai Shi Guo Qing Ju Bian De Yao Qiu], 5 Intellectual Property [Zhi Shi Chan Quan] 7, 7-12 (2012).

⁵³ Wan, Yong, *A Modest Proposal to Amend the Chinese Copyright Law: Introducing a Concept of Right of Communication to the Public*, 55 Journal of the Copyright Society of the USA 603, 603 (2006); also see Wan, Yong, *China's Regulation on the Right of Communication through the Information Network*, 54 Journal of the Copyright Society of the USA 525, 543-44 (2007); also see Xie, Huijia, *The Regulation of Anti-Circumvention in China*, 54 Journal of the Copyright Society of the USA 545, 545 (2007); also see Xie, Huijia, *The Regulation of Digital Rights Management in China*, 39 International Review of Intellectual Property and Competition Law 662, 672-75 (2008).

⁵⁴ Liu, Jiarui & Fang, Fang, *The Idea / Expression Dichotomy in Cyberspace: A Comparative Study of Web Page Copyright in the United States and in China*, 25 European Intellectual Property Review 504, 514 (2003); also see Liu, Jiarui, *New Development in Digital Copyright Protection in China – The Landmark Case of Zheng Chengsi v. Shusheng*, 28 European Intellectual Property Review 299, 304 (2006).

⁵⁵ Section 337 investigation refers to an investigation regarding IP enforcement under Section 337 of the United States Tariff Act of 1930, 47 U.S.C. § 337.

⁵⁶ Zhao, Jianguo, *Review of Negotiations between the US and China* (2008), available at

investigations during the USITC visits over the past decade. The Section 337 investigation is always regarded as a powerful weapon for battling against infringing products from other countries in view of its efficient process and serious results when the USITC finds a violation of Section 337.⁵⁷ The annual Special 301 Report on IPRs produced by the Office of the United States Trade Representative (USTR), another means of presenting the concerns of the US about IP protection overseas, also attracts global attention. It reviews the situation of the IP enforcement of their trading partners, which may be a foundation for the US to take further action against IPR theft and the violation of obligations under the WTO. One possible result is that the violating country could face litigation before the WTO Dispute Settlement Body and even trade sanctions. In recent years, the Special 301 Reports list China in the priority watch list and seriously criticize the rampant piracy and inadequate enforcement in China, which undeniably exerts considerable pressure on China. In addition, the US launched a WTO litigation with respect to China's IP protection in 2007.⁵⁸ The US claims that there are three aspects of Chinese law and practice incompliant with the TRIPS Agreement, namely, 'the denial of copyright protection of censored works; the disposal by donation and auctions of seized counterfeit goods; and the unavailability of criminal sanctions for piracy and counterfeiting of copyright and trademark rights below certain thresholds.'⁵⁹ Although in the end the panel only accepted the first argument and rejected the other arguments, the final decision of the panel directly resulted in the revision of relevant articles of the Copyright Law. Although US' policy produces some positive effects on promoting Chinese copyright protection, it also cause Chinese concern about its potential threat to human rights, free speech, and public access.⁶⁰

http://www.sipo.gov.cn/sipo2008/ztzl/zxhd/hh60/iphm/200909/t20090921_476029.html (last visited 25 June, 2011).

⁵⁷ Either a general or limited exclusion order would be issued if a violation of Section 337 were determined. A general exclusion order means importation of all infringing products into the US will be forbidden, regardless of their source. 'A Section 337 investigation is typically completed in less than 15 months from the date of institution of the investigation. The actual hearing (or trial) generally occurs seven months from the date of institution.' Schaumberg, Tom M., Ibrahim, Bassam N., Hovanec, George A., Jr., Roth, Anthony C., McKeon, Michael J., & Walters, Robert J., *Advantages of a Section 337 Investigation at the US International Trade Commission*, 12 IP Litigator 32 (2006); also available at <http://www.accessmylibrary.com/article-1G1-147217136/advantages-section-337-investigation.html> (last visited 25 June, 2011).

⁵⁸ Panel Report, China--Measures Affecting the Protection and Enforcement of Intellectual Property Rights, WT/DS362/R (Jan. 26, 2009) (adopted Mar. 20, 2009) [hereinafter Panel Report]. Materials on specific WTO disputes are available at http://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm (last visited 5 July, 2013).

⁵⁹ Gervais, Daniel, *International Decision: China--Measures Affecting The Protection And Enforcement Of Intellectual Property Rights*, 103 American Journal of International Law 549, 549 (2009).

⁶⁰ Zhang, Jing, *Pushing Copyright Law in China: A Double – Edged Sword*, 18 DePaul University Journal of Art and Entertainment Law 27, 27 (2007).

On the other hand, the internal dynamics cannot be ignored and are even the strongest motivation behind the comprehensive revolution in the copyright regime. The IP law amendments are made not only to meet the requirements of international treaties, but also to satisfy China's domestic need.⁶¹ China's market economy pushed China to reform the legal system to respond to domestic needs. During the past several years, the industries of computer software, film production, television program production, animation and music, due to their drastic evolvement and upward trend,⁶² have become important elements of Chinese economy.

As regards the computer software industry, China formulated a long-term plan for development at the beginning of this century. Shortly after that, a series of policies were successively released for implementing such a scheme. For example, Several Policies for Encouraging the Development of the Software Industry and Integrated Circuit was released in June 2000, stating that it was promising that the domestic products of computer software would satisfy the majority of the needs of the domestic market and be exported on a large scale in the following 5 to 10 years.⁶³ This file also provides the policy of concessions and rewards for software firms, showing China's great determination to develop this industry.⁶⁴ Meanwhile, the Action Plan for the Rejuvenation of the Software Industry was formulated, aiming to create a good environment for developing the software industry from the perspectives of technological R&D, investment, financial business, international trade, revenue distribution and so on.⁶⁵ Likewise, the Guidelines of the 10th Five-year Plan and the Guidelines of the 11th Five-year Plan highlighted the significance of the software industry for the national economy as well. Fortunately, through these numerous efforts, the computer software industry in China has experienced tremendous growth. As shown in Table 4.1, the gross revenue of the software industry in 2009 reached 997 billion RMB, ten times that in 2001; and the profit created by this industry also reached 134 billion RMB, also nearly ten times that in 2001.

Table 4.1 The gross revenue and profit of China's computer software industry

	(Billion RMB)								
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross revenue	75.06	110	163.3	240.4	390.6	480.1	583.4	757.3	997
Profit	14	2.62	5.95	11.62	28.37	42.23	58.4	91.2	134.07

⁶¹ Yu, Peter K., *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China*, 55 American University Law Review 901, 903-910 (2006).

⁶² Zhang, Xiaoming, Hu, Huilin & Zhang, Jiangang (eds.), *Report on Development of China's Cultural Industry* [Zhong Guo Wen Hua Cha Ye Fa Zhan Bao Gao], (Social Science Academic Press, Beijing) 55-65 (2010).

⁶³ Several Policies for Encouraging the Development of the Software Industry and Integrated Circuit, June 2000, No. 18 of the State Council.

⁶⁴ *Supra* note 63.

⁶⁵ Action Plan for the Rejuvenation of the Software Industry, July 2002, No. 47 of the National Development and Reform Commission.

Source: Data summarized based on the information released by the National Bureau of Statistics of China, available at <http://www.stats.gov.cn/>.

Furthermore, the thriving market of films and phonograms generated the internal dynamic of improving copyright protection in China. The annual production of story films increased from 88 in 2001 to 406 in 2008; in particular, the box office gross revenue from the domestic market has risen steadily in the past few years.⁶⁶ The achievement in the film industry, as shown in Table 4.2, has boosted the confidence of producers and investors in producing more films. Recently, the Plan to Adjust and Reinvigorate the Culture Industry released by the State Council has provided a comprehensive guideline for developing this industry and has identified IP protection as a safeguarding condition.⁶⁷ Additionally, on the Fifth Plenum of the 17th Central Committee of the Communist Party of P. R. China, it was proposed that the cultural industry should be built into a pillar of China's national economy and the government should offer strong support by making favorable macro policies.⁶⁸

Table 4.2 The general revenue of China's film industry

(Billion RMB)					
Year	2004	2005	2006	2007	2008
Box office revenue of domestic films	8.3	11.0	14.4	18.01	26.89
Box office revenue of imported films	6.7	9.0	11.8	15.26	16.52
Box office revenue overseas	11.0	16.5	19.1	20.20	25.28
Advertisement revenue from cinema channels	10.0	11.5	12.0	13.79	15.64
Total revenue	36.0	48.0	57.3	67.26	84.33

Source: China Entertainment Industry Report 2010, available at <http://www.entgroup.cn/reports/f/299120.shtml>.

During the past few years, China has experienced a satisfactory development in the animation industry, considering the successful creation of many domestic animation products and their popularity in the market.⁶⁹ In addition, the amount of domestic animation products has increased dramatically from 4,689 minutes in

⁶⁶ Entgroup Consultation Ltd., China Entertainment Industry Report of 2010, available at <http://www.entgroup.cn/reports/f/299120.shtml> (last visited 25 June, 2011).

⁶⁷ Plan to Adjust and Reinvigorate the Culture Industry, No. 30 (2009) of the State Council.

⁶⁸ Communiqué of the Fifth Plenum of the 17th Central Committee of the Communist Party of China (October 18, 2010), available at http://www.chinadaily.com.cn/language_tips/trans/2010-10/19/content_11430416.htm (last visited 27 June, 2011).

⁶⁹ Many Chinese domestic animation products, such as 'Xi Yang Yang Yu Hui Tai Lang', 'Hong Mao Lang Tu Qi Xia Zhuan', 'Gong Fu Xiong Mao', 'Xiao Li Yu Li Xian Ji', 'Tiang Yan', 'Xing Xi You Ji', 'Hei Mao Jing Zhang', 'Jing Ling Shi Ji' and so on, are strongly favoured by Chinese children and even adults.

2000 to 82,326 minutes in 2006.⁷⁰ Correspondingly, the Chinese government is devoting considerable attention to developing the animation industry, even though this industry in China is merely at the initial stage. An important official document, *Opinions on Promoting Chinese Animation Industrial Development*, raises the policy of supporting the animation industry as a national strategy, puts forward the strategic goal of becoming a leading country in the animation industry and releases policies regarding the incentive system and tax concessions.⁷¹ In this document, the Cultural Ministry issues *Opinions of the Cultural Ministry on Supporting Chinese Animation Industrial Development*,⁷² addressing the fact that the government will take effective measures to increase the capability of the independent development of the animation industry. Meanwhile, it points out that the animation industrial chain, comprising books, periodicals, films, television programs, videos, internet animation and mobile animation, should be well established.⁷³

However, the desperate situation of copyright piracy could be a barrier to achieving China's strategic goal of becoming one of the world's leading nations from the perspective of the computer software industry and cultural industry. The Business Software Alliance (BSA), the leading advocate for the global software industry, has critically reviewed the situation of piracy in China and suggested to the government of the US to adopt a new strategy for coping with it, based on its research findings 'that 79 percent of applications installed on personal computers in China last year were pirated instead of being legally purchased. The commercial value of that pirated software was \$7.6 billion in 2009 — a figure that has nearly doubled from \$3.9 billion in 2005.'⁷⁴ Likewise, the problem of piracy troubles the Chinese cultural industry. The piracy rate of domestic films during recent years has

⁷⁰ Marketing Investigation Report on the Chinese Animation Industry in 2008, produced by Shanghai Magic Wanuts Investment Co. Ltd., available at <http://wenku.baidu.com/view/a8b290d8d15abe23482f4d37.html> (last visited 27 July, 2011).

⁷¹ *Opinions on Promoting Chinese Animation Industrial development*, GBF (2006) No.32.

⁷² *Opinions of the Cultural Ministry on Supporting Chinese Animation Industrial Development*, WSF (2008) No. 33.

⁷³ *Id.*

⁷⁴ BSA Proposes New Strategy for US Trade Relations with China, December 1, 2010, available at <http://www.bsa.org/country/News%20and%20Events/News%20Archives/en/2010/en-12012010-china.aspx> (last visited 27 July, 2011); the data published by BSA are different from the ones released by the Chinese authority. Based on 'Investigation Report of Piracy Rate of Chinese Industry of Computer Software' conducted by China's Internet Laboratory and entrusted by the State Intellectual Property Office, the software piracy rate in China reduced from 47 percent in 2008 to 45 percent in 2009. The difference in research results between BSA and China's Internet Laboratory are perhaps caused by adopting differential statistical methods, available at

<http://company.cnstock.com/industry/zh/201005/531336.htm> (last visited 27 July, 2011); also see

<http://www.cei.gov.cn/index/serve/showdoc.asp?Color=Twelve&blockcode=wnitdt&filename=200705152159> (last visited 27 July, 2011).

always exceeded 50 percent.⁷⁵ Many domestic blockbusters involving substantial investments, such as ‘Tang Shan Da Di Zhen’, ‘Di Ren Jie’, ‘Zhao Shi Gu Er’, ‘Xi Feng Lie’ and ‘Da Xiao Jiang Hu’, are pirated within a mere couple of days after they are first screened in cinemas.⁷⁶ Furthermore, the phonogram industry has suffered from a depression since 2008,⁷⁷ because people can access musical products by various approaches rather than merely buying the phonogram record.⁷⁸ In any case, piracy is a crucial reason for this recession.⁷⁹ In short, it is actually necessary for China to increase copyright protection to fight against piracy and thereby advance the industry of relevant industries.

4.2.3 The amendment of the Copyright Law of 2001

First, the amendment of the Copyright Law of 2001 broadens the scope of copyright protection and modifies the classification of literary and artistic works. The acrobatic art works, architecture works and model works of engineering designs, product designs, maps, sketches and other graphic works have been added to the subject matter of protection.⁸⁰ This version adopts the expression of the Berne Convention and extends the original concept of cinematographic and similar works, by revising Article 3 (5) from previously ‘cinematographic, television and video graphic works’⁸¹ to ‘cinematographic works and works created by a process analogous to cinematography.’⁸² Moreover, it puts ‘photographic works’ into a separate category,⁸³ rendering the classification more reasonable.

Second, it increases the protection for works created by foreigners and stateless persons. The old version in 1990 does not explicitly describe whether or how a stateless person’s work is protected. Under this new amendment, copyright protection is offered to works of foreigners, as well as stateless persons, as long as the work is first published in China or enjoys copyright under an agreement or an international treaty to which both China and the country of the author’s nationality

⁷⁵ Battling against Piracy Is Urgent for Chinese Film Industry: Annual Loss Exceeds 14 Billion RMB, available at <http://news.hexun.com/2010-10-14/125127246.html> (last visited 27 July, 2011).

⁷⁶ *Id.*

⁷⁷ In 2008, the annual distribution revenue of music albums decreased by 25 percent compared with that of 2007. Unfortunately, the annual distribution revenue of music albums in 2009 decreased by as much as 40 percent in comparison with that of 2008. In 2009, the total distribution revenue of music albums in China, a large country with a population of 1.4 billion, amounted to a mere 130 million RMB. See Difficulties of China’s Music Industry under the Puzzles of Copyright, Chinese Cultural Newspaper (last visited 28 July, 2011); also see http://e.gmw.cn/content/2010-08/18/content_1219504.htm (last visited 28 July, 2011).

⁷⁸ For example, musical products can be accessed through free internet downloads, mobile downloads and pirate copies.

⁷⁹ *Supra* note 77.

⁸⁰ Copyright Law of PRC (2001), art. 3(3), 3(4) and 3(7).

⁸¹ Copyright Law of PRC (1990), art. 3(6).

⁸² *Supra* note 80, art. 3(6).

⁸³ *Supra* note 80, art. 3(5).

or permanent residence are a party.⁸⁴ Besides, protection also covers the ‘work of an author from a country not having concluded an agreement with China or entered into an international treaty jointly with China, or of a stateless person, which is published for the first time in a country which is a member of the international treaty into which China has entered or published in a member country and non-member country at the same time.’⁸⁵

Third, it details the economic rights and increases the rental right, the right of presentation and the right to network dissemination of information. Under the earlier copyright law, all the economic rights were stipulated collectively in a simple article without any definition or interpretation,⁸⁶ which caused legal ambiguity as well as difficulties in practice due to misinterpretation. The 2001 amendment divides the economic rights into thirteen categories and gives a definition for each of them, notwithstanding the fact that there are still some shortcomings.⁸⁷

The newly added rental right refers to the right to permit others to use computer software, a cinematographic work or a work created in a similar way to cinematography temporarily. It is an important exception to the principle of exhaustion for preserving an author’s control of these specific works. From this respect, this revision basically complies with the TRIPS Agreement.⁸⁸ However, this new article does not clarify the ownership of the rental rights. Under the TRIPS Agreement, the rental right should be provided for ‘authors and their successors in title to authorize or to prohibit the commercial rental to the public of originals or copies of their copyright works.’⁸⁹ With regard to cinematography, Article 14.4 of the TRIPS Agreement defines the holder of rental rights as ‘producers of phonograms and any other right holders in phonograms as determined by domestic law,’ but does not provide a further explanation of the notion of ‘any other right holders’.⁹⁰ In contrast, the WCT extends the rental rights to ‘authors of (i) computer programs; (ii) cinematographic works; (iii) works embodied in phonograms, as determined in the national law of contracting parties.’⁹¹ For China, a member of both the TRIPS Agreement and the WCT, a proper approach is to grant the rental right to authors and producers jointly. Nevertheless, the provisions of China’s Copyright Law with respect to the rental right do not describe the scope of the right holder literally. Fortunately, the initial intent of the legislators may be explored by analyzing other relevant articles. In fact, there is some misunderstanding regarding the fact that the rental right only concerns the producers, in view of the statement that the producer should be

⁸⁴ *Supra* note 80, art. 2(2) and 2(3).

⁸⁵ *Supra* note 80, art. 2(4).

⁸⁶ Under the Copyright Law of 1990, both the right to exploitation and the right to remuneration include ‘the right of exploiting one’s work by reproduction, performance, broadcasting, exhibition, distribution, making cinematographic, television, or video production, adaptation, translation, annotation, compilation and the like, and the right of authorizing others to exploit one’s work by the above mentioned means and of receiving remuneration thereof’, *Supra* note 81, art.10(5).

⁸⁷ *Supra* note 80, art. 10(5) - (17).

⁸⁸ TRIPS Agreement, art. 11.

⁸⁹ *Id.*

⁹⁰ *Id.* art. 14(4).

⁹¹ *Supra* note 51, WIPO Copyright Treaty, art. 7(1).

entitled to hold the copyright to a cinematographic work or a work created in an analogous way, while other authors involved in the work enjoy the right of authorship and remuneration.⁹² Article 46 regarding legal liability indicates more initial intentions of the legislators to include other entities in the rental right holders by stating that the copyright holder and other owners of rights related to copyright could claim civil liability in a case in which their cinematographic or similar work is rented without their authorization.⁹³ Logically, it is reasonable to define 'other owners of rights related to copyright' here as the authors who contribute to cinematographic works or phonograms. In any case, one possible way to improve literal clarity and legal efficiency is to stipulate the ownership of the rental right definitively in the relevant provisions.

The right of presentation is an important complement to enrich the right of delivering a work. Under the revised copyright law, the right of presentation is defined as 'the right to make a work of fine art, a photographic work, a cinematographic work or a work created in an analogous way perceivable to the public by means of technical devices including projectors.'⁹⁴ The technical devices under this article do not include technical devices for broadcasting and the internet, because these two approaches of delivering works are included in the right of broadcasting and the right to network dissemination of information. Such a definition of the right of presentation is almost the same as the one under the German Copyright Law, which distinguishes the right of live performance and displaying special works by technical devices as well.⁹⁵ In contrast, the right of presentation, as one form of the right of performance, is not a separate right under US copyright law. Section 101 of the Copyright Law of the US divides performance into two forms: direct and indirect. Direct performance means face-to-face live performance and indirect performance refers to delivering a work by 'using any device or process to show its images or make its sounds audible.'⁹⁶ Therefore, the right of presentation under Chinese and German Copyright Law is incorporated into the form of indirect performance under US Copyright Law. It is worth mentioning that the right of presentation is not offered for all forms of works, but merely for works of fine art, photographic works, cinematographic works or works created in an analogous way.

The right to network dissemination of information aims to provide protection for interactive communication of works by wire or wireless means. It is a derivative of the development of modern communication technology, which makes information transmission more convenient and efficient through the internet,

⁹² *Supra* note 80, art. 15.

⁹³ *Supra* note 80, art. 46(8).

⁹⁴ *Supra* note 80, art. 10(10).

⁹⁵ German Copyright Law (2008), art. 19(1) - (4).

⁹⁶ See Section 101 of the Copyright Law of the US, 17 U.S.C. §101. According to this section, the performance or display of a work publicly is defined as: '(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.'

mobile facilities and satellite communication systems. Under Article 10(12) of the Copyright Law of 2001, the right to network dissemination of information refers to the exclusive right to provide the public with works by wire or wireless means so that the public can access the works at an individually selected time and place.⁹⁷ Such a right is actually one form of the right of communication to the public under the Berne Convention, which merely mentions that the authors of literary and artistic works should enjoy the exclusive right of authorizing any communication of their works to the public in general, but does not describe the special forms of communication.⁹⁸ In comparison, the WCT explicitly states that the communication by wire or wireless means stipulated in the Berne Convention should include the way in which the public may access authors' works from a place and at a time individually chosen by them.⁹⁹ Obviously, means of interactive communication place an emphasis on the initiative of the public to access works. As Jonah Knobler said, 'the distinction between interactive and non-interactive communication of works' could be understood from differences 'between access at will and the mere passive, happenstance experiencing of works.'¹⁰⁰ Under Chinese Copyright Law, the right of communication to the public by non-interactive means has been covered by the right of broadcasting and performance; consequently, it is an inevitable option to apply the right to network dissemination of information to protect the transmission of works by means of interactive communication.

Fourth, the amendment of 2001 confines the limitations to copyright to a narrow scope to ensure that such limitations do not unreasonably impair the normal exploitation of a work. Limitation or exception to copyright is a useful means of balancing the rights between the copyright holder and the public. A reasonable limitation system is beneficial for ensuring freedom of speech and promoting dissemination of information. At international level, several international treaties almost express themselves in the same manner, whereby limitations or exceptions to exclusive rights are provided on condition that they 'do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author.'¹⁰¹ Meanwhile, this is also an important component of domestic copyright laws of countries around the world. German Copyright Law details the cases of limitations to copyright throughout Chapter 4,¹⁰² likewise, the Copyright Law of the US expressly illustrates the limitations to exclusive rights from Section 107 to Section 112.¹⁰³ Nonetheless, an author's exclusive rights will face the risk of being harmed without a reasonable boundary of exceptions and limitations to copyrights. Therefore, the amendment of 2001 imposes necessary restrictions on the cases of limitations. Article 22(3) adds a condition of 'inevitable reappearance or citation of a published work' to the fair use of such a work in newspapers, periodicals, radio stations, television stations or other media for the

⁹⁷ *Supra* note 80, art. 10(12).

⁹⁸ *Supra* note 42, art. 11(1)(ii), 11 *bis* (1)(i) and (ii), 11 *ter* (1)(ii), 14 (1)(ii) and 14 *bis* (1).

⁹⁹ *Supra* note 51, art. 8.

¹⁰⁰ Knobler, Jonah M., *Performance Anxiety: The Internet and Copyright's Vanishing Performance/Distribution Distinction*, 25 *Cardozo Arts & Ent. L. J.* 531, 589-90 (2007).

¹⁰¹ *Supra* note 42, art. 9(2); *supra* note 51, art. 10; *supra* note 88, art. 13.

¹⁰² *Supra* note 95, art. 45 - 63.

¹⁰³ *Supra* note 96, art. 107 - 112.

purpose of reporting current events.¹⁰⁴ Article 22(4) confines a work already published by the press, the broadcasting and television stations or other media, which is allowed to be reproduced without authorization by other similar media, to the work on current economic, political or religious topics.¹⁰⁵ Moreover, use of a published work by the Chinese authorities for the purpose of fulfilling official duties is limited by a precondition that this use is within a reasonable scope.¹⁰⁶ Furthermore, it defines the free of charge performance as a case in which ‘neither fees are charged from the public nor the remuneration is paid to performers.’¹⁰⁷ In fact, compared with the Copyright Law of 1990 these revisions reducing the scope of fair use achieve not only a more delicate balance between the interests of the public and right holders but also more compliance with the Berne Convention.

Fifth, the content of related rights is enriched in order to improve protection for the rights of publishers, performers, phonogram producers and broadcasting organizations. The related rights of the previous copyright law only included three categories: (1) rights of performers in their performances, (2) rights of producers of sound recordings in their recordings and (3) rights of broadcasting organizations in their radio and TV programs. The Copyright Law of 2001 introduces a new type of related rights for publishers to the effect that they may enjoy an exclusive right of permitting or preventing the exploiting of the typographical design of their books and periodicals.¹⁰⁸ Meanwhile, it confirms that performers have a right of authorizing the reproduction and distribution of the sound or video recordings regarding their performance and a right of authorizing the communication of their live performance to the public through the internet.¹⁰⁹ It also acknowledges that producers of phonograms have a right to authorize or prohibit the dissemination of their products to the public by means of renting or the internet. In addition, the related rights of broadcasting organizations are extended to the right to prohibit the fixation, the reproduction of fixation and the rebroadcasting of their broadcasting programs without authorization.¹¹⁰ Even though the original intent of these efforts is perhaps to meet the requirements of the TRIPS Agreement,¹¹¹ another positive result is that a legal foundation for encouraging the cultural industry and the related industry has been established.

Sixth, it includes the provision concerning the collective management of copyright and related rights, which is not mentioned in the previous copyright law.¹¹² The new provision recognizes the system of copyright collective management as a component of contemporary copyright law and establishes a basic legal framework for collective management. Under Article 8, copyright holders or other right owners may mandate a collective management organization (CMO) of copyright to exercise their copyright and related rights.¹¹³ With the mandate, the CMO is the owner of the assigned rights, which will be applied

¹⁰⁴ *Supra* note 80, art. 22(3).

¹⁰⁵ *Id.* art. 22(4).

¹⁰⁶ *Id.* art. 22(7).

¹⁰⁷ *Id.* art. 22(9).

¹⁰⁸ *Id.* art. 35.

¹⁰⁹ *Id.* art. 37(5), and 37(6).

¹¹⁰ *Id.* art. 44.

¹¹¹ *Supra* note 88, art. 14(1), (2) and (3).

¹¹² *Supra* note 80, art. 8.

¹¹³ *Id.*

equally to the author's rights. In other words, the authorization from the copyright holder provides the CMO with a legal basis to represent holders of IPRs in exercising their copyright and defending their rights in court proceedings. Moreover, the CMO is defined as a non-profit society, indicating that it has an obligation to distribute all the royalty revenue to the right holders after deducting the necessary administrative fee. Even if the article does not interpret CMOs further, it provides an open statement that the provisions concerning their establishment, rights and obligations, collection and distribution of levy income and relevant supervision and administration will be formulated separately by the State Council. In order to realize this statement, the Regulations on Collective Administration of Copyright (RCAC) released details in 2005, specifically for implementing the collective management system,¹¹⁴ which is discussed later.

Seventh, it strengthens the enforcement of IPRs at legislative level. The amendment of 2001 provides for temporary measures, including the preservation of evidence, preservation of property and temporary injunction, which may be applied under some circumstances before litigation.¹¹⁵ Preservation of evidence solves the difficulty of obtaining evidence or ensuring the integrity of evidence. Temporary injunction and preservation of property are useful to stop the possible infringement efficiently and prevent the extension of potential loss caused by the claimed infringement. Furthermore, it adds provisions in respect of statutory damages, according to which the court may award compensation amounting to no more than RMB 500,000 based on the special situation of infringement in cases where the actual losses cannot be determined.¹¹⁶

This was a substantial modification, not only because it added comprehensive and rich content to the existing copyright law that only had a basic framework for copyright protection, but also because it met China's commitments to the international community. The amended copyright law provided more effective protection for the interests of right holders by broadening the scope of protection and making detailed provisions on the content of rights. It also achieved a better balance between different interests through adequately re-setting limitations and exceptions to copyright. More significantly, the right to network dissemination of information, a new added right, filled the gap in the Copyright Law of 1990. This modification can be regarded as an important step to bring China's copyright system in accordance with the international practice.

4.2.4 The second amendment of the Copyright Law of 2010

China launched the second amendment of the Copyright Law in 2010. Compared to the Patent Law and the Trademark Law, the new Copyright Law makes only two changes: providing for copyright to censored works and clarifying the procedure of pledge of copyright.

The first, as well as the most important change, removes the provision denying copyright protection to works that are not allowed to be published or distributed. This modification can be regarded as China's response to the decision of the WTO

¹¹⁴ Regulations on Collective Administration of Copyright, 2005, no. 429 of the State Council.

¹¹⁵ *Supra* note 80, art. 49 and 50.

¹¹⁶ *Id.* art. 48.

panel concerning the former Article 4, which provides that the works cannot be protected by the Copyright Law if their publication and distribution are prohibited in China.¹¹⁷ Before the amendment, Chinese scholars generally believe that it is an issue of Chinese national sovereignty over legislative autonomy and this stipulation is consistent with the international custom.¹¹⁸ The US filed a complaint against China by asserting that Article 4 of China's Copyright Law is inconsistent with the provisions of the Berne Convention, in view of the fact that works, of which the publication or distribution is not approved by China's competent authority, cannot 'enjoy the minimum rights that are 'specially granted' by the Berne Convention.'¹¹⁹ Article 5(1) of the Berne Convention states that 'authors shall enjoy, in respect of the works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted under this Convention.'¹²⁰ On this point, the panel agreed with the US and determined that 'China has an international obligation to protect copyright in such works in accordance with Article 5(1) of the Berne Convention (1971), as incorporated by Article 9.1 of the TRIPS Agreement.'¹²¹ As a result, the Standing Committee deleted the provision denying protection for prohibited works and revised this article as follows: 'Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or infringe upon public interests. The publication and dissemination of works shall be subject to the administration and supervision of the state.'¹²²

The other change is related to the copyright mortgage. Article 26 provides that in the case of copyright mortgage, the mortgagor and the mortgagee shall jointly apply to the State Copyright Office under the State Council to record the mortgage.¹²³ Thus, the record procedure becomes a precondition of an effective mortgage and copyright holders must go through the process provided that they exercise their copyright ownership as security. Nowadays, the copyright mortgage is an essential means for obtaining loans for supporting future creations. Meanwhile, the cultural industry, involving substantial investments, is indeed in urgent need of boosting copyright mortgage in the financial market. This provision may be of benefit to increasing the efficiency and security of mortgages, because the record procedure establishes a mechanism by which the public can access the comprehensive information regarding copyright mortgage.

¹¹⁷ *Id.* art. 4.

¹¹⁸ Liu, Chuantian, Intellectual Property Law [Zhishi Chanquan Fa] (4th edited), (People's University of China Publishing House, Beijing) 66 (2009).

¹¹⁹ Panel Report, China – Measures Affecting The Protection and Enforcement of Intellectual Property Rights, WT/DS362/R(Jan. 26, 2009)(adopted Mar. 20, 2009), Para. 7 and 16, available at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm (last visited 28 July, 2013).

¹²⁰ *Supra* note 42, art. 5(1).

¹²¹ *Supra* note 119, Para. 7 and 119.

¹²² Copyright Law of China of 2010, art. 4.

¹²³ *Id.*

4.3 Contentious issues in the current copyright system

4.3.1 Collective management of copyright and related rights

Collective management is perceived as an efficient way for authors and other right holders to exercise the rights to their works that may be difficult to operate individually. It is in the interests of both the right owners and the users in view of its essential role of facilitating the collection and distribution of royalties as well as the negotiation of mass use of copyright resources. It facilitates excellent musical works to spread throughout the world.¹²⁴ Nevertheless, such collective management is facing the challenges generated by technological development. China's collective management system in the copyright regime has a very short history and the first CMO, namely the Music Copyright Society of China (MCSC), is only about twenty years old.¹²⁵ On some occasions, the practice of CMOs seemingly lacks efficiency and the ability to exercise and control copyright and the related rights. This section studies the legal status of China's CMO, analyzes the acquisition of rights, explores the system of dispute settlement and examines the interaction between advanced technologies and the collective management of copyright.

4.3.1.1 Legal status of the CMO

Under the Copyright Law, the establishment of CMOs should be subject to special regulations in this context stipulated by the State Council, namely the RCAC released in 2005.¹²⁶ Article 3 of the RCAC provides that a CMO should constitute a civil society that is lawfully established for the interests of the right owners and takes charge of the collective management of the owner's copyright or other related rights upon the authorization of the right owners.¹²⁷ Moreover, a CMO should follow the procedures of registration required by the related administrative regulations regarding social organizations.¹²⁸

According to the Regulations on the Registration and Administration of Social Organizations,¹²⁹ the CMO, a kind of social organization, should receive the official approval of the competent authority before completing registration at the civil affairs department.¹³⁰ Other than registration, the administration of social organizations runs on the principle of 'double responsibility', which means that both the registration department and the competent authority are responsible for the administration and supervision of the activities of social organizations, as well

¹²⁴ *Supra* note 118, at 134.

¹²⁵ The Music Copyright Society of China (MCSC) was established in December 1992.

¹²⁶ *Supra* note 80, art. 8.

¹²⁷ *Id.* art. 3(1).

¹²⁸ *Supra* note 114, art. 3(2).

¹²⁹ Regulations on the Registration and Administration of Social Organizations, 1998.

¹³⁰ *Id.* art. 3 and 6.

as the comprehensive review of their annual reports.¹³¹ In addition, the registration department also has power over the decisions on administrative penalties in cases involving a failure to comply with the relevant regulations.¹³²

In China, the CMOs are granted a legal monopoly based on the exclusive permission within the legal framework. The RCAC clearly specifies that an entity intending to serve as a CMO must satisfy the requirement that its scope of business should not conflict with that of another lawfully registered CMO.¹³³ Accordingly, a statutory monopoly is created since only one CMO can be established to exercise one type of copyright and copyright-related rights. In fact, the monopoly system in terms of the CMO is not China's creation. As regards either the competitive system or monopoly system, there is no definitive conclusion yet as to which one is superior to the other because the effectiveness and efficiency of a copyright collective system depend largely on the particular situations of the country where it is implemented. Some countries allow the coexistence of homogeneous CMOs and encourage competition among them and even strictly prohibit monopoly in the market of copyright collective management to protect the interests of the right owners to the maximum extent possible.¹³⁴ By contrast, numerous countries choose a monopolistic approach, where some certain CMOs serve as the public authority¹³⁵ or merely one CMO is allowed for the registration in each field of business.¹³⁶

4.3.1.2 Acquisition of rights

The acquisition of rights from the right owners is substantially important for CMOs to be able to carry out their activities. It is especially critical in the case of a new CMO or a CMO attempting to license new use in the case of non-voluntary licenses.¹³⁷ Meanwhile, the acquisition of rights has a direct connection to the relationship between the CMO and the right holders, the scope of the business of CMOs and competition in the related market.

As regards CMOs in China, their activities should be based on right holders' authorization, except in the case of statutory licenses. First, authorization is entirely on a voluntary basis. Both the Copyright Law and the RCAC provide the right holders with sufficient freedom to choose to participate in the CMO or exploit their rights individually, and identify the scope of the authorization. The right holders may authorize the CMO to exercise the rights that are difficult to be

¹³¹ *Id.* art. 27 and 28.

¹³² *Id.* art. 27.

¹³³ *Supra* note 114, art. 7.

¹³⁴ For example, Canada and the US adopt the competitive system in the regime of CMOs.

¹³⁵ In Italy, the main Collective Management Organization is a public authority.

¹³⁶ Belgium, Greece, Italy (other than SIAE), the Netherlands, Spain, France, Germany (except audiovisual) and Sweden pursue the policy of such exclusive permission.

¹³⁷ Gervais, Daniel J., *Collective Management of Copyright and Neighboring Rights in Canada: An international Perspective* (Report Prepared For The Department of Canadian Heritage) (2001), available at http://www.pch.gc.ca/progs/ac-ca/progs/pda-cpb/pubs/collective/collective_e.pdf (last visited 2 September, 2011).

exercised effectively individually by signing a licensing contract with the CMO.¹³⁸ Second, such an authorization should be a full assignment of the right to the CMO. For the duration of the mandate, the CMO is the owner of the assigned rights and has the right to operate a licensing scheme on its behalf. In addition, based on the fact that such a license is an exclusive license under China's laws, the right holders of copyright and related rights cannot themselves exercise or permit other persons to exercise the assigned rights within the term of the authorization.¹³⁹

In Europe, full assignment of rights is also a common approach for acquiring authorization, especially for music performing rights.¹⁴⁰ Nevertheless, it is merely one option for creating the sources of the CMO's rights in the world. Other than the full assignment of the rights, there are mainly four approaches adopted by countries, including non-exclusive licenses, authorization to act as agents, a *sui generis* system and legal non-voluntary licenses. In the US, only non-exclusive licenses given to the CMO are allowed under its antitrust framework. Consequently, this arrangement on the one hand encourages potential competition among homogeneous CMOs, since no CMO can ensure that it is a unique entity representing the right holders, which would benefit users and right holders in obtaining their interests on reasonable terms. On the other hand, however, due to the coexistence of similar CMOs and the voluntary licensing basis, there is one possible situation where no real blanket licenses are available to users, resulting in difficulties for users who use a mass of copyrighted materials to seek indemnity under the protection umbrella of the blanket license. Furthermore, the CMOs therein usually act as agents to negotiate with the user on behalf of the right holder rather than being entrusted with the task of exercising the assigned rights on their own behalf.

German adopts a *sui generis* system for regulating the acquisition of the CMO's rights. The German Administration of Copyright and Neighboring Rights Act imposes an obligation upon the CMO to the effect that it has to administer the rights of all right holders on equitable terms provided that the request concerning collective administration is proposed by EU nationals and falls within the scope of its business.¹⁴¹ Meanwhile, under this Act, the CMO also has an obligation to grant licenses on equitable terms to all users asking for licensing.¹⁴² In fact, the RCAC of

¹³⁸ *Supra* note 80, art. 8; *supra* note 114, art. 4 and 19.

¹³⁹ *Supra* note 114, art. 20.

¹⁴⁰ *Supra* note 137.

¹⁴¹ German Administration of Copyright and Neighboring Rights Act, Sept. 9, 1965, Section 6.

¹⁴² *Id.* art. 11. This article provides that the CMO must 'grant exploitation rights or authorizations to any person so requesting on equitable terms in respect of the rights they administer'... and 'should no agreement be reached with respect to the amount of remuneration to be paid for the grant of exploitation rights or of an authorization, the rights or authorization shall be deemed to have been granted if the remuneration demanded by the collecting society has been paid subject to reservation or has been deposited in favor of the collecting society.' Also see *supra* note 137; also see Collective Management of Authors' Rights and Related Rights in the EU and the PRC - Benefits and Challenges in the Digital Era (EU-China Trade Project), available at http://www.euchinawto.org/index.php?option=com_docman&task=doc_download&gid=468 (last visited 2 May, 2010).

China has similar provisions entailing that the CMO should neither reject the request of the right holder with respect to signing the collective management contract if the right holder satisfies the requirements of the constitution of this CMO nor reject the request of users for licensing on reasonable terms.¹⁴³

The legal non-voluntary license is another way to make the CMO eligible for exercising the relevant rights. Both the statutory license and compulsory license allow the use of some works through particular means subject to the relevant regulations without the explicit permission of the right holder, on condition that the users must pay for the use. Under the provision of non-voluntary licenses, the CMO naturally has the right to use these permitted works, while accordingly it has an obligation to distribute the revenue produced by them to their authors and other related right owners.

In some countries, all of these approaches to the acquisition of rights are used, leading to diversity of the collective management regime. For example, in Canada, where an exclusive license is allowed but is not compulsory, CMOs may act as agents of the right holders for certain uses or exploitation of their rights. In addition, the *sui generis* regime of Canada provides adequate protection for non-member right owners who are granted the right to royalties based on the approved tariff.¹⁴⁴

At legislative level, there are mainly four models in use to support the acquisition of the rights of CMOs, namely implied licensing, legal presumption, mandatory licensing and extended collective licensing.

The implied licensing model, also named the indemnity approach, 'limits the recourse available to a rights holder not covered by the collective scheme or, from the user's perspective, his/her potential liability.'¹⁴⁵ This implied licensing technique is contained in the UK Copyright Design and Patents Act, of which Section 136(2) provides that the licensee can be indemnified against any liability caused by his copyright infringement in the circumstance that the infringed work falls within the 'apparent scope' of his license.¹⁴⁶ Under this provision, the licensee need not worry about potential infringement incurred through the works he/she uses as long as those works are apparently included in the licensed repertory, nor is a careful check needed regarding whether the work he/she used or will use is really contained in such repertory. Moreover, UK law provides little interpretation of the concept of 'apparent scope', raising the possibility of an extended explanation for this vague expression which could be of excessive benefit to the users. Obviously, this is highly favorable to users since they would neither need the authorization of the right holders in advance nor would they bear the liability of infringement. However, it is worth noting that at legislative level the implied licensing model does in fact create a new form of non-voluntary licensing for those works not covered by the licensed repertory.

The technique of legal presumption works well in Germany. Under the German Administration of Copyright and Neighboring Rights Act, it should be presumed that the CMO initially administers the rights of all right holders where a CMO asserts a claim regarding information or remuneration.¹⁴⁷ This reverses the

¹⁴³ *Supra* note 114, art. 19 and 23.

¹⁴⁴ *Supra* note 137.

¹⁴⁵ *Id.*

¹⁴⁶ The Copyright Design and Patents Act of UK, Section 136(2).

¹⁴⁷ *Supra* note 141, Section 13(b).

burden of proof upon the users to show that the CMO is not eligible to claim the rights. If the users fail to meet the burden of proof concerning rebuttal of the legal presumption, the CMO should be regarded as the eligible entity for managing the rights of the right holders. However, this leaves little room for the right holders to choose whether to assign the CMO the task of representing them or not and limits the freedom of the right holders to opt out.

Mandatory licensing is the most common means for acquiring rights from the right holders in the regime of copyright collective management. For both the full assignment and the non-exclusive license, the authorization of the right holders constitutes the legal basis of the activities of CMOs. The scope of a CMO's business representing the right holders depends on the assignment contract, except in the case of non-voluntary licenses. The model of mandatory licensing ensures the freedom of the right holders to some degree, from the perspective that they can choose to join the CMO or not, as well as decide the type of assigned rights.¹⁴⁸

Extended collective licensing is of essential significance in view of its effective function in facilitating the rights acquisition process. The merits of extended collective licensing lie in its comprehensive mechanism that combines a legal extension and the freedom of opting out with a voluntary license. In the countries where the technique of extended collective licensing is adopted, the non-member right holders should be treated in the same way as the members of the CMO, which is a legal extension from the voluntary members to non-represented right holders. However, compared to the model of legal presumption, extended collective licensing clearly allows the right holders to opt out. This model, properly balancing efficiency and justice, is widely used in Nordic countries as well as Canada.¹⁴⁹

Despite the advantages of the extended collective licensing system, it cannot be concluded that it would serve better than the voluntary licensing system. The former system may operate successfully in countries where the right holders are well organized, the CMO is a substantial representation of the related industry and it has strong capabilities of management and coordination.¹⁵⁰ In this regard, even if there are some arguments that suggest China adopt the approach of extended collective licensing,¹⁵¹ it is not the right time for China to do so, at least at present,

¹⁴⁸ It is not absolute freedom, in view of the fact that some CMOs unfairly set up barriers to opting out due to the absence of relevant provisions regarding prohibiting or restricting such conduct in some countries.

¹⁴⁹ In Iceland, Denmark, Norway, etc. the model of extended collective licensing works very successfully.

¹⁵⁰ *Supra* note 137; also see Daniel Gervais & Alana Maurushat, *Fragmented Copyright, Fragmented Management: Proposal to Defrag Copyright Management*, 2 Canadian Journal of Law and Technology 15, 15-23 (2003); also see Luo Xiangjing, *Collective Management: An Intermediary of Information Technology and Copyright Protection* [Jiti Guanli: Xingxi Jishu Yu Zhuzuoquan Zhidu de Xiangxie Zi Dian], 9 Hebei Law Science [Hebei Fa Xue] 99, 99 -104 (2009).

¹⁵¹ Some members of the Chinese People's Political Consultative Conference, including Jiangong Chen, Yicai Feng, Anyi Wang, Xiaosheng Liang, etc. put forward a proposal to adopt the extended collective management system in China, available at

<http://www.caijing.com.cn/2010-03-06/110390809.html> (last visited 28 July, 2011).

due to the absence of those necessary conditions for implementing this system, but this does not reject the possibility of accepting such a system in the future. Additionally, neither the model of implied licensing nor legal presumption demonstrate complete respect for the wishes of the right holders, which does not match with the underlying assumption that a CMO is a private society or the basic principle of private autonomy in the private regime. Therefore, the voluntary licensing system is of the first priority where the rights acquisition by Chinese CMOs is concerned.

4.3.1.3 Dispute settlement

Disputes may be caused by the conflict between a CMO and users or between a CMO and right holders. The RCAC details the standards for tariff setting, whereas it mentions little about the issue of dispute settlement. Article 26 of the RCAC provides that in the event that two or more CMOs charge royalties from the same user for use in the same manner, they may negotiate with each other in advance to determine which one can collect all the royalties together and then distribute the licensing fees between them.¹⁵² However, the RCAC remains silent on how potential disputes should be settled between them in the event that they fail to reach agreement regarding royalty collection and distribution. Furthermore, it does not mention how disputes should be dealt with in terms of licensing fees and royalty distribution between the right holders. Consequently, the resolution of such disputes in China must be subject to civil rules and civil procedures, except in the event of disputes related to the standards of royalty rates which would involve administrative litigation.

Based on the different forms of supervision under specific legislation, countries have explored several methods for resolving disputes. There are at least three approaches: decision by special tribunals, arbitration or administrative intervention and arbitration. In UK, the Copyright Tribunal has been established especially for the purpose of settling disputes between a CMO and its users. The British Copyright Tribunal has general jurisdiction to hear and determine the issues regarding an individual license and a licensing scheme. As regards the former, the Tribunal will examine the terms and conditions of an individual license and make decisions based on the specific situation. With regard to the latter, the Tribunal has jurisdiction to cope with the problems related to a licensing scheme as a whole, which is the system specifying the circumstances and terms under which the CMO would like to grant licenses.¹⁵³ However, the Tribunal's competence is limited to disputes between the CMO and its users only and not to disputes arising between the CMO and its members.¹⁵⁴ In Germany, a special arbitration procedure has been created, under which an action cannot be brought to a civil court before the claim is asserted in the Arbitration Board (*Shiedsstelle*).¹⁵⁵ Under this system, the Arbitration Board, supervised by the Patent Office, should endeavor to obtain an amicable resolution to the disputes arising between the CMO and its users or its

¹⁵² *Supra* note 114, art. 26.

¹⁵³ Guibault, Lucie & Gompel, Stef van, 'Collective Management in the European Union', included in Daniel Gervais (ed.), *Collective Management of Copyright and Related Rights* (Kluwer Law International, The Hague) 117 - 52 (2006).

¹⁵⁴ *Id.*

¹⁵⁵ *Supra* note 141, Section 16(1).

members.¹⁵⁶ In order to guarantee the quality of the Arbitration Board, all members should 'be competent to act as judges.'¹⁵⁷ Japan, however, chooses the third option - the administrative intervention and arbitration in certain cases. The Law on Management Business of Copyright and Neighboring Rights of Japan provides that where a dispute arises based on royalty rules proposed by the CMO, the Commissioner of the Agency for Cultural Affairs may designate a CMO, which collects a considerable share of the royalties, to grant a request from a representative of users for consultation on the royalty rules.¹⁵⁸ The designated CMO should grant this request. In the circumstance in which the CMO did not grant a request for consultation or the parties failed to reach agreement, the Commissioner of the Agency for Cultural Affairs may order the CMO to start or restart a consultation upon application from a representative of users.¹⁵⁹ If agreement is eventually reached, the designated CMO should change the royalty rules according to the outcome of the consultation.¹⁶⁰ Where agreement was not reached during the consultation, the parties may apply for arbitration by the Commissioner of the Agency for Cultural Affairs with respect to the royalty rules.¹⁶¹

In comparison to the ordinary civil litigation procedure, the systems of special tribunal and arbitration are praised for their cost-effective and efficient merits.¹⁶² In addition, another virtue which cannot be ignored is that, similar to a decision by civil courts, a decision given by a special tribunal and arbitration abroad is enforceable. However, the feasibility of adopting this system depends largely on the situation regarding the superiority of the CMO, the juridical tradition and litigation resources available in a country. In this regard, it would be more sensible to choose the route of administrative intervention to settle disputes concerning the royalty rules in a country where the existing circumstances hinder the establishment of a special tribunal and arbitration. China is precisely such a case.

As regards China, where there is no specific provision concerning the dispute settlement in this context, it is practical to develop a 'dual-track' model. In detail, all the disputes involving copyright collective management can be divided into two categories: disputes over a licensee scheme operated by a CMO and disputes over individual licensing, royalty distribution and other issues. The licensing scheme as a whole, detailing the circumstances and terms under which a CMO is willing to grant licenses to users, does actually act as a reference for individual licensing. The most important issue of the licensing scheme is related to royalty rates. In fact, the CMOs cannot independently determine the royalty rates for exploiting copyrighted

¹⁵⁶ *Supra* note 141, Section 16(5).

¹⁵⁷ *Supra* note 141, Section 16(2).

¹⁵⁸ Japanese Law on Management Business of Copyright and Neighboring Rights, (Law No.131, of November 29, 2000, as amended up to December 3, 2004 by Law No. 154), art. 23(1) and (2).

¹⁵⁹ *Id.* art. 23(4).

¹⁶⁰ *Id.* art. 23 (5).

¹⁶¹ *Id.* art. 24 (1).

¹⁶² Bühler, Michael W. & Webster, Thomas H., *Handbook of ICC Arbitration: Commentary, Precedents, Materials* (Sweet & Maxwell), 20 (2005); also see Born, Gary, *International Commercial Arbitration: Commentary And Materials* (Kluwer Law International), 14 (2001); Park, William W., *Private Disputes and the Public Good: Explaining Arbitration Law*, 20 Am. U. Int'l L. Rev. 903, 903-06 (2005).

works in China, because the standard of royalty rates must be approved by the competent authority before entering into enforcement. From this respect, a dispute about the royalty rates does not merely involve private rights but also administrative control over tariff settings. Even if the parties were allowed to file an administrative lawsuit, it is not the best recourse in view of its time-consuming procedure and the judges who have a general background of legal knowledge but are not specialists in IP matters. Therefore, a feasible way is to establish a Special Copyright Board under the supervision of the National Copyright Administration to deal with issues concerning the license scheme. The members of the Special Copyright Board would be composed of representatives from pertinent organizations and the copyright industry, scholars and experts on accounting analysis, economics, information management and so on. In the circumstances where the users believe the license scheme breaches the principle of fairness and justice in the market, the representatives of the users should submit their claims to the Special Copyright Board before filing an administrative lawsuit. If the users remain unconvinced about the decision by the Special Copyright Board, they may bring an action before the court. On the other hand, as regards the second category of disputes, the trial should be held in the civil court, taking into account that this kind of dispute solely involves individual property interests.

4.3.1.4 Controlling anti-competitive activities

In China, the system of copyright collective management creates the natural monopoly characteristics of the CMOs. Under the current system, there is no direct competition between different CMOs because of the exclusive permission for registration of a CMO, under which the registered CMO is a unique collective society for exercising one type of copyright in the market. Meanwhile, the model of the acquisition of rights from the right holders consolidates the monopoly position of the CMOs in view of the fact that the full assignment of rights excludes the right holders' control over the assigned rights once they agree to entrust such rights to that CMO. Some scholars suggest canceling the provision of exclusive registration and boosting non-exclusive licenses in order to improve the competition in the market.¹⁶³ However, this argument is unlikely to be practical for China, where the registration of all the social organizations is strictly controlled by the central government and local authorities.¹⁶⁴ Legislators who believe that the social stability far outweighs economic efficiency always hold a quite prudent attitude to the establishment of a new social organization. Therefore, it is not

¹⁶³ Lu, Haijun, *On Legal Status of Collective Administrative Organization of Copyright in China* [Lun Woguo Zhizuoquan Jiti Guanli Zuzhi De Falv Diwei], 2 Political Science and Law [Zhengzhi Yu Falv] 69, 69-74 (2007); Cui, Guobin, *Anti-monopoly Control of Copyright Collective Management Societies* [Zhuzuoquan Jiti Guanli Zuzhi De Fanlongduan Kongzhi], 6 Tsinghua Law Journal [Qinghua Faxue] 110, 110-138 (2005); Kretschmer, Martin, *The Failure of Property Rules in Collective Administration: Rethinking Copyright Societies as Regulatory Instruments*, E.I. P. R. 126, 126-36 (2002).

¹⁶⁴ The exclusive registration is not a new matter merely for the CMO. This rule is also applied for the registration of all the social organizations in China under the Regulations on the Registration and Administration of Social Organizations of China.

surprising that the process of acquiring approval from the competent authority and registration is extremely time-consuming. In addition, unlike those countries that have a long history of developing copyright collective management and allowing coexistence of various competitive CMOs, the exploration of collective management in China is still at the initial stage and there are only five CMOs to date.¹⁶⁵ In fact, these collective societies appear immature where the aspects of business scale, cost control, application of modern technology and management measures are concerned. Consequently, it would be sensible to develop anti-monopoly policies to constrain activities harmful to competition rather than to persuade the legislator to consider non-exclusive registration of CMOs.

The common anti-competitive activities conducted by a CMO include limiting its members' freedom of right assignment and termination of the contract, discriminative treatment of its members and insisting on a blanket license. However, there is no provision regulating such activities in the RCAC to date. Although the party concerned may pursue relief under the Anti-Monopoly Law and Anti-unfair Competition Law in those cases, the general articles of the two laws cannot provide a clear legal instruction for the normal activities of a CMO and thereby prevent anti-competitive activities in advance. Therefore, it would be more economical and efficient to introduce special provisions in the RCAC in this context.

In some cases, a CMO exercises its monopoly power by imposing an unfair condition on its members regarding right assignment and termination of the contract. In the case of *GEMA I*, GEMA required its members to assign all the categories of their rights to it during the term of the contract and to retain such rights for one year after the members' withdrawal.¹⁶⁶ The European Commission found this to be an unfair practice by ruling that members should be free to assign any part of their rights and to withdraw their authorization if they wished do so. Likewise, in *Belgische Radio en Televisie v. SABAM*, the European Court of Justice (ECJ) decided that the fact that SABAM retained rights for five years after a member had withdrawn constituted unfair conduct.¹⁶⁷ ECJ explicitly stated that 'a compulsory assignment of all copyrights, both present and future, no distinction being drawn between the different generally accepted types of exploitation, may appear an unfair condition, especially if such assignment is required for an extended period after the member's withdrawal.'¹⁶⁸

Discriminative treatment of members with respect to the distribution of royalties is a type of unfair practice as well. In the case where an adequate system of information disclosure or a definite standard for distributing royalties between the members is lacking, there is a possibility that some small members would be treated in a discriminative way. In practice, the factors that a CMO often takes into consideration when distributing the collected royalties to its members include overall contribution of the members, length of membership, past income, artistic

¹⁶⁵ The five CMOs are China Music Copyright Association, China Audio-Video Copyright Association, China Works Copyright Association, China Images Copyright Association and China Film Copyright Association. The first CMO is China Music Copyright Association, which has a history of about twenty years.

¹⁶⁶ *Commission, GEMA I*, [1971] O. J. L. 134, June 20, 1971.

¹⁶⁷ *BRT v. SABAM* [1974]. E. C. R. 313.

¹⁶⁸ *Id.*

personality and so on.¹⁶⁹ This flexible standard does not benefit the creation of a fair environment for each member. In this regard, it is worth mentioning that the decision of the Second Amended Final Judgment (AFJ2) in the US is a good example.¹⁷⁰ Section 11 (B) imposes the obligations on the American Society of Composers, Authors and Publishers (ASCAP) to distribute its royalty revenues based primarily on performances of its members' works and to disclose sufficient information for its members to understand how its payment is calculated.¹⁷¹

Blanket licensing sometimes means that users can do nothing but accept it grudgingly. The rationale of blanket licensing can be observed from the perspectives of reducing negotiation costs and reducing the risk of infringement. In *BMI v. CBS*, the Supreme Court of the US deemed that a blanket license is a practical means in the marketplace: 'thousands of users, thousands of copyright owners, and millions of compositions.'¹⁷² It went on to say that this licensing method offered users an unplanned, rapid and indemnified access to all of the repertory of works.¹⁷³ Therefore, it appears that the blanket license resolves the problem of high negotiation costs involved in individual licenses. Moreover, a blanket license usually serves as a risk management tool to reduce the risk of being held liable for infringement, especially in the circumstance where an indemnification rule against the lawsuits brought by the third party is contained in the contract of the blanket license.¹⁷⁴ A similar statement can be found in *CBS v. ASC*, namely that 'there is not enough evidence in the present record to compel a finding that the blanket license does not serve a market need for those who wish full protection against infringement suits or who, for some other business reason, deem the blanket license desirable.'¹⁷⁵ However, the cost of the blanket license should not be ignored either. If a CMO insists on blanket licensing and offers no alternative option to users, such an 'all or nothing' route makes it impossible for users to save costs with other sources or refuse to buy some works included in the CMO's repertoire which they do not like. Even in the event that a CMO provides a separate license for individual work, users still have no other choice but to accept the blanket license if the price of individual licenses is significantly higher than the one of the blanket license. Thus, without pertinent regulations, a blanket license could impose an unfair condition on users. In *TOURNIER*, the ECJ held that the refusal of a license concerning certain categories of rights would restrict competition if there were an effective way to offer a license for some parts of the works.¹⁷⁶

Although the system of copyright collective management has some natural characteristics of a monopoly, the legislator should explore whether the operation

¹⁶⁹ *Supra* note 163, Martin Kretschmer (2002).

¹⁷⁰ Second Amended Final Judgment, *United States v. ASCAP*, No. 41-1395. (S.D.N.Y. 2001).

¹⁷¹ *Id.* Section 11 (B).

¹⁷² *BMI v. CBS*, 441 U.S. 1 (1979), at 20.

¹⁷³ *Id.*

¹⁷⁴ Ariel Katz, *The Potential Demise of Another Natural Monopoly: Rethinking the Collective Administration of Performing Rights*, 1 Journal of Competition Law and Economics 541 (2006).

¹⁷⁵ *Columbia Broadcasting System, Inc. v. American Soc. Of Composers*, 562 F. 2d 130, 140 (2nd Cir. 1977).

¹⁷⁶ *Ministere Public v. Tournier*, [1989] E.C.R. 2521.

of the CMO can be implemented in a more competitive way. It is feasible that introducing some relevant provisions may prevent an anti-competition situation in the first place. First, members of a CMO should be granted the freedom of right assignment and termination of the assignment contract. Even if it is reasonable in practice that a CMO employs a minimum duration of the membership to ensure a relatively stable amount of works under its administration, such a minimum duration should not be excessively long. Second, a CMO should have an obligation to disclose sufficient information, based on which its members can fully understand the standard of the royalty distribution and how the payment is calculated. Third, if possible, a CMO should provide users with a separate license for individual work as an alternative to the blanket license, on reasonable terms.

4.3.2 Limitation of the internet service provider's liability

The advent of the internet in the 20th century has encouraged the robust development of communication, commercial transactions, research and education. People have recognized its vital role in view of the fact that our whole society relies increasingly on abundant information and the high efficiency provided by the internet. Likewise, the internet has caused a deep impact on copyright protection. On the one hand, the internet serves the objective of facilitating information dissemination; but, on the other hand, it poses a threat to right owners' control over their copyright since their intellectual creations can be easily accessed by illegal means through the internet. The Internet Service Provider (ISP), playing a dominating role in cyberspace, is expected to act as a supporter of promoting the robust development of the cultural industry rather than a contributor to copyright infringement. Considering the fact that imposing excessive duties on ISPs does not benefit the growth of the internet industry, countries endeavor to strike a balance between the interests at stake by limiting the liability of ISPs in the event that the copyright infringement is directly conducted by third parties.¹⁷⁷

In order to strengthen copyright protection over the internet, the Copyright Law of China enacts the right to network dissemination of information, granting right owners an exclusive right to permit or prohibit the public to access their works by wire or wireless means at the individually selected time and place.¹⁷⁸ Moreover, the RNDI released by the Chinese State Council details provisions regarding fair use in the network environment and the liabilities of ISPs. In addition, the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Copyright Disputes over the Internet has been issued to achieve a uniform understanding in dealing with such cases.¹⁷⁹ However, the rough wording and vague language residing in relevant provisions generates ambiguity and inconsistency in judicial practice. As a consequence, it is highly necessary to clarify problematic issues and

¹⁷⁷ Mishra, Priyambada & Dutta, Angsuman, *Striking a Balance between Liability of Internet Service Providers and Protection of Copyright over the Internet: A Need of the Hour*, 14 Journal of Intellectual Property Rights 321, 329 (2009).

¹⁷⁸ *Supra* note 122; *supra* note 80, art. 10(12).

¹⁷⁹ Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Copyright Disputes over Computer Network, 2006.

thereby make the copyright legal regime more predictable and practical. This section does not discuss whether ISPs directly conduct infringing activities, but focuses on the circumstances under which an ISP can be granted immunity from liability.

4.3.2.1 Definition of ISP

Commonly, an ISP refers to an entity that provides its customers with a connection to the Internet and other kinds of services in cyberspace. The extended scope of ISPs covers both internet access providers who offer internet access or WAN facilities and internet content providers who acquire or transmit information, including editorial and multimedia contents through the internet.

In the US, the Digital Millennium Copyright Act (DMCA) divides ISPs into two categories. The first category consists of entities ‘offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.’¹⁸⁰ They merely act as a data conduit in the network, through which digital information is transmitted from one point to another upon the users’ request. The second type refers to the providers of ‘online services or network access, or the operator[s] of facilities,’¹⁸¹ which at least involves the services of system caching, information storage and information location.

The Directive on Electronic Commerce of the EU (E-Commerce Directive) defines a ‘service provider’ as ‘any natural or legal person providing an information society service.’¹⁸² Information society services include ‘any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing (including digital compression) and storage of data, and at the individual request of a recipient of a service.’¹⁸³ This broad definition covers various means of digital data transmission, including internet services.

Unfortunately, no clear definition of the ISP can be found in the Chinese legal basis. Despite the provisions concerning the right to network dissemination of information and the liability of ISPs, the Copyright Law and related regulations seemingly fail to offer a precise definition of an ISP. Although the RNDI mentions several types of internet services in separate articles, which services include automatic transmission, information storage, search engines and hyperlinks, the absence of a clear definition not only causes uncertainty as regards the law, but little room remains for including new types of ISPs in the future. And this despite the fact that the DMCA and the E-Commerce Directive provide a good precedent to follow in view of their clear and broad description of an ISP.

¹⁸⁰ The Digital Millennium Copyright Act (DMCA) of the US, 1998. 17 USC 101, Section 512 (k)(1)(a) of the US Copyright Act.

¹⁸¹ *Id.* Section 512(k)(1)(b).

¹⁸² Electronic Commerce Directive of the EU, Directive 2000/31/EC, art. 2(b).

¹⁸³ Electronic Commerce Directive of the EU, Directive 2000/31/EC, Preface, art. 22.

4.3.2.2 Limitation of the liability of ISPs

Considering the fact that an ISP usually plays a passive role in copyright infringement in cyberspace, it is sensible to treat ISPs differently from an entity that directly conducts infringing activities in terms of the duty of care and liability. In order to explore an equitable system for balancing the interests of stakeholders and ensure such a system would not unfairly hinder the development of the internet industry, copyright laws of countries impose limitations on the liability of ISPs for monetary relief ('safe harbor'). Moreover, some countries adopt strict standards for proving the illegal intent of ISPs, which makes it easy for ISPs to enjoy the protection of the safe harbor.

A. Limitation of the liability of ISPs for transitory network communications

China provides liability limitations for ISPs merely offering connection services. It can be said that Article 20 of the RNDI is a simplified version of Section 512(a) of the US Copyright Act.¹⁸⁴ According to this article, an ISP that provides services of automatic access or transmission upon the request of its subscribers is exempted from monetary liability, on condition that it '(1) not select or modify the transmitted work, performance, sound or video recording; and (2) provide the work, performance, sound or video recording to the designated recipient, and prevent persons other than the designated recipient from accessing these materials.'¹⁸⁵ Even though the legislature attempts to achieve a similar effect as the DMCA by using this clause to limit an ISP's liability, there are at least two defects. First, the absolute expression concerning the duty of preventing infringement imposes an excessive burden on an ISP. From the literal understanding, the expression to 'prevent persons other than the designated recipient from accessing these materials' does not involve any consideration as to whether the ISP has fulfilled the general duty of care. Under the DMCA, the corresponding duty of the ISP is not to maintain a copy of the transmitted material on its system in a manner that means that a third party can ordinarily access this material, or to maintain it for an unreasonably long term as regards the process of transmission, routing or connection.¹⁸⁶ It limits an ISP's duty to a smaller scope by using the wording 'on its system', 'ordinarily' and 'unreasonably long term'. In fact, only if an ISP prevents persons other than the designated recipient from accessing these materials in an ordinary manner, the ISP should be granted immunity. Therefore, the case where a third party takes an unusual measure to obtain the transmitted digital information does not pertain to an ISP. Second, it is unclear whether this article grants permission for the automatic, intermediate and transient storage of the transmitted material for the sole purpose of implementing data transmission. Once disputes concerning information storage during the process of data transmission arise, the settlement has to depend on the interpretation by the court in the absence of specific provisions. With respect to this issue, the E-Commerce Directive provides a good example under which the automatic, intermediate and transient storage of the transmitted material for the

¹⁸⁴ Xue, Hong, *A Critique of the Legal Transplant in Chinese Internet Copyright Protection*, 34 Rutgers Computer & Tech. L.J. 168, 170 (2007).

¹⁸⁵ *Supra* note 48, art. 20.

¹⁸⁶ *Supra* note 180, Section 512(a).

unique purpose of implementing data transmission is allowed, on condition that such storage is maintained within a period no longer than that reasonably necessary for the transmission.¹⁸⁷

The liability limitation does not exclude the possibility that the court may grant injunctions against an ISP where the court or other authorities find that repeated infringing activities have been conducted by a subscriber who is using the connection service offered by that ISP. Although countries hold divergent views on granting injunctions to order an ISP to terminate the account of its subscribers for the purpose of preventing infringing actions, some countries have presented a positive attitude towards such an injunctive relief. A typical representative of the radical group is the US. The DMCA stipulates that the injunction may be issued, under which an ISP must terminate the accounts of 'a subscriber or account holder of the ISP's system who is using the provider's service to engage in infringing activity,' or the ISP is prohibited from providing access to 'a specific, identified, online location outside the US.'¹⁸⁸ This provision does not indicate that the court must do so, but just one possibility. Subject to such a provision, the court may make a decision based on a comprehensive, case-by-case consideration. In addition, the E-Commerce Directive expressly states that the liability limitation for ISPs acting as mere conduits should not affect the possibility for a court or competent authority of a member country to order an ISP to terminate or prevent an infringement. This means that considerable room is left for the member country to decide on its legislative system concerning whether its court or administrative authority can issue injunctions to order an ISP to terminate the connection service for its subscribers. France has taken one step towards this anti-piracy measure, wherein a specific administrative authority is responsible for dealing with the infringement complaints from the right holders and forwarding the related information to the appropriate ISP for action. As a result of the actions to be taken by the ISP, namely 'three strikes and you are out', its subscribers who illegally use copyrighted materials face losing access to the service.¹⁸⁹ In detail, once the infringing activity of the subscriber has been identified, the ISP will in the first place send a warning message and require him/her to cease the illegal behavior. In the case where the subscriber continues to behave in an infringing way, the ISP will send a second warning message, which may result in suspension of access to the service. If this subscriber is found to have conducted an infringing activity yet again, the ISP will terminate the service. To some extent, this measure is of significance especially for fighting against casual piracy. Additionally, it seems an appropriate penalty for illegal file-sharing done by young people rather than large fines and years in jail.¹⁹⁰ Therefore, it cannot be denied that this means is highly effective for enforcing copyright protection on the internet.

In sum, it is suggested that the second condition for the ISP's immunity based on Article 20 of the RNDI be revised as follows: '(2) provide the work,

¹⁸⁷ *Supra* note 182, art. 12(2).

¹⁸⁸ *Supra* note 180, Section 512(j)(1)(B).

¹⁸⁹ Stephen W. Workman, Esq. Developments in ISP Liability in Europe, available at

http://www.ibls.com/internet_law_news_portal_view.aspx?id=2126&s=latestnews (last visited 28 July, 2011).

¹⁹⁰ BBC News, France Unveils Anti-piracy Plan, available at <http://news.bbc.co.uk/2/hi/technology/7110024.stm> (last visited 28 July, 2011).

performance, sound or video recording to the designated recipient, and prevent persons other than the designated recipient from accessing these materials in an ordinary manner.’ Meanwhile, referring to the provision of the E-Commerce Directive, it is suggested that a sub-article be added, namely that ‘the acts of transmission and of the provision of connections referred to in paragraph 1 include the automatic, intermediate and transient storage of the transmitted information for the sole purpose of carrying out the transmission in the communication network, and provided that the information is not stored for any period longer than is reasonably necessary for the transmission. Moreover, it is worth considering the feasibility of granting injunctions to order an ISP to terminate the connection service for its subscribers in the case where the court or competent authorities find that repeated infringing activities are conducted by a subscriber using the connection service offered by that ISP.

B. Limitation of the liability of ISPs for system caching

China creates a safe harbor for automatic system caching. Under Article 21 of the RNDI, an ISP can be immunized from liability for damages under certain circumstances, where for the purpose of improving the efficiency of information transmission, the ISP automatically stores a work, performance or sound or video recording obtained from other sources and automatically provides such materials to its subscribers based on the technical arrangement, and the following conditions are satisfied: (1) it does not modify the work, performance or sound or video recording that is automatically stored; (2) it does not influence the original information provider who offers the work, performance or sound or video recording to collect the information on the subscribers’ access to these materials; and (3) whenever the original provider updates, removes or blocks access to the work, performance or sound or video recording, it takes the corresponding action in line with the technical arrangement.¹⁹¹ Overall, this article is similar to the provisions under the DMCA and E-Commerce Directive.¹⁹² However, there are still some issues that remain to be discussed.

First, the term ‘technical arrangement’ should be clarified. The term ‘technical arrangement’ is used repeatedly in the RNDI, but no interpretation of this term can be found. In order to increase certainty of outcome, it is necessary for the legislature to give a clear definition, to explain how the technical arrangement has been derived and to consider what artificial influence caused by this technical arrangement is allowed. For example, does the technical arrangement include the content filtering technology used to block dissident information?

Second, this article does not require an ISP to take measures expeditiously to stop infringement upon becoming aware of the infringing action. It would be unfair to allow an ISP to enjoy the immunity where it has recognized that the infringing material is available in its system but has turned a blind eye to such a fact. As regards this issue, the DMCA sets a specific condition regarding liability limitation for system caching, namely that ‘if the person ... makes that material available online without the authorization of the copyright owner of the material, the service

¹⁹¹ *Supra* note 48, art. 21.

¹⁹² *Supra* note 180, Section 512(b); *supra* note 182, art. 13.

provider responds expeditiously to remove, or disable access to, the material that is claimed to be infringing upon notification of claimed infringement.¹⁹³

Third, it is worth discussing whether the liability limitation for the automatic system caching described in Article 21 of the RNDI can be applied to Peer-to-Peer (P2P) caching. Generally, there is no debate that the system caching mentioned in the clauses of ‘safe harbor’ includes web caching. However, whether it also applies to P2P caching has not yet been addressed by the legislature or courts. Like web caching, P2P caching works well for accelerating transmission through the network. In line with a specific calculating method, P2P caching temporarily stores a copy of popular material on the ISP’s server. When the cached material is requested by the next user, a P2P cache either serves the file directly or passes the request on to a remote peer.¹⁹⁴ P2P caching dramatically increases the speed of information transfer on the grounds that end users usually obtain the copy of the requested material from the ISP’s local computer instead of from a distant peer. In order to analyze whether the liability limitation covers P2P caching, it is necessary to compare the differences between P2P caching and web caching in the first place. Above all, an ISP offering a P2P service has the intent of distributing a copy of the requested material to the end user, but an ISP of a web service does not. For web caching, a temporary copy of a file is put into a cache of the ISP’s system to improve the speed of acquiring information. When an end user browses a file online, a copy of the file is stored in the temporary dictionary of the user’s local computer, which is a hidden process. The record in this temporary dictionary will be removed automatically after a period in accordance with the system setting, provided that the end user does not intervene with this automatic process. Therefore, the whole process of data acquiring and web browsing does not show that the ISP has the intention to distribute a permanent copy of the file to the end user. Nonetheless, P2P caching is a different story. Apparently, the P2P service provider has recognized that the goal of most end users using a P2P service is to download a copy from the local server, but this still serves such a goal. Furthermore, there is an essential difference between the two kinds of caching with respect to the ability of responding to changes in the original material. The provisions offering shelter from copyright infringement for system caching require the ISP automatically and expeditiously to change, remove or disable access to the material it has stored, complying with the protocols set by the person who provides the original material online regarding such update, removal or disablement.¹⁹⁵ It is easy for a web ISP to realize this, but not for the P2P case. Once a cached copy of a file is put on the P2P server, this copy will exist all the while unless it is deleted by the ISP. Even if the original material is modified by the initial provider, P2P caching cannot automatically produce a corresponding response or do something rather than cache a new copy of the new version. In this situation, the original information provider has little interaction with either the file or the use.¹⁹⁶ From this point of view, the nature of P2P caching is sharply different from ordinary

¹⁹³ *Supra* note 180, Section 512 (b)(2)(E).

¹⁹⁴ P2P Caching, available at http://en.wikipedia.org/wiki/P2P_caching (last visited 28 July, 2011).

¹⁹⁵ *Supra* note 48, art. 21; *supra* note 180, Section 512 (b)(2)(B); and *supra* note 182, art. 13.

¹⁹⁶ Jacob, Assaf & Argento, Zoe, *P2P ‘System Caching’ –The Copyright Dilemma*, 31 Whittier L. Rev. 421, 431 (2010).

system caching. Therefore, it is not sensible to consider P2P caching to be exactly the same as system caching when applying the rule of liability limitation under the current laws. In fact, in *Verizon*, the court distinguished system caching and P2P caching when analyzing the application of subpoenas because the court believed that ‘the legislative history of the DMCA betrays no awareness whatsoever that internet users might be able directly to exchange files containing copyrighted works...The P2P software was not even a glimmer in anyone’s eye when the DMCA was enacted.’¹⁹⁷ However, it did not mention whether section 512(b) of the DMCA can be applied to P2P caching. Likewise, there is little discussion about this in China. But, unlike the situation in the US, P2P technologies had been widely used when the RNDI was released. As a consequence, it cannot be said that P2P caching is an unforeseen internet architecture where China’s legislature is concerned. The legislature is expected to give a detailed explanation in this context to promote certainty and predictability of the law.

C. Limitation of the liability of ISPs for hosting

Article 22 of the RNDI shields an ISP from liability for damages for hosting on condition that (1) it clearly identifies that the information storage space is provided for its subscribers and publishes the name, contact person and web address of the ISP; (2) it does not modify the work, performance or sound or video recording provided by its subscribers; (3) it does not have actual knowledge and does not have reasonable grounds to know that the work, performance or sound or video recording provided by its subscribers is infringing; (4) it never directly receives a financial benefit from the work, performance or sound or video recording provided by its subscribers; and (5) in accordance with the RNDI, it removes the material claimed by the right owner upon receiving notification of the right owner.¹⁹⁸

Article 22 derives from Section 512(c) of the US Copyright Act, which grants an explicit safe harbor to an ISP providing a service of information residing on its system at the direction of users. Both Article 22 of the RNDI and Section 512(c) of the US Copyright Act involve several essential elements: the standard of modifying the original material, actual or constructive knowledge of the infringing activity (the red-flag test), the understanding of an economic benefit and so on. In the US, due to case law jurisdiction, the precedents decided by the US courts have contributed to clarifying the contours of the law. This is, however, not the situation in China. Because precedents will not necessarily bind future cases in China, the legislative interpretation and judicial interpretation offered by the Supreme Court will be more helpful for providing a uniform understanding.

Modify

One condition for immunizing an ISP from liability for hosting, while not modifying the material provided by its subscribers, needs an accurate description. The reason for setting this requirement is to exclude an ISP that does more than merely providing a storage space from protection under the safe harbor. If an ISP

¹⁹⁷ *RIAA v. Verizon*, 351 F. 3d at 1238.

¹⁹⁸ *Supra* note 48, art. 22.

modifies the uploaded material, it does not satisfy this requirement. However, the term ‘modify’ cannot be regarded as constituting any changes of the original material on the grounds that the automatic modification occurring in automated technological systems are inevitable in the internet world. The merit of the internet lies precisely in its ability to deal with enormous content in an automated process, so it is dangerous to echo the argument against its automated features that are fundamental to internet usage. The case of *UMG v. Veoh* provides a good example.¹⁹⁹ In this case, UMG argued that Veoh did not fall within the DMCA safe harbor because Veoh converted each video into a flash format and separated some of the videos into smaller pieces in order to make them more manageable.²⁰⁰ The court rejected UMG’s argument by asserting that Veoh’s automated conversion only involved the form but ‘not the content of the movies.’²⁰¹ The same opinion was proposed by the court of *Io Group v. Veoh Networks*, where the court ruled that ‘[V]eoh has simply established a system whereby software automatically processes user-submitted content and recasts it in a format that is readily accessible to its users.’²⁰² In China, although neither the RNDI nor the Supreme Court has elaborated on this issue, the Higher Court of Beijing has expressed its judicial opinions in Directive Opinions (I) on Several Issues Concerning the Trial of Cases Involving Copyright Disputes in Cyberspace (for Trial Implementation) (Directive Opinions of Beijing’s Higher Court),²⁰³ which can bind the future cases decided by the courts in Beijing. Article 24 of the Directive Opinions of Beijing’s Higher Court lists three situations that cannot be regarded as ‘modifying’ stated in Article 22 of the RNDI: (1) merely modifying the storage format of the uploaded work, performance or sound or video recording; (2) adding the logo of the website, including digital watermarks to the uploaded work, performance or sound or video recording; and (3) adding advertising at the beginning, in the middle or at the end of the uploaded work, performance or sound or video recording.²⁰⁴ This demonstrates that the Higher Court of Beijing has recognized that the changes realized by an automated system and not affecting the content of the original material do not violate the requirement of Article 22(2) of the RNDI; however, these opinions can only bind the courts of Beijing, not all the courts in China.

Actual or constructive knowledge

Under Article 22 of the RNDI, the ISP is granted exemption from liability for damages if it has neither actual knowledge nor reasonable grounds to know that the material in its hosting space is infringing. It is substantially important to elaborate the concept of ‘actual knowledge’ and ‘reasonable grounds to know’. There is little ambiguity in the actual knowledge criterion, since it is generally accepted in the world that ‘actual knowledge’ means that the ISP actually knew about the

¹⁹⁹ *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 89 U.S.P.Q.2d 1449 (C.D. Cal. 2008).

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Io Group, Inc. v. Veoh Networks, Inc.* 586 F. Supp. 2d 1132 (N.D. Cal. 2008).

²⁰³ Directive Opinions (I) on Several Issues Concerning the Trial of Cases Involving Copyright Disputes in Cyberspace (for Trial Implementation), released on May 19, 2010, Jing Gao Fa Fa [2010] 166.

²⁰⁴ *Id.* art. 24.

infringing activities. But the standard of constructive knowledge is different from one country to another. Regrettably, the RNDI offers little explanation.

The E-Commerce Directive provides a similar provision with respect to granting ISPs immunity from liability in the absence of actual knowledge and constructive knowledge. Article 14(1)(a) requires its members to ensure that the ISP is not liable for the infringing material stored by its subscribers, on condition that the ISP 'does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent.'²⁰⁵ The interpretation of 'is not aware of facts or circumstances' and 'apparent' is crucial for understanding this provision. As regards the former, the E-Commerce Directive adopts a subjective test, which means that only if the ISP itself was not aware of the infringing activity, the condition of not having actual knowledge should be regarded as fulfilled. As regards the latter, the E-Commerce Directive itself does not answer under what circumstances and to whom the claimed infringement should be 'apparent'. However, the objective test addressed by UK case law can be taken here as an example. In *L.A. Gear Inc. v. Hi-Tech Sports plc*, Morritt J. conducted 'a reasonable man' test, and ruled that 'it seems to me that 'reason to believe' must involve the concept of knowledge of facts from which a reasonable man would arrive at the relevant belief. Facts from which a reasonable man might suspect the relevant conclusion cannot be enough.'²⁰⁶ Especially, Morritt J. held that a period of time should be allowed to enable a reasonable man to evaluate facts and thereby arrive at a reasonable belief. This approach was also approved by the court of *Pensher Security Door Co. Ltd v. Sunderland City Council*.²⁰⁷

Likewise, the DMCA exempts an ISP from liability if 'in the absence of such actual knowledge, [it] is not aware of facts or circumstances from which infringing activity is apparent.'²⁰⁸ In the US, a high and strict standard is developed to explain the wording 'apparent'. According to the Senate and the House Committee Report, 'infringing activity is apparent' (so-called 'red flags') means that the illegal activity is obvious 'from even a brief and casual viewing.'²⁰⁹ Setting such a high threshold for awareness of infringement is based on the consideration that it would upset the balance of interests among stakeholders if an undue burden were imposed upon an ISP to require the ISP's endeavors to differentiate what constitutes infringement and what does not. The Committee Report gives an explanation for this policy: 'The common-sense result of this 'red flag' test is that on-line editors and cataloguers would not be required to make discriminating judgments about potential copyright infringement. If, however, an internet site is obviously pirate, then seeing it may be all that is needed for the service provider to encounter a 'red flag.'²¹⁰

In judicial precedents, the courts of the US have elaborated this policy. A representative case is *Perfect 10 v. CCBill*,²¹¹ in which the defendant provided

²⁰⁵ *Supra* note 182, art. 14(1)(a).

²⁰⁶ *L. A. Gear Inc. v. Hi-Tech Sports plc* [1992] FSR 121, at 129.

²⁰⁷ *Pensher Security Door Co. Ltd. v. Sunderland City Council* [2000] RPC 249, at 267/50 to 268/30.

²⁰⁸ *Supra* note 180, Section 512(c)(1)(A).

²⁰⁹ S. Rep. 105-190, at 48-49; H. Rep. 105-551, at 57-58.

²¹⁰ *Id.*

²¹¹ *Perfect 10 v. CCBill*, 488 F. 3d 1102 (9th Cir. 2007).

webhosting services to other websites that had copyrighted photos of the plaintiff without its permission.²¹² The plaintiff asserted that the copyright infringement was apparent on grounds that the domain names of two websites, to which the defendant offered hosting services, contained ‘illegal.net’ and ‘stolencebritypics.com’ respectively.²¹³ However, the Ninth Circuit rejected this argument by ruling that the domain names themselves did not constitute copyright infringement and such domain names might be used to increase attractiveness of the website, rather than an admission that the infringing contents are actually contained there.²¹⁴ Moreover, the court held that under the DMCA, the burden of determining whether the claimed contents are actually illegal should not be placed on the ISP.²¹⁵ Another leading case, *Corbis Corp. v. Amazon.com*,²¹⁶ followed a similar approach. In this case, the court rejected the plaintiff’s assertions that Amazon had been aware of the existence of ‘red flags’ based on its general awareness that infringing activities might be involved in its zShops sites,²¹⁷ and explained that ‘merely being aware of one or more well-known photographs of a celebrity at a site does not provide a service provider with knowledge of possible infringement.’²¹⁸

In China, the legislature and the Supreme People’s Courts have not provided the criterion for ‘reasonable grounds to know’ stipulated in Article 22 of the RNDI. In the absence of the standard of the ‘red flag’ test, the courts have developed different approaches in judicial practice. In *IFPI v. Baidu*,²¹⁹ Baidu was held to be not liable for copyright infringement, mainly because the court believed that the take-down notification provided by IFPI was not detailed enough and therefore did not establish ‘actual knowledge’ or ‘reasonable grounds to know’.²²⁰ In another key case, *Xingzhuan v. Tudou*,²²¹ the court held a more liberal opinion concerning the ‘red flag’ test. In this case, Xingzhuan asserted that Tudou, a prominent ISP for hosting in China, had knowledge or had reasonable grounds to know about the infringing material stored in its system, but intentionally ignored such an illegal fact. After the first instance, Tudou brought an appeal to argue that the court of the first instance had imposed an excessive burden upon it since it was impossible for an ISP to be aware of infringing activities in cyberspace based on limited information. The Appeal Court dismissed Tudou’s appeal by ruling that the appellant had reasonable grounds to know that the claimed video, ‘Crazing Stone’, was infringing. In its reasoning, the court stated that the appellant’s constructive knowledge of infringing activities could be observed from the following aspects. First, the appellant had established separate channels, namely ‘original’, ‘film and TV’, ‘entertainment’ and ‘music’, for uploading different kinds of files. Separating the channel ‘original’ from other channels indicated that the appellant had been

²¹² *Id.* at 1108.

²¹³ *Id.* at 1114.

²¹⁴ *Id.*

²¹⁵ *Id.*

²¹⁶ *Corbis Corp. v. Amazon.com*, 351 F. Supp. 2d 1090 (W.D. Wash. 2004).

²¹⁷ *Id.* at 1105.

²¹⁸ *Id.* at 1104.

²¹⁹ *IFPI v. Baidu*, the Beijing Higher People’s Court No. Gaominzhongzi 594/2007.

²²⁰ *Id.*

²²¹ *Beijing Xingzhuan Ltd. v. Shanghai Quan Tudou Ltd.*, the Shanghai Higher People’s Court, No. Hugaominsanzhizhong 62/2008.

aware that its subscribers might upload infringing materials other than original works from its server. Second, the appellant had assigned a team of censors to review the uploaded material before making it available online. As a consequence, the appellant had the ability to find that the claimed video was illegal. Third, when the infringing video was opened online, people were able to read the digital watermark of the appellant's logo on the video window, verifying that the claimed video had passed through the review process. Fourth, since 'Crazing Stone' was a hit film, Tudou should have enough common sense to know that the uploaded video of the same name had not been authorized by the right owners.

Nonetheless, the court's reasoning and conclusion in *Xingzhuan v. Tudou* are highly problematic since it puts the ISP in a dangerous position, in which the ISP has an obligation to seek out copyright infringement. Providing separate channels for different contents is an ordinary service offered by the hosting provider. Non-original works are not equal to illegal works. Providing a special hosting channel for original works does not indicate that an ISP allows illegal activities to take place in other hosting channels, or imply that an ISP has known or has reasonable grounds to know of the copyright infringement. That an ISP generally knows that copyright infringement might take place on its site is not enough to meet the requirement of actual knowledge or constructive knowledge. Moreover, the pre-review system does not establish such knowledge either, since it usually involves a general review of whether the materials transmitted by subscribers are morally harmful, offensive or politically dangerous. It is impossible to require an ISP to differentiate potential infringement through the pre-review process. Supposing that the conclusion can be drawn that an ISP can obtain the knowledge of copyright infringing facts from a general pre-review, ISPs will no longer wish to conduct any censorship or reviews. Furthermore, adding a digital watermark to each video is carried out through an automatic technical process rather than a manual process. It is ludicrous to conclude that an ISP has actual knowledge or constructive knowledge of the infringing contents from the digital watermark of its logo shown on the video window. In addition, even though the claimed video involved a hit film and the uploaded material had the same name as this hit film, copyright infringement is not apparent from looking at the title only because the fact that files containing totally different contents have the same name often takes place in cyberspace and an ISP has no duty to investigate this further under the current legal system.

It is important to establish reasonable standards for 'red flag' in China, because sensible standards would achieve good balance between the rights of IPR holders and ISPs.²²² Despite the inconsistency of courts' opinions, it cannot be ignored that the Directive Opinions of Beijing's Higher Court offers a further interpretation concerning this issue. Article 19 lists several circumstances under which an ISP providing an information storage space service may be determined to be at fault if it has reasonable grounds and is able to know that the stored material is infringing:

(1) the allegedly infringing contents stored are audio-visual works in current season or currently being broadcast or shown, popular musical works, other works with high popularity or the related performances or sound or video recordings, and

²²² Wang, Qian & Wang, Linghong, Research on Indirect Infringement on Intellectual Property [Zhi Shi Chan Quan Jian Jie Qin Quan Yan Jiu] (China Renmin University Press, Beijing) 75 (2008).

the aforesaid works, performances or sound or video recordings are placed on the homepage, other main pages or other positions obvious to the ISP;

(2) the allegedly infringing works, performances or sound or video recordings are placed on the homepage or other main pages of BBS, and the ISP fails to take measures to remove them within a reasonable period of time;

(3) the allegedly infringing audio-visual works which are professionally made with intact contents or audio-visual works in current season or currently being broadcast or shown are placed in a conspicuous position or are recommended, or a classification list of film and television works such as top chart or 'film and television' channel is set;

(4) any selection, organization or classification of the allegedly infringing works, performances or sound or video recordings uploaded by service receivers is conducted; or

(5) Other circumstances.²²³

The Directive Opinions of Beijing's Higher Court delineates the circumstances under which constructive knowledge of infringing facts would be more likely to be determined. These rules have the merit of providing clear instructions for the standard of 'red flag'; however, this cannot bind all the courts in China.

Financial benefit

Not directly receiving a financial benefit from the claimed material is another prerequisite for liability limitation under Article 22 of the RNDI. For hosting services, the business normally involves financial benefits or financial interests, such as advertising fees, standard fees for services, increase of attractiveness of the site and so on. Therefore, it is crucial that the concept of 'directly receiving an economic benefit' is defined herein. However, this has not been done by the RNDI.

The DMCA adopts a similar approach, under which a safe harbor might be provided only when an ISP 'does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.'²²⁴ Congress has chosen the wording 'receive a financial benefit' in the DMCA instead of 'have a financial interest', traditionally used in the vicarious liability standard, on the grounds that Congress aims to set a high standard for an actualized financial benefit.²²⁵ In other words, such a financial benefit must actually be obtained by an ISP and the fact that an ISP might obtain a financial benefit from copyright infringement cannot in this context constitute "[to] receive a financial benefit". In addition, the DMCA requires a close causal connection between the financial benefit received by an ISP and the infringing activity. In the case of *Costar v. LoopNet* the court applied a strict standard for 'a financial benefit directly attributable to the infringing activity.'²²⁶ In *Costar*, the district court held that 'enhance[ing] the attractiveness of the venue to potential customers' cannot be considered a qualifying financial

²²³ *Supra* note 203, art. 19.

²²⁴ *Supra* note 180, Section 512(c)(1)(B).

²²⁵ Lee, Edward, *Decoding the DMCA Safe Harbors*, 32 Columbia Journal of Law & the Arts 233, 242 (2009).

²²⁶ *Costar Group Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688 (D. Md. 2001), 373 F. 3d 544 (4th Cir. 2004).

benefit stipulated in the DMCA and that it was merely an indirect benefit.²²⁷ In *CCBill*²²⁸, the Ninth Circuit stated that ‘receiving a one-time set-up fee and flat, periodic payments for a service from a person engaging in infringing activities would not constitute receiving a ‘financial benefit directly attributable to the infringing activity.’”

China’s courts have recognized that the court should be wary of a broad interpretation with regard to the financial benefit standard when applying the rules of safe harbor. The Directive Opinions of Beijing’s Higher Court narrows the scope of ‘a financial benefit’ by excluding various kinds of financial benefits from the eligible financial benefits under the RNDI. Article 25 of the Directive Opinions of Beijing’s Higher Court stipulates that neither the standard fee from users as per time, flow, etc. nor the advertising fee charged by an ISP for the information storage space shall be determined to be the direct economic interests from the claimed material mentioned in the RNDI.²²⁹

D. Limitation of the liability of ISPs for search engines or hyperlinks

Article 23 of the RNDI consists of two parts. The first part exempts an ISP providing the service of search engines or hyperlinks from liability for damages, provided that ‘it removes, complying with the RNDI, the links to infringing copies of a work, performance or sound or video recording *upon receiving a notice* from the right owner.’²³⁰ The second part stipulates an ISP’s joint liability where the ISP ‘has actual knowledge or has reasonable grounds to know that the linked copies of works, performances or sound or video recordings are infringing.’²³¹

Due to loose language, this article leaves loopholes. The former part of this article provides a rule regarding exemption from liability. However, it only mentions the circumstance where the ISP properly responds to a notice from the right owner, but does not address the situation in which the ISP, on its own initiative, takes measures to prevent infringement following its own findings or awareness of the infringing fact. Supposing that an ISP does not receive any notice from the right owner, but discovers that the linked material is infringing by itself and, on its own initiative, expeditiously removes the links to that material, how should its liability be determined? Obviously, under this circumstance, the ISP should not be liable for its information location service. Likewise, the latter part of this article about an ISP’s joint liability merely regards the actual knowledge or constructive knowledge as a condition for liability, but neglects to consider whether the ISP has properly responded to such knowledge. Another necessary condition for such joint liability should be added, namely the situation where the ISP does not expeditiously remove or disable access to the links pointing to the infringing material upon acquiring the actual knowledge or awareness of the illegal links.

Another issue is related to the requirement of obtaining financial benefits. Compared to Article 22, Article 23 of the RNDI grants an ISP immunity from liability for damages without the requirement of ‘never directly [receiving] a

²²⁷ *Id.* at 705.

²²⁸ *Supra* note 211, at 1118.

²²⁹ *Supra* note 203, art. 25.

²³⁰ *Supra* note 48, art. 22 (emphasis added).

²³¹ *Id.*

financial benefit' from the illegal activity. As a consequence, even if the ISP has obtained a financial benefit directly arising from the copyright infringement, it can be exempted from liability for damages on condition that other necessary conditions for immunity are satisfied. However, it does not exclude the ISP's liability for unjust enrichment. In other words, the ISP still has an obligation to return the unjust enrichment acquired from the infringing activity to the right owner under civil law, because the ISP should not be able to profit without legal cause.

4.3.2.3 Notice-and-takedown procedure

The notice-and-takedown procedure is repeatedly stipulated in China's legislative, judicial and administrative documents. Under the RNDI, if the right owner believes that the material, which an ISP provides services of storage, search or links for, violates its copyright, the owner may send a written notice to that ISP and require it to remove or disable access to the illegal material.²³² Upon receiving this notification, the ISP should promptly remove or disable access to the claimed material.²³³ The elements of such notification should include the name, contact information and address of the right owner, the name and URL address of the claimed material and initial evidence of infringement.²³⁴ The judicial interpretation released by the Supreme People's Court further clarifies that the ISP would be jointly liable for copyright infringement if it does not, subject to the RNDI, promptly take measures after receipt of the notice.²³⁵ In addition, under the Chinese administrative regulations, an ISP failing to comply with the provisions concerning the notice-and-takedown procedure might incur administrative penalties once the administrative authority finds that such failure results in harm to public interests.²³⁶

The case of *IFPI v. Yahoo/Alibaba*²³⁷ addresses the question whether the notice that does not exhaustively contain the URL address of the claimed material constitutes an eligible notice of the notice-and-takedown procedure under Chinese law. The court in this case held a more liberal opinion regarding this matter. In this case, Alibaba, a famous ISP in China, provided links to infringing resources. Before bringing this action, IFPI sent a notice of copyright violation to Alibaba, which contained the names of the infringed songs and corresponding singers, as well as one URL address of each song as an example, and required Alibaba to remove all the URL links involving the claimed songs from its website. However, Alibaba failed to take measures expeditiously after receiving this take-down notice. The defendant argued that the notification of the claimed infringement was not detailed enough, because it did not list all the URL links of the infringed songs. Nevertheless, the court rejected this argument and held that the notification would

²³² *Id.* art. 14.

²³³ *Id.* art. 15.

²³⁴ *Id.* art. 14.

²³⁵ Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Copyright Disputes over Computer Network (2006), art. 4.

²³⁶ Measures for the Administrative Protection of Internet Copyright (2005), art. 11.

²³⁷ *IFPI v. Alibaba, the Beijing No. 2 Intermediate People's Court, No. Erzhangminchuzi 02622/2007.*

qualify fully as long as the information offered by such notification were reasonably sufficient to permit the service provider to locate the material, even though it does not list the URL addresses of the claimed material one by one.²³⁸

The Directive Opinions of Beijing's Higher Court adopts a similar approach, namely that 'if a notice sent to an ISP by the right owner does not include the network address of the allegedly infringing works, performances or sound or video recordings, but the information provided in the notice is sufficient for the ISP to accurately locate the allegedly infringing works, performances or sound or video recordings, the notice sent by the right owner may be determined to be a 'warning with evidence'.²³⁹ This indicates that a notification without the URL address of the claimed material may also launch the notice-and-takedown procedure as long as it provides sufficient information regarding exact location. The courts' opinion seemingly breaks the rules laid down in Article 14 of the RNDI under which the URL address is a prerequisite of a qualifying notification; however, it actually does not since the information sufficient for accurately locating the infringing material at least creates a circumstance constituting the ISP's constructive knowledge of 'red flag' signs.

In summary, the limitation of an ISP's liability is not a novel story in China. It is an important approach for striking a balance between the interests of stakeholders by imposing reasonable liability upon the ISP. It should be noted that Chinese copyright law must provide well-defined safe harbor for stakeholders.²⁴⁰ However, some basic aspects remain unclear in China's existing legal regime. These defects are caused by ambiguous wording, absence of explicit definitions of fundamental concepts, lack of uniform legislative and judicial interpretation and so on. The legislature should endeavor to reduce the ambiguities existing in the current system on the grounds that it is a prerequisite for effective and efficient copyright protection. Moreover, the practice of other countries in this regime can be reviewed, based on which it can be determined whether it is feasible to follow this practice in China.

4.3.3 Limitations / fair use

Even though copyright owners are granted comprehensive rights, the copyright systems have developed several rules to prevent excessively broad protection from stifling its objective. The main rationale behind these rules is that all intellectual creation is a derivation of prior works and in some important areas such as history, philosophy and art, the continuous re-examination of prior theses is particularly significant for creative activities.²⁴¹ As a result, copyright provides protection for neither ideas nor facts, the monopoly exploitation benefits are limited within a certain duration and under certain circumstances use of copyrighted materials is legally allowed as an exception to copyright. All these

²³⁸ *Id.*

²³⁹ *Supra* note 203, art. 28.

²⁴⁰ Zhang, Yiman, *Establishing Secondary Liability with a Higher Degree of Culpability: Redefining Chinese Internet Copyright Law to Encourage Technology Development*, 16 Pacific Rim Law & Policy Journal 257, 284 (2007).

²⁴¹ Leval, Pierre N., *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1109 - 10 (1990).

solutions should be considered as a necessary part of the overall design due to the aim of balancing the interests between the public and the right holders.²⁴² They ought to serve the copyright objective of spurring intellectual creation without excessively weakening protection for the creator or reducing incentives for creativity. The public interest concern has served as a source for international conventions and domestic legislations concerning exceptions to copyright. For example, Article 2 *bis* of the Berne Convention explicitly stipulates limitations of protection of certain works, such as certain speech and certain uses of lectures and addresses.²⁴³ It leaves the matter of domestic legislation to contracting states. Similarly, in most countries' copyright schemes, using copyrighted work without the copyright owner's consent is allowed in some circumstances,²⁴⁴ such as 'fair use' in the US, 'fair dealing' in the UK, limitations in the EU and China and so on. Generally, the exceptions and limitations include two categories: compensated limitations and uncompensated limitation. Both of them are expected to serve the public interest.

4.3.3.1 Legislative model

There are mainly two legislative models for the fair use doctrine: the US copyright law model and the continental European law model. The US model exempts the use of copyrighted works from liability in two ways. One is *17 U.S.C. §107* that provides a series of general illustrative factors, which a court should consider when applying the fair use doctrine.²⁴⁵ The statutory factors include (1) purpose and character of allegedly infringing use, (2) nature of copyrighted work, (3) amount and substantiality of portion used, and (4) effect on market for copyrighted work. The other is the Copyright Act that also stipulates other specific statutory exemptions from liability. The US model is based on the common law system that allows courts to interpret the fair use doctrine in a wide scope, which renders this doctrine more flexible and effective, especially in the era of rapid technology development. On the other hand, it results in unpredictability of the outcome. As Congress stated in its House Report on the 1976 Act, the fair use doctrine does not provide a real definition, but merely a 'set of criteria, which though in no case definitive or determinative, provides some gauge for balancing the equities.'²⁴⁶ Even though statutory factors direct the courts to analyze the fair use defense, it is still not easy to determine whether the claimed use serves the objectives of the copyright and its justification outweighs the factors favoring the copyright holders. The case-by-case determination in historical application of the fair use doctrine provides little predictability for the secondary users. Furthermore, this open-ended system also raises a question concerning Berne Convention

²⁴² Wu, Handong, Research On Basic Problems in Intellectual Property Regime [Zhi Shi Chan Quan Ji Ben Wen Ti Yan Jiu] (China Renmin University Press, Beijing) 300 (2005).

²⁴³ Berne Convention, art. 2 *bis*.

²⁴⁴ Goldstein, Paul, Copyright, Patent, Trademark And Related State Doctrines: Cases And Materials on Intellectual Property Law (revised 3rd edition) (NY: Foundation Press, New York) 628 (1990).

²⁴⁵ *17 U.S.C. § 107*.

²⁴⁶ H. Rep. No. 94-1476, at 65 (1976).

compatibility.²⁴⁷ Since the fair use doctrine has developed based on the equitable principle, it is not limited to a particular circumstance but broadly applicable to all uses of copyright, which is inconsistent with the first requirement of the ‘three-step test’ set by the Berne Convention.

The continental European law model tends to define the exceptions and limitations to copyright explicitly. Generally, the list of limitations is ‘closed’ so that any expansive analogical reasoning is prohibited.²⁴⁸ The limitations are enumerated and cannot apply to conducts that do not fall within such categories. Compared with the US open-ended model, this approach provides stakeholders and courts greater specificity and adds legal certainty. However, due to this rigorous definition, matching new technological and social development must rely on the update of legislation.²⁴⁹

China’s copyright law adopts the continental European law model, which describes all the limitations and does not include ‘catch-all’ provisions. There are two articles directly relating to the fair use doctrine in the Chinese copyright system: Article 22 of the Copyright Law and Article 21 of the Regulation on the Implementation of the Copyright Law (‘Regulation’). Article 22 of the Copyright Law, firstly, provides the prerequisites for limitations: (1) the name of the author and the title of the work shall be mentioned; and (2) the other rights enjoyed by the copyright owner by virtue of this Law shall not be prejudiced.²⁵⁰ Following the continental European law style, Article 22 also enumerates twelve specific limitations that can be regarded as legitimate uses, where a copyright protected

²⁴⁷ Ginsburg, Jane C. & Kernochan, John M., *One Hundred and Two Years Later: The US joins the Berne Convention*, 13 Columbia -VLA Journal of Law & Arts 1, 12-14 (1988). Also see Sam Ricketson, *US Accession to the Berne Convention: An Outsider’s Appreciation (Part II)*, 8 Intellectual Property Journal 87, 117-19 (1993).

²⁴⁸ For example, German copyright law requires that statutory limitations be interpreted strictly and ‘courts are prohibited from applying limitation by analogical reasoning so as to expand their scope beyond the Act’, see Liang, Zhiwen, *Beyond the Copyright Act: the Fair Use Doctrine under Chinese Judicial Opinions*, 56 Journal of the Copyright Society of the USA 695, 697 (2009).

²⁴⁹ The explicit definition and the ‘closed’ limitation system are also the reason for Google’s failures in copyright limitation defense in EU countries. For example, Google lost German copyright cases over thumbnail search in October 2008. The German court rejected Google’s ‘transformative use’ argument and found Google liable for copyright infringement by reasoning that ‘By using photos in thumbnail, no new work is created.’ See Matussek, Karin, *Google Lost German Copyright Cases over Image-Search Previews*, Bloomberg, available at <http://www.bloomberg.com/apps/news?pid=20601204&sid=aClwVkCvPww> (last visited 9 November, 2011).

Another example of a Google case took place in France in December 2009. French publishers and authors filed a suit against Google and asserted that Google’s digitalization of their work constituted copyright infringement. The court finally rejected Google’s brief quotation exception argument and concluded that ‘reproducing in full and making accessible extracts from [the] works’ without the copyright owners’ authorization was illegal. See Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., Dec.18, 2009, 09/00540 (Fr.), at 21.

²⁵⁰ Chinese Copyright Law, art. 22(1).

work may be used without permission from, and without payment of remuneration to, the copyright holder.²⁵¹ Moreover, this article provides that such limitations can be applicable to the related rights, including the rights of publishers, performers, producers of sound recordings and video recordings, radio stations and television stations.²⁵² In addition, Article 21 of the Regulation, complying with the Berne Convention and the Trips Agreement,²⁵³ provides the rule of the ‘three steps test’: in particular cases, the permitted use of any published work without the copyright holder’s consent should not affect the normal exploitation of the work or

²⁵¹ *Id.* art. 22(2). In detail, the limitations include the following situations:

(1) use of a published work for the purposes of the user’s own private study, research or self-entertainment;

(2) appropriate quotation from a published work in one’s own work for the purposes of introduction to, or comment on, a work, or demonstration of a point;

(3) use of a published work in newspapers, periodicals, radio programs, television programs or newsreels for the purpose of reporting current events;

(4) reprinting by newspapers or periodicals, or rebroadcasting by radio stations or television stations, of editorials or commentators’ articles published by other newspapers, periodicals, radio stations or television stations;

(5) publication in newspapers or periodicals, or broadcasting by radio stations or television stations, or a speech delivered at a public gathering, except where the copyright is expressly reserved;

(6) translation, or reproduction in a small quantity of copies of a published work for use by teachers or scientific researchers, in classroom teaching or scientific research, provided that the translation or reproduction shall not be published or distributed;

(7) use of a published work by a governmental authority in a reasonable manner for the purpose of fulfilling its official duties;

(8) reproduction of a work in its collections by a library, archive, memorial hall, museum, art gallery or similar institution, for the purposes of the display, or preservation of a copy, of the work;

(9) performance of a work made public without remuneration;

(10) copying, drawing, photographing, or video recording of an artistic work is permanently displayed in a public thoroughfare;

(11) translation of a published work from the Han language into minority nationality languages for publication and distribution within the country;

(12) translation of a published work into Braille and publication of such translation work.

²⁵² *Id.* art. 22(3).

²⁵³ Under the Berne Convention, countries are allowed to provide exceptions to rights of reproduction ‘provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author’, and a country’s legislation may permit some specific free use of works, on the condition that ‘such utilization is compatible with fair practice’. Also see Article 9 and Article 10 of the Berne Convention. Similarly, Article 13 of the Trips Agreement provides that ‘Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.’

unreasonably impair the legitimate rights enjoyed by the copyright holder.²⁵⁴ Article 21 of the Regulation, an essential complement to the Copyright Law, offers a general standard of exceptions to copyright, which directs the courts to check the application of limitations to see if this standard is met.

4.3.3.2 Flexible approaches in Chinese judicial practice

Although the Chinese legislative framework is generally an imitation of continental European copyright law, its simple and rigid wording means that the courts sometimes encounter difficulties in finding a legal basis directly from Article 22 of the Copyright Law. In analyzing copyright limitation, judges exercise judicial discretion to decide what actions should be allowed, with opinions varying from strict application of Article 22 to a considerably liberal approach of allowing an open-ended list of allowed uses based on the examination of factors, as seen in the US model.²⁵⁵ These flexible approaches do not provide possible stakeholders with a reliable guide on how to govern their actions.

*Beijing Movie Studio of Recording and Videotaping Company v. Beijing Cinematography Art University*²⁵⁶

Beijing Movie Studio of Recording and Videotaping Company v. Beijing Cinematography Art University is a famous case of expanding application of the fair use doctrine. The plaintiff, Beijing Movie Studio of Recording and Videotaping Company (MSRV), legally obtained the exclusive right of adapting the novel 'Soujie' from the author by contract, for the purpose of producing television programs and films. MSRV claimed that the defendant, who arranged for its graduating students to adapt the novel 'Soujie' into script form and produce a film as graduating coursework but without MSRV's authorization, infringed its exclusive right of adaptation. MSRV also claimed its economic interests were damaged because the claimed film was shown at the La Croix French International Students Film Festival, even though the film was not released publicly outside the Beijing Cinematography Art University in China. The defendant did not agree with MSRV and asserted that its use of the copyrighted novel fell into the category of limitations since the use was merely for the purpose of classroom teaching and based on good faith. However, this position was refuted by MSRV in that under Article 22(2)(6) the limitation article regarding classroom teaching was limited to translation and reproduction, which did not include adapting and producing a film.²⁵⁷ The first instance court, the People's Court of Haidian District, held that

²⁵⁴ *Supra* note 36, art. 21.

²⁵⁵ Song, Seagull Haiyan, *Reevaluating Fair Use in China- A comparative Copyright Analysis of Chinese Fair Use Legislation, the US Fair Use Doctrine, and the European Fair Dealing Model*, 51 *The Intellectual Property Law Review* 453, 453-89 (2011).

²⁵⁶ *Beijing Movie Studio of Recording and Videotaping Company v. Beijing Cinematography Art University*, *Yi Zhong Zi Zhong Zi No.19* (1995).

²⁵⁷ *Supra* note 35, Chinese Copyright Law of 1991, art. 22(6). Article 22(6) of the Chinese Copyright Law of 1991 is the same as that of the Chinese Copyright Law of 2010. Both provide that the translation or reproduction in a small quality of

the defendant's adaptation and subsequent production of a film should be allowed by reasoning that such use of the protected work was special but absolutely necessary for the defendant's classroom teaching because cinematography art universities had special teaching contents and different teaching methods. The Haidian Court maintained that although the wording of Article 22(2)(6) did not explicitly list the conduct of adapting and producing a film for teaching in cinematography art universities as a case of limitation, it should be determined to be a legitimate action since such non-profit use was based on the needs of teaching practice and complied with the essence of Article 22(2)(6). Therefore, the court held that the defendant's adaptation of the novel *'Soujie'* for teaching observation and evaluation was covered by Article 22(2)(6) and was a form of fair use. However, exhibiting and showing the claimed film at the La Croix French International Students Film Festival was held to be infringement, on the grounds that this lacked the necessary basis for classroom teaching. After the first instance decision, MSRV filed an appeal to challenge Haidian Court's ruling. The appellate court, Beijing First Intermediate People's Court, interpreted that Article 22(2)(6) was aimed at permitting educational institutes to use the copyrighted work without authorization from and paying remuneration to the copyright holder in order to ensure that teaching activities can be carried out normally. The respondent was an art university with the objective of cultivating talents for the cinematography industry; consequently, students' practice of adapting and producing films was an indispensable part of classroom teaching, which should be identified as fair use. Besides, the film produced by the respondent was a short film of thirty minutes, and the portion used only involved a small quantity of the claimed work. Therefore, the appellate court rejected the appellant's argument and upheld the first instance judgment.

This case is an early case involving copyright limitation discussion in Chinese copyright history. At that time, the 'three-step test' had not been written into the implementation regulations. As a result, both the first instance court and appellate court had to give an expansive interpretation of the limitation rules to avoid rigid application of statutes and to balance the copyright system. Unlike the German judicial position, Chinese courts did not strictly abide by the wording of Article 22 of the Copyright Law, but justified legislative provisions by seeking the essence of the fair use doctrine. Moreover, it can be found that the courts have endeavored to analyze whether the use not included in the exact wording of Article 22 has justifications for being allowed by examining the purpose and amount of the claimed use. In fact, this approach has been well developed in US case law. In particular, the review of this case released by the Supreme People's Court that specifies the relevant factors to be considered in similar cases also demonstrates a considerable influence of the US model on Chinese judicial opinions.²⁵⁸ First, the Supreme People's Court states that the wording of 'classroom teaching' means the teaching activities of legally established educational institutions including primary school, high school, colleges and universities, but not profit-making tutorial organizations. Second, determining whether the portion used constitutes 'same

copies of a published work without the copyright holder's permission for the purpose of classroom teaching or scientific research is allowed.

²⁵⁸ Review of the Supreme People's Court on Judicial Cases [Zuigao Renmin Fayuan Gongbao Anli Pingxi Minshijuan/ Zhishi Chanquan Anli] (Chinese Democratic and Legal Publishing House, Beijing) 156 (2004).

quantity’ should take into consideration the practical needs of teaching and be based on the principle of good faith. Third, the Supreme People’s Court points out that one of the most essential factors for distinguishing fair use from infringement is whether the use has distributed the copyrighted work to the public and generated negative effects on its potential market value.²⁵⁹ In fact, these elements highlighted in the review of the Supreme People’s Court, namely ‘non-profit purpose’, ‘small quantity’, and ‘potential market effects’, seem quite similar to the reasoning of US case law. However, it also indicates legal uncertainty, because whether users can reproduce works for educational purposes depends on the particular case-by-case situation.

*Bai Xiuer v. State Post Bureau & the National Post Office Stamp Printing Bureau*²⁶⁰

Another representative case is *Bai Xiuer v. State Post Bureau & the National Post Office Stamp Printing Bureau*, in which the court strictly interpreted Article 22 without the intention of extending the scope of limitations.

In January 2001, the defendant issued a special set of snake zodiac stamps, the first of which used a snake paper-cut design created by the plaintiff. In order to meet the needs of stamp printing, the defendant modified the plaintiff’s design: enlarged the head of the snake, added its tongue and decorated the body of the snake with red, yellow, blue and green patterns. One of the controversial issues pertained to fair use. The plaintiff claimed that the defendant’s use of its work was not authorized by it nor was its name mentioned in the stamp, which infringed its copyright. However, the defendant argued that its use was for fulfilling its official duties, and therefore fair use. Indeed, Article 22(2)(7) of the Copyright Law provides a safeguard for official use on condition that the name of the author and the title of the work are mentioned and the other rights enjoyed by the copyright holder are not infringed upon.²⁶¹ Therefore, the central issue here is whether the use of copyrighted work for printing and issuing stamps falls within the scope of ‘official use’. As regards this issue, Beijing Higher People’s Court carefully analyzed the nature of the defendant’s use in detail. The court held that the wording ‘fulfilling its official duties’ of Article 22(2)(7) merely referred to official use for public administration by state organs and their agencies. Moreover, even though the defendant was an eligible entity based on Article 22(2)(7), printing and issuing stamps were a form of profit-making behavior based on the state’s authorization of postal franchise. Therefore, such a ‘profit-making’ nature of the claimed use weighed against the finding of ‘official use’. In addition, the court asserted that not mentioning the author’s name was not a relevant element of infringement in this case since the special nature of stamps made it impossible to indicate the author’s name on the stamp.²⁶²

The case of *Bai Xiuer* provides restrictive interpretations of the legislative provisions concerning limitations. It is sensible to distinguish the use of work for public administration from the profit-making use of work in applying the limitation

²⁵⁹ *Id.*

²⁶⁰ *Bai Xiuer v. State Post Bureau & the National Post Office Stamp Printing Bureau*, (2002) Gao Min Zhong Zi Di 252 Hao.

²⁶¹ *Supra* note 80, art. 22(7).

²⁶² *Supra* note 260.

rule. Supposing that the copyright law grants the state organ and its agencies permission to use the copyrighted works freely for the purpose of profit-making, it is really difficult to find the justification for excessive favor to public authorities. The court's approach of excluding the profit-making use from the shield of protection under Article 22(2)(7) can be regarded as a good example of successfully accomplishing the objective of the fair use doctrine. However, China's approach diverges from other countries. The general official use is not allowed in other countries, as copyright is considered to be a part of private property which cannot be taken away without compensation. Meanwhile, the general language of Article 22(2)(7) generates uncertainty as regards the outcome. Article 22(2)(7) only provides that the state's use of a published work for 'official duties' is permissible if it is exercised in a reasonable manner, but does not proceed to interpret what constitutes 'a reasonable manner'. Obviously, such a very general limitation causes a lack of justification due to its failure to meet the first step of the 'three-step' test of the Berne Convention. In designing the exception regime, the essence of copyright should be highly respected. Therefore, the exceptions should be very limited and specific. Some other states' approaches are referential. As regards this issue, the German Copyright Law does not broadly allow the official use, but merely permits reproduction for the administration of justice and public safety in certain cases. In detail, under Article 45 of the German Copyright Law, the reproduction of a work 'for use in proceedings before a court, an arbitration tribunal or a public authority', reproduction of portraits for such purposes and 'the distribution, public exhibition and public communication of such works' are legitimate.²⁶³ Another example is the Dutch Copyright Law, which allows the reproduction, public exhibition and distribution by, or by order of, the judicial authorities for the purpose of judicial inquiries and public safety.²⁶⁴

Qin Shaoyin v. Beijing Rongbao Auctioning Ltd.

Sometimes, in order to make up for the flaws generated by the simple and ambiguous wording of copyright law, courts choose to go beyond Article 22 to exempt 'fair' use from liability. The 'three-step test' is then taken directly as the standard for examining whether the use is justified. As a result, more flexible standards have been developed progressively in exercising discretion.

In *Qin Shaoyin v. Beijing Rongbao Auctioning Ltd.*,²⁶⁵ the defendant auctioned the plaintiff's painting work titled 'Raising the Red Flag, Changing the Country (Hong Qi Yi Ju Shang Hei Bian)' at the 2002 Autumn Auctioning Fair. At the Fair, the defendant falsely attributed this work to another person named Huang Qiuyuan. Without the permission of the plaintiff, the defendant displayed a slide of the claimed painting and included a copy of it in the auction pamphlet in order to satisfy the requirements of the auction. As regards these two issues, Qin Shaoyin filed a lawsuit against the defendant and alleged that the latter had infringed its rights of authorship and reproduction.

After hearing the claims, there was no controversy regarding the fact of falsely indicating the author's name. The essential dispute focused on whether the

²⁶³ German Copyright Law, art. 45.

²⁶⁴ Dutch Copyright Act (1912), art. 23.

²⁶⁵ *Qin Shaoyin v. Beijing Rongbao Auctioning Ltd.*, (2003) *Yi Zhong Ming Chu Zi Di 12064 Hao*.

defendant's use for auction was legitimate or infringement. The court held that the defendant's use, including reproducing the claimed work, distributing the copies to special clients and displaying the slides through the projector during the auction, was aimed at providing information about subject matters of the auction, pursuant to China's Auction Law.²⁶⁶ The court rejected the plaintiff's arguments by reasoning that the plaintiff had failed to prove that the defendant's conduct was for purposes other than those mentioned above and that such use did not influence the normal use of the work either, or unreasonably impair the legitimate rights of the plaintiff.

Article 22 of China's copyright law does not explicitly exempt reproduction and displaying slides of the work in auction from liability. Obviously, in this case, the court relied on the 'three-step test' provided in the Regulation to go beyond the scope of Article 22. The court has found that reproduction and displaying slides in an auction is really necessary for bidders to obtain sufficient information to make decisions and is especially important for bidders who are non-local entities. If exemption from liability cannot be granted for such reasonable use, the copyright system would unreasonably prevent the public from accessing knowledge and even prejudice the due course of an auction. When faced with the two options: strictly conforming to the statutes or adopting a flexible approach based on the principle of justification, the court chooses the latter once again. In fact, use for catalogue illustrations is generally allowed in other countries. For instance, the German Copyright Law permits reproduction and distribution of works of fine art for the purpose of catalogue illustration in a public exhibition or auction.²⁶⁷ The Dutch Copyright Act also provides that the owners of art works have the right to exhibit such works publicly and to reproduce them in a catalogue for the purpose of sale.²⁶⁸

4.3.3.3 Challenges for the limitation rule

A few challenges for the limitation rule have now emerged, which are generated by the ambiguity and uncertainty of the statutes, digital technology development and other factors. Despite these issues, limitations are still regarded as an indispensable part of the copyright system to achieve balance between different stakeholders and an essential means to protect freedom of speech and creation. However, with the rapid development of society, the shortcomings of this rule have been brutally exposed, which makes it urgent to consider how to optimize this rule to increase predictability of the law and regain the balance of the copyright system.

A. Uncertainty of the limitation regime

²⁶⁶ Under China's Auction Law, the auctioneer shall display the objects of auction prior to the auction sale and provide relevant information and conditions for bidders to examine the objects of auction. In addition, a bidder shall have the right to be informed of any defects of the objects of auction and the right to inspect them and to have access to information pertaining to them. Auction Law of the People's Republic of China (1997), art. 35 and 48.

²⁶⁷ *Supra* note 263, art. 58.

²⁶⁸ *Supra* note 264, art. 23.

At present, uncertainty of the limitation rule has attracted extensive attention in the copyright regime. An inescapable reason could be the rough techniques of legislation. This is inevitable in a particular historical period when the provisions of fair use in the first Copyright Law were established. At that time, the concept of copyright was a new-born matter, and the legislature's insufficient knowledge and experience impeded it, preventing it from applying advanced legislative techniques to make the copyright system geared to future development. Nevertheless, it is regrettable that the revision of the Copyright Law in 2010 did nothing about these defects. On the occasion of the third revision of the Copyright Law, this issue should be dealt with seriously.

First, such uncertainty is caused by the unclear logical relationship between Article 22 of the Copyright Law and Article 21 of the Regulation. As mentioned in the last section, Article 21 of the Regulation, the 'three-step test', is derived from the Berne Convention. Under the Berne Convention, limitations and exceptions to exclusive rights should be very limited to certain cases and not conflict with the normal use of the work or unreasonably prejudice the legitimate interests of the copyright holder. In other words, the Berne Convention permits implementation of limitations but in the application thereof, the 'three-step test' ought to be satisfied. As a member of the Berne Convention, China has an obligation to comply with this rule in implementing the fair use doctrine. From this point of view, the 'three-step test' should be superior to the fair use doctrine but not a substitute for the latter. That is to say, only if the use of the copyrighted work complies with the requirements under both the 'three-step test' and Article 22, such use can constitute a case of limitations. However, in Chinese judicial precedents, the courts use the 'three-step test' as a tool to go beyond Article 22, which causes confusion as to the relationship between the two. In addition, the hierarchy of the Regulation is inferior to that of the Copyright Law, which is not beneficial for clarifying this relationship.

Second, the exhaustive list in Article 22 also results in uncertainty. Similar to the framework of the continental European copyright law, Article 22 includes an exhaustive list of the fair use cases without a 'catch all' clause, which aims to prevent the public from abusing the privilege under the fair use doctrine and unreasonably impairing the interests of the copyright holder. Perhaps this legislative model may achieve a good balance between the public and the copyright holder at the time of legislation; however, it leaves little room for a flexible application to adapt to social developments. For example, the adapting of the film titled 'WU JI' once provoked considerable controversy. Kaige Chen, a world-famous director, directed the film 'WU JI'. In 2005, Ge Hu, a Chinese citizen, rearranged and edited the film's clips, replaced the lines, changed the names of characters in the film, and thereby produced a new film in which a TV host reported the detection process in a murder case, named 'Yi Ge Man Tou Ying Fa De Xue An'. Moreover, Hu disseminated the new short film through the internet. It entertained the public in a funny way and received a high number of hits. It is interesting that the new short film has compelled many people to see the original film 'WU JI'. Chen argued that Hu's conduct was illegal and infringed the copyright involved in the film 'WU JI'. By contrast, numerous people supported Hu's point of view and asserted that this was a new form of cultural criticism and fell into the category of fair use. Nevertheless, it should be noted that even though Article 22(2)(1) and Article 22(2)(2) may serve to find the legal base for Hu's adaptation that it is for the purpose of self-entertainment and giving comments on

the copyrighted work, Article 22 seems totally inadequate for exempting dissemination through the internet from liability since it remains silent on this point. Fortunately, one year after this case, the RNDI was released, which definitely allows online dissemination of a work that uses an appropriate portion of the work published by others for the purpose of introduction, comment or criticism.²⁶⁹ Nowadays, internet dissemination is a normal phenomenon in modern society. It is feasible to embed the cases of internet-based dissemination that meet the 'three-step' test into Article 22.

Third, the simple wording of Article 22 also leads to ambiguity and misunderstanding. In Article 22, the legislature adopts an exhaustive list to define limitation categories. Therefore, it is necessary to describe the conditions of application in detailed rules to provide good predictability. Unfortunately, Article 22 fails to do so. For example, Article 22(2)(1) permits the use of a published work for private study, research or self-entertainment, but it does not define the amount of copies for such use. In fact, a small quantity of copies can fully serve this purpose. The German Copyright Act clearly provides that making a single copy of a copyrighted work for private use is permissible and it is also lawful if a person 'causes such copies to be made by another person.'²⁷⁰ Another instance pertains to Article 22(2)(6). It allows the translation or reproduction in a small quantity of copies of a published work for classroom teaching or scientific research, but does not mention the non-profit purpose of this use, which is a crucial rationale behind fair use. Besides, the wording 'classroom teaching' may cause misunderstanding because of its limited meaning. It could raise doubts as to whether state examinations and examinations in schools can be defined as 'classroom teaching', whether some novel teaching techniques for educational purposes but being used outside the classroom can be regarded as 'classroom teaching' and so on.

B. New use of works developed by new technologies

Recent developments in information reproduction, storage and transmission technology have created new uses of the copyrighted work, such as snapshots, digital libraries and so on, and it remains difficult to interpret its justification based on the traditional theories of fair use. Before the birth of a new technology, nobody can tell what will happen as a result of this new technology and the same is true even for the inventor. Likewise, at the time of legislation, the legislature has little ability to predict the future social change accurately, especially if it is caused by digital technology. Consequently, courts sometimes have to depend on an expansive application of the existing provisions and special judicial interpretation to deal with such new issues, whether in the statutory law countries or case law countries.

Nowadays, many webmasters are looking for a website snapshot tool in order to make data presentation more attractive to their visitors. Using web crawl engines, webmasters can create a snapshot of a web page, which presents an exact copy of an original web page, frozen at some point in time. In fact, creating a snapshot can be understood as the process of reproducing a web page. In this process, the webmaster saves all of the information from that website as it appears, including much in-depth information, such as HTML code and links on the web

²⁶⁹ *Supra* note 48, RNDI, art. 6(2)(1).

²⁷⁰ *Supra* note 263, German Copyright Act, Section 53(1).

page. In *Field v. Google*,²⁷¹ the courts explained the process of creating a snapshot as follows:

As part of this process, Google makes and analyzes a copy of each web page that it finds, and stores the HTML code from those pages in a temporary repository called a cache. Once Google indexes and stores a Web page in the cache, it can include that page, as appropriate, in the search results it displays to users in response to their queries.

...
When clicked, the 'Cached' link directs an internet user to the archival copy of a web page stored in Google's system cache, rather than to the original web site for that page. By clicking on the 'Cached' link for a page, a user can view the 'snapshot' of that page, as it appeared the last time the site was visited and analy[z]ed by the Googlebot.²⁷²

The reproduction involved in the snapshot raises a problem as to whether it is legitimate. Under Chinese Copyright Law, the right of reproduction is a basic property right that entitles the right holder to produce one or more copies of the work by means of printing, Xeroxing, rubbing, sound recording, video recording, duplicating, re-shooting or other methods.²⁷³ The wording 'other methods' means that the methods of reproduction mentioned in Article 10(5) are non-exhaustive and any method of producing copies may constitute reproduction. Consequently, creating a copy of the original web page into a snapshot and saving it on the webmaster's hard disk is also a case of reproduction.

If the original webpage is an eligible work, producing its snapshot without the consent of the right holder may infringe the right of reproduction other than permitted under the provisions regarding limitations of copyright. In China, the work eligible for copyright protection refers to original intellectual creations that may be fixed in any tangible medium in literary, artistic and scientific areas.²⁷⁴ Both the Berne Convention and China's Copyright Law enumerate the forms of works, but they are non-exhaustive. A webpage can be a subject matter of copyright protection provided that it has the nature of originality and fixation. The Supreme People's Court reiterates this opinion that 'works protected by the Copyright Law shall include the digital form of various works as prescribed in Article 3 of the Copyright Law. As for other intellectual creations in the fields of literature, arts, or science, which do not fall into the categories of Article 3 of the Copyright Law under the network environment but have originality and fixation, the people's court shall protect them.'²⁷⁵ An original webpage having characteristics of content, version or framework that differ from others should be regarded as a copyrightable work.

²⁷¹ 412 F. Supp.2d 1106 (D. Nev. 2006).

²⁷² 412 F. Supp.2d 1106 (D. Nev. 2006), at 1110-11.

²⁷³ Chinese Copyright Law, art. 10(5).

²⁷⁴ *Supra* note 46, Regulations of Implementing Copyright Law, art. 2.

²⁷⁵ Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Copyright Disputes over Computer Network, 2006, art. 2.

There are two possible defenses against the infringement argument: temporary storage and fair use. The snapshot that the subscribers read is produced by a technical method and the copy of the original web page will generally be saved on the web server's hard disk for a period until it is deleted by the webmaster. In this regard, the snapshot apparently has the nature of temporary storage. Under the RNDI,²⁷⁶ in order to improve the efficiency of information transmission, an ISP can be exempted from liability for damages provided that the ISP stores the copyrighted work, automatically provides such materials to its subscribers based on the technical arrangement and some other conditions are satisfied, which have been discussed in the last section.²⁷⁷ The wording of 'automatically' and 'technical arrangement' describing the basic characters of system caching highlights that the storage of the reproduction is an automatic process. Nevertheless, the snapshot is substantially different from system caching. First, producing the snapshot is not for the purpose of enhancing efficiency of data transmission but for making the website more attractive and thereby achieving more extensive dissemination. Second, the temporary storage mechanism of system caching is for providing a temporary copy of a file to an end user when he/she browses a file online, which is stored in the temporary dictionary of the end user's local computer and will be removed automatically after a period in accordance with the system setting, provided that the end user does not intervene with this automatic process. By contrast, creating a snapshot requires storing the copy of the original web page in the web ISP's server, and it will generally be saved for several months or even several years until it is deleted manually. Because such a storage mechanism goes beyond the automatic technical process and the original legislative intention of the RNDI, the snapshot cannot be categorized into the case of temporary storage that is exempted from liability under the RNDI. The ECJ adopts a similar opinion in *Infopaq International A/S v. Danske Dagblades Forening (DDF)*.²⁷⁸ In this case, DDF, a professional association of Danish newspapers, alleged that Infopaq's conduct of creating a news summary infringed its members' copyright because Infopaq's process involves reproduction of an eleven-word text from a newspaper article but without obtaining the copyright owners' authorization in advance. The court ruled that in order to benefit from the Article 5(1) exception of the Copyright Directive, 'the storage and deletion of the reproduction [should] not be dependent on discretionary human intervention',²⁷⁹ and 'its duration [of storage] is limited to what is necessary for the proper completion of the technological process in question'.²⁸⁰ It followed that Infopaq's process of extracting and reproducing a portion of newspapers could not be regarded as 'transient', because there was no certainty that it would be destroyed once the copy was created. Its deletion would

²⁷⁶ *Supra* note 48.

²⁷⁷ Under Article 21 of the RNDI, these conditions include: (1) not modifying the work, performance or sound or video recording that is automatically stored; (2) not influencing the original information provider who offers the work, performance or sound or video recording to collect the information on the subscribers' access of these materials; and (3) whenever the original provider updates, removes or blocks access of the work, performance or sound or video recording, it takes the corresponding action in line with the technical arrangement.

²⁷⁸ *Infopaq [2009] E.C.D.R. 16*.

²⁷⁹ *Id.* at 62.

²⁸⁰ *Id.* at 64.

depend on the will of the user, who might decide on the period for keeping the copy. The ECJ's ruling demonstrates that an essential element of Article 5(1) is an automated process for deleting transient copies. In other words, such an exception rule requires a mechanism to ensure that the temporary copies are destroyed automatically and promptly as soon as the copies are no longer necessary for the relevant technological process.²⁸¹

Limitation to copyright is another possible defense against the infringement argument. There are two places in legislation describing the specific situations of fair use in question: Article 22(2) of the Copyright Law and Article 6 of the RNDI.²⁸² However, no provision is exactly applicable to the situation of the snapshot. In other words, use of the copyrighted work in the process of producing a snapshot is not definitely categorized as fair use. Although the 'three-step test' is helpful for determining whether a snapshot is legitimate or infringement, it is merely a necessary condition. As mentioned in Section 4.3.3.1, the correct understanding of the logical relationship between the 'three-step test' and Article 22(2) of the Copyright Law makes it clear that the use would only be 'fair' if it complies with the requirements of both provisions. Therefore, under the current legislation, it is hard to find sufficient legal basis to support the limitation defense. On the other hand, it merits attention that the Judicial Interpretation released by the Higher People's Court of Beijing states that a webpage 'snapshot' service may be determined to be an exception to copyright provided that such service does not prejudice the normal exploitation of the works, performances or sound or video recordings at issue, nor unreasonably damage legitimate rights and interests of the

²⁸¹ ECJ rules on the scope of the copyright infringement exception, available at <http://www.ffw.com/publications/all/alerts/copyright-infringement.aspx#1> (last visited 13 May, 2012).

²⁸² *Supra* note 251. Article 6 of the RNDI provides that 'Under any of the following circumstances, works may be provided through the information network, and the provider may be exempted from obtaining the owner's permission as well as paying the relevant remunerations thereto:

- (1) Where an appropriate portion of any published work is quoted in the works one provides to the general public for the purpose of introducing or commenting on any work or elaborating any issue;
- (2) Where it is inevitable to reproduce or quote any published work in the works he provides to the general public for the purpose of making any new release;
- (3) Where, in order to support the teaching research or scientific research, a small quantity of published works are provided to some people who engage in teaching or scientific research;
- (4) Where any state organ provides to the general public any published work within a reasonable range for the purpose of exercising its functions and duties;
- (5) Where the works as already published by any Chinese citizen, legal person or any other organization in Chinese are translated into any language of any minority ethnic group and are provided to such people within the territory of China;
- (6) Where any already published work is provided to the blind in a way as particularly perceptible to the blind and not for the purpose of making profits;
- (7) Where any Article on current affairs, such as political and economic issues, that has been published is provided through the information network; or
- (8) Where a speech as delivered in a public gathering is provided to the general public.'

right holders, nor substantially replace the users' visit to the original website where the disputed content is located.²⁸³ Obviously, this opinion demonstrates that the Higher People's Court of Beijing wishes to embed the case of the webpage snapshot into the category of limitations and apply the 'three-steps test' to examine the nature of the snapshot service. However, there are still two problems here. First, this opinion goes beyond the category of limitations under Article 22 of the Copyright Law. Second, it cannot be regarded as a general guide because courts in China are not generally bound by the judicial interpretation at such a level.

4.3.3.4 Feasible approaches

The foregoing discussion illustrates that the current fair use scheme needs optimization to respond to the roughness of legislative technology and the complexity of new digital technologies.

First, it is suggested that the 'three-step test' be embedded into Article 22 of the Copyright Law. Although the 'three-step test' has been embedded in Article 21 of the Regulations, elevating the hierarchy of this provision would offer a better foundation for implementing the limitation rule. Thus, the relationship between the list of fair use cases and the 'three-step test' would be clearer. In particular, the limitation defense can only be allowed if the use of copyrighted contents falls into the category of limitations and satisfies the requirements of the 'three-step test'. Therefore, Article 22(1) of the Copyright Law can be revised as follows:

Under the following circumstances, it shall be permissible to use any published work without the permission from, or payment of remuneration to, the copyright owner, provided that the name of the author and the title of the work are mentioned, and such use should not affect the normal exploitation of the work, or unreasonably impair the legitimate rights enjoyed by the copyright holder.

Second, the language of Article 22(2) causing uncertainty and violating the Berne obligations should be modified. As mentioned above, the articles concerning educational use, state's use and catalogue illustration should be clarified further or added.

In detail, as regards Article 22(2)(6), it should extend the teaching method from classroom teaching to normal teaching and confine the eligible educational institutions to non-commercial schools. Therefore, it should be revised as: *'translation or reproduction in a small quantity of copies of a published work made by teachers or scientific researchers, for the purpose of teaching in non-commercial institutions of education or scientific research, provided that such translation or reproduction shall not be published or distributed.'*

The stipulation concerning the state's use for fulfilling official duties should be modified. In order to meet the 'three-step test', limitations should be highly restricted to a few certain cases rather than general situations. The existing wording of 'for the purpose of fulfilling official duties' seems too general to find justification. The sensible approach is to revise this article as *'reproduction, public exhibition and distribution of a published work by, or by order of, the judicial authorities for the purpose of judicial inquiries and public safety.'*

²⁸³ Notice of the Higher People's Court of Beijing on Issuing the Guiding Opinions (I) on Several Issues Concerning the Trial of Cases Involving Copyright Disputes in Cyberspace (for Trial Implementation), Jin Gao Fa Fa (2010) No.166, art. 13.

A new sub-article of Article 22(2) should be added to allow catalogue illustration: *‘reproduction and distribution of works of fine art which are intended for auction in catalogues issued by the organizer for the purpose of auction.’*

Third, a new article should be added to the Copyright Law to extend the scope of limitations to dissemination of information through the internet. Nowadays, dissemination through the internet has become an important method of using copyrighted content. It is sensible and feasible to incorporate this new kind of use into the limitation system. The existing provisions are only stipulated in the RNDI, an administrative regulation released by the State Council. However, such an arrangement destroys the integrity of the limitation system; not only because the fair use provisions regarding the analog environment and the online environment are separately embedded in different laws, but also because the hierarchy of provisions for the latter is lower than for the former. Therefore, it is suggested that Article 6 of the RNDI be introduced into the Copyright Law as an individual clause and the ‘three-step test’ rule be embedded into it. Furthermore, it would be sensible to add a new sub-article to include the case of online archiving, provided that it does not affect the normal exploitation of the work, or unreasonably impair the legitimate interests. In summary, the new article is drafted as follows:

Under any of the following circumstances, it shall be permissible to provide any published work through the internet without the permission from, or payment of remuneration to, the copyright owner, provided that the name of the author and the title of the work are mentioned, and such use should not affect the normal exploitation of the work, or unreasonably impair the legitimate rights enjoyed by the copyright holder:

- (1) Where an appropriate portion of any published work is quoted in the work one provides to the general public for the purpose of introducing or commenting on any work or elaborating on any issue;*
- (2) Where reproducing or quoting any published work in the work one provides to the general public for the purpose of reporting current events is inevitable;*
- (3) Where, in order to support classroom teaching research or scientific research, a small quantity of published work is provided to some people who engage in teaching or scientific research;*
- (4) Where the state authority provides to the general public any published work within a reasonable scope for the purpose of the administration of justice and public safety;*
- (5) Where any work already published is provided to the blind in a way as particularly perceptible to the blind and not for the purpose of seeking profits;*
- (6) Where any article on current affairs, such as political and economic issues, that has been published is provided through the information network, except the circumstance where the author has reserved his rights;*
- (7) Where a work, performance, sound recording and video recording located in another person’s website is used for the purpose of archiving only, provided rights are not reserved.*

4.3.4 Technological protection measures

TPMs are widely used by content holders to control the access and the use of their content in the digital environment. TPMs can generally be classified into two categories. The first kind of TPMs aim to restrict access to the protected content to

users who have legally obtained authorization, by setting passwords, cryptography, or other security arrangements. The second has been developed to control the subsequent use of the content after users have successfully accessed the content through a licensing agreement. The long-lasting battle between copyright holders and hackers has become a cat-and-mouse struggle considering the fact that copyright holders are always devoting their time to making TPMs more complicated and hackers never stop their steps of hacking, circumventing or bypassing. On the one hand, the copyright of the content under protection of TPMs should be fully respected. On the other hand, the balance between the interests of right holders and the interests of the public should not be neglected. It should be noted that technology development has empowered the right holders to control their content and even to exclude fair competition. As a result, the interests and welfare of ordinary consumers are impaired to some extent. Therefore, it is of significance to define the protection scope for TPMs appropriately in order to strike a balance once again.

4.3.4.1 Statutory background

In order to respond to rampant copyright infringement, TPMs have been recognized by the WCT,²⁸⁴ the WPPT²⁸⁵ and national copyright systems. Both the WCT and the WPPT require all the member countries to prohibit the circumvention of effective TPMs in order to use the protected content, unless such circumvention is authorized by right holders or allowed by law.²⁸⁶ China, as a contracting party of these two international conventions, has also introduced identical provisions into the copyright system. Under the Chinese Copyright Law, someone who intentionally circumvents or destroys TPMs in connection with the exploitation of copyright will face civil liability, administrative liability or even criminal liability, unless such liability can be exempted under other relevant laws and regulations.²⁸⁷ The analogous provisions are provided in the Regulations for Protection of Computer Software and the RNDI to ensure adequate protection for software copyright and the right to network dissemination of information.²⁸⁸ Moreover, the manufacture, import, provision of devices, products or components or the provision of services for the purpose of enabling or facilitating circumvention is prohibited with the exception of the relevant conflicting provisions.²⁸⁹

4.3.4.2 Challenges in the regime of TPMs

A. The definition of ‘effective’ TPMs

²⁸⁴ WIPO Copyright Treaty, 20/12/1996.

²⁸⁵ WIPO Performances and Phonograms Treaty, 20/12/1996.

²⁸⁶ *Supra* note 51, WCT, art. 11; WPPT, art. 18.

²⁸⁷ Chinese Copyright Law of 2010, art. 48(2)(6).

²⁸⁸ *Supra* note 37, Regulations for Protection of Computer Software, art. 24(2)(4); *supra* note 48, RNDI, art. 4 and 19.

²⁸⁹ *Id.*

Under the scheme of the WCT and the WPPT, effectiveness is mentioned in the anti-circumvention clauses but without any further explanation.

Article 11 of the WCT provides that ‘contracting parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of the rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.’²⁹⁰

Likewise, Article 18 of the WPPT also introduces the term of ‘effective technological measures’ and states that ‘contracting parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by performers or producers of phonograms in connection with the exercise of their rights under this Treaty and that restrict acts, in respect of their performances or phonograms, which are not authorized by the performers or the producers of phonograms concerned or permitted by law.’²⁹¹

China’s Copyright Law does not give any mention of ‘effective technological measures’, while the RNDI defines ‘technical measures’ as the effective technologies, devices or components used to prevent or limit others from browsing or enjoying works, performances, phonograms or audio-visual recordings without permission from the owner, or from providing the works, performances, phonograms or audio-visual recordings to the public through the network without the owner’s permission.²⁹² However, it does not give an explanation of the criterion of ‘effective technological measures’ either.

‘Effective’ is usually understood to be something that works successfully in the way that was intended. Indeed, however, it is difficult to set a criterion for measuring how ‘effective’ something is, because an excessively strong or excessively weak definition will destroy the balance between right holders and users under the copyright regime. If a stronger definition is used, few TPMs can be deemed to be ‘effective’, considering that in theory all technical measures can ultimately be circumvented.²⁹³ On the other hand, if a weaker definition is used, technical measures that can be bypassed easily will be regarded as effective. This may unduly favor the content industry.

In the US, the DMCA defines a technological measure as effective if it, in the ordinary course of its operation, limits the access to or exercise of the copyrighted work.²⁹⁴ Literally, the standpoint is the right holder’s intention of using TPMs to protect the content. In other words, only if the right holder has adopted technical measures in an ordinary way to restrict access to its work, the TPMs should be deemed as effective, irrespective of the complexity of the TPMs and whether users can easily access the sources of circumvention. From this point of view, the low threshold for ‘effective’ in the DMCA excessively favors right holders. Nevertheless, judicial practice elaborates the requirements of ‘effective’, which will be discussed later.

²⁹⁰ *Supra* note 51, WCT, art. 11.

²⁹¹ *Supra* note 51, WPPT, art. 18.

²⁹² *Supra* note 48, RNDI, art. 26.

²⁹³ Phillips, James, James Phillips’ submission to the 2009 Copyright consultation, http://phillipsjk.ca/copyright/copyright_submission.html.

²⁹⁴ DMCA, 17 U.S.C. § 1201, (a)(3)(B), (b)(2)(B).

The European Union Copyright Directive (EUCD) also provides an interpretation in this context, namely that a technological measure is effective where the use of the work is controlled by the copyright owner through either access control or a protection process such as encryption, scrambling or other transformation of the work, or a copy control mechanism, which achieves the intended protection.²⁹⁵ Some EU member states mirror the description as set forth in Article 6(3) of the EUCD but do not clarify further what elements should be considered in the ‘effectiveness’ analysis.²⁹⁶

Therefore, achieving the protection objective is a necessary condition for deeming TPMs effective. There are two approaches to determine whether TPMs achieve their protection objective. One is from the standpoint of experts. In detail, a technological measure will not be effective if it can no longer work for an average technical expert. The other approach is from the standpoint of an average end user, namely that if he/she can easily bypass the TPM, it will be deemed legally ineffective. Because TPMs are generally used to restrict and control consumers’ access to and exercise of the copyrighted work, it is more sensible to adopt the latter approach to determine what is ‘effective’.²⁹⁷

In the US, a famous case addressing ‘effective technological measure’ is *Agfa Monotype Corp., & International Typeface Corp. v. Adobe Systems*.²⁹⁸ In this case, the plaintiffs were the right holders of approximately 3,300 fonts in TrueType format typefaces. The defendant was the developer and the copyright holder of Adobe Acrobat. The plaintiffs brought a suit against the defendant by alleging that the defendant violated the anti-circumvention provision in the DMCA because Acrobat 5.0, developed and released by the defendant, allowed its users to edit a form field or free text annotation using the plaintiffs’ TrueType Fonts without their permission. One of the most essential disputes focused on whether the copyrighted TrueType Fonts were protected by an effective technological measure. After hearing the case the court rejected the plaintiffs’ claim, mainly on the basis of two points. The first is that the plaintiff failed to prove TrueType Fonts were effectively protected by a technological measure, namely embedding bits, because embedding bits did not prevent copying and could be easily modified with only lines of code. The second is that the plaintiff could not establish that the defendant’s designing or manufacturing of Acrobat 5.0, or the parts of it, was primarily for the purpose of circumventing the plaintiffs’ embedding bits. Accordingly, the court rejected the plaintiffs’ contention regarding the effective TPMs and concluded that embedding bits did not ‘effectively protect the right of the copyright owner’.²⁹⁹ The court’s decision indicates that the determinants of

²⁹⁵ EU Copyright Directive, art. 6(3).

²⁹⁶ For example, Germany, UK and the Netherlands almost literally copy the term used in article 6(3) EUCD, while all of them remain silent about the specific standards of effective technological measures.

²⁹⁷ Välimäki, Mikko, Keep on hacking: a Finnish court says technological measures are no longer ‘effective’ when circumventing applications are widely available on the internet, available at <http://www.law.ed.ac.uk/ahrc/script-ed/vol4-2/valimaki.asp> (last visited 13 May, 2012).

²⁹⁸ 404 F.Supp.2d 1030 (2005).

²⁹⁹ *Id.*

‘effective technological measures’ include not only the illegal intention to carry out but also the level of difficulty of circumvention.

Another case, *Finnish Content Scrambling System (CSS)*,³⁰⁰ provokes serious consideration of the standard of effective technological measures. In this case, the defendants, Mikko Rauhala, created source code circumventing CSS and published it on their own website. They were charged with illegally manufacturing and distributing a circumventing tool and providing services for circumventing effective TPMs. In the first instance, after hearing the opinions of two technical expert witnesses, the district court rejected the plaintiff’s claims by ruling that circumventing CSS encryption could not be deemed to be illegal because CSS encryption was ineffective. The crucial part of the court’s reasoning is that: ‘[S]ince a Norwegian hacker succeeded in circumventing CSS protection used in DVDs in 1999, end users have been able to get with ease tens of similar circumventing software from the internet, even free of charge ...CSS protection can no longer be held [to be] ‘effective’ as defined in law.’³⁰¹ However, this decision was not only refuted by the Finnish Copyright Council but also overturned by the court of appeal. After three meetings, the Finnish Copyright Council offered a unanimous opinion that the district court failed to examine exactly how easy the circumvention of protection measures actually is. It further went on to state that when analyzing the effectiveness of TPMs, it is essential to consider how many average users in actual fact could perform the circumventing operation without familiarizing themselves extensively with relevant knowledge, even though the sequence of commands is easily accessible.³⁰² In the second instance, the court of appeal adopted a subjective approach and emphasized the importance of the manufacturer’s intention of protecting copyright by using technological measures. It held that ‘because CSS protection was intended in its normal use to prevent or restrict acts on works or other material protected by copyright, the protection must be considered, taking in[to] account the time when the circumvention took place, as such which has achieved its protection objective.’³⁰³ More interestingly, the court of appeal seriously criticized the decision of the district decision by reasoning that the approach taken by the district court that examined the concept of effective TPMs would imply an outcome that a TPM would be ineffective soon, once it had been illegally bypassed.³⁰⁴ This case has proposed several essential factors to be considered in determining whether a TPM is effective, including the manufacturer’s intention of protection, the ease of circumvention and other relevant factors. Despite this case, an open question is left in the EU as to what test should be used to analyze the concepts of ‘effectiveness’ and ‘achieves its protection objective’.

In China, the standard of ‘effective technological measures’ also attracts attention in judicial practice. In *Zhejiang Fanya, Ltd. v. Beijing Baidu, Ltd.*,³⁰⁵ the court took the standard of ‘effective’ into consideration to establish legal liability. In this case, the plaintiff established a music website through which it provided a pre-paid service to its users. In order to restrict the users’ access to and

³⁰⁰ *Helsingin käräjäoikeus, case R 07/1004*, 25 May 2007.

³⁰¹ *Id.*

³⁰² Finnish Copyright Council 2007, at 11.

³⁰³ *Helsingin hovioikeus, case R 07/2622*, 22 May 2008.

³⁰⁴ *Id.*

³⁰⁵ *Zhejiang Fanya, Ltd. v. Beijing Baidu, Ltd.*, (2006) *Yi Zhong Chu Zi Di* 6273.

downloading of its copyrighted musical works, the plaintiff set passwords and corresponding procedures of pre-payment. The defendant is a professional service provider of a search engine providing hyperlinks. The plaintiff filed an infringement suit against Baidu by claiming that the links provided by the defendant directly located the music files stored in the plaintiff's music database and thereby made the copyrighted music works publicly available online without opening the original webpage. The No. 1 Intermediate People's Court of Beijing rejected the plaintiff's argument by reasoning that the plaintiff had failed to establish an effective TPM to prevent linkage, as a result of which the contents on its own website could be retrieved and shared on the internet. Later, the second instance court upheld this opinion.

Overall, the court's decision is sensible. The technology of search engines is a common tool for location online and widely used by end users. Considering the fact that this common technology can provide the public with links to the URL address of the claimed content and thereby easily circumvent the technological measures applied to it, such a TPM cannot be defined as 'effective'. Despite this, the court did not elaborate the concept of 'effective' in this case, which weakens the implications of this case for the digital environment.

Consequently, an additional article should be added to define the term 'effective TPMs' in China's Copyright Law. It is suggested that a stronger yardstick is taken to measure what is 'effective', to avoid granting right holders excessive privileges since the right holders implementing TPMs generally have professional sources of technical support compared with ordinary consumers. The EUCD's approach can be followed and a further explanation given. In sum, the article is drafted as follows:

'Technological measures shall be deemed 'effective' where in the normal course of its operation, the use of a protected work or other subject matter is controlled by the right holders through application of access control or a protection process, such as encryption, scrambling or other transformation of the work or other subject-matter or a copy control mechanism, which achieves the protection objective in relation to the average end user. Technological measures are considered not to be effective where they can no longer prevent access by an average end user who merely has normal knowledge, experience and ability in the relevant regime.'

B. The purpose of implementing TPMs

Another issue that merits discussion is what kind of TPMs should be entitled to protection under the anti-circumvention provision. Implementing TPMs is justified due to their purpose of protecting copyright, preventing competition, or both. On the one hand, the anti-circumvention provision works well for protecting copyright effectively by granting the right holder privileges to prevent the circumvention of TPMs. On the other hand, TPMs usually serve to exclude competition in the relevant market, which is contrary to the legislative purpose of the anti-circumvention rule.

Two US cases addressed the issue regarding whether a technological measure can be the beneficiary of the anti-circumvention provision if its primary purpose is

not to protect copyright. In *Chamberlain Group v. Skylink Technologies*,³⁰⁶ the Federal Circuit concluded that the defendant, who manufactured universal wireless transmitters that allowed the user to operate the plaintiff's products without the plaintiff's equipment, did not violate the DMCA.³⁰⁷ In rejecting the plaintiff's claims, the court underlined that the intention of the circumvention conducted by Skylink was not to infringe the copyrighted content, but to interoperate with it.³⁰⁸ Such a decision demonstrates that the court imposes a heavy burden upon the copyright owner to prove a reasonable relationship between the exercising of copyright and the circumvention concerned when deciding on liability.³⁰⁹

The other case is *Lexmark v. Static Control Components*.³¹⁰ Lexmark is a manufacturer of laser printers and replacement toner cartridges. In order to prevent a third party from refilling its original toner cartridges, Lexmark embedded special software on the microchips of each toner cartridge.³¹¹ Lexmark alleged that Static Control Components (SCC) should be liable for circumvention under DMCA because SCC manufactured and sold its own microchips that made it possible to replace Lexmark's replacement toner cartridges.³¹² The Sixth Circuit rejected Lexmark's contention and ruled that Lexmark's toner software was primarily a lock-out device, which is 'not generally entitled to protection'.³¹³ The fundamental implication of this case can be seen to be that software primarily functioning as a lock-out device cannot enjoy protection under the anti-circumvention regulation.

These two cases direct attention to the purpose of implementing TPMs. From the point of view of the courts, only if the TPMs are established to have a close connection to copyright protection rather than preventing competition will they be eligible for the application of the anti-circumvention provision. In addition, the relationship between copyright law and antitrust law is highlighted in that 'DMCA, as part of the Copyright Act, does not limit the scope of the antitrust laws, either explicitly or implicitly'.³¹⁴

Indeed, there are few provisions offering guidelines for restricting the abuse of the anti-circumvention provision in the Chinese Copyright Law. In deciding the scope of TPMs covered by the anti-circumvention statutes, the legislative objectives, the rationale behind legislation and the balance of interests between different parties should be fully taken into consideration. In light of this, it is suggested that a particular sub-article be added to exclude those TPMs whose primary purpose is not copyright protection from the shield of the anti-circumvention provision as follows:

'For the purposes of this law, the expression 'technological protection measures' means any technology, device or component that, in the normal course

³⁰⁶ *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir. 2004).

³⁰⁷ *Id.* at 1203-04.

³⁰⁸ *Id.* at 1197.

³⁰⁹ *Id.* at 1202.

³¹⁰ *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004).

³¹¹ *Id.* at 529.

³¹² *Id.* at 530.

³¹³ *Id.* at 544.

³¹⁴ *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1201 (Fed. Cir. 2004).

of its operation, is designed to prevent and limit actions in respect of protected works or other subject-matter protected by this law, which are not permitted by the right holders.'

'The technological protection measures that are primarily designed or produced for the following purposes shall not be determined to be a technological protection measure protected by Copyright Law:

- (1) for achieving anti-competition purposes by using technological protection measures of little significance to copyright protection;*
- (2) for damaging the computer systems of users;*
- (3) for any other purpose detrimental to the protection of public safety.'*

C. Exceptions to TPMs

In an analog environment, the limitation provisions are developed to approach a conventional balance between the public and right holders; however, digital technological development has changed such a balance. Confronted with the risk of copyright piracy, content industries not only endeavor to upgrade TPMs incrementally to make the illegal copying of protected content more difficult, but also push legislation to support TPMs in order to strengthen the right holders' control of the protected content.

Under China's Copyright Law, the limitation provisions are not recognized as a defense against anti-circumvention claims.³¹⁵ Fortunately, some particular exceptions to the anti-circumvention rule are stipulated in the RNDI, but the exceptions are too limited.³¹⁶ This means that other than these few exemptions, any conduct of bypassing TPMs will be determined illegal.

Overall, the anti-circumvention rule with very limited exemptions excessively favors the content industries. Some access to and uses of copyrighted content in analog form are allowed under the fair use doctrine, but the story is totally different if the copyrighted content is in digital form and protected by TPMs. Supposing a work protected by TPMs exists only in digital form, the fair use doctrine seems completely useless for increasing the users' access to the work. In this circumstance, the anti-circumvention rule actually reduces the possibilities of accessing a digital work protected by TPMs by comparison with the case of an analog work. In other words, some works that can be used fairly in an analog environment become inaccessible in a digital world.³¹⁷ Therefore, it is essential to

³¹⁵ After three rounds of revision of the Chinese Copyright Law, the legislature does not definitely allow users to bypass TPMs in order to access or use protected content, relying on the fair use doctrine, nor does it grant broad exemptions to TPMs. Moreover, the same situation can be found in the RNDI and the Regulations for Protection of Computer Software.

³¹⁶ Under Article 12 of the RNDI, merely four exemptions are defined for particular purposes, which include for the purpose of classroom teaching or scientific research, providing written work for the blind, fulfilling official duties, and testing of computer systems or the safety capability of the network.

³¹⁷ Experts interpret the revisions of DMCA [Zhuan Jia Jie Du Mei Xiu Gai Shu Zhi Qian Nian Ban Quan Fa An], available at http://www.sipo.gov.cn/yl/2010/201008/t20100813_531232.html (last visited 3 April, 2012).

create exemptions deliberately in order to provide for the necessary needs of society.

It is worth briefly reviewing two approaches concerning exceptions to the anti-circumvention framework: the DMCA model and the EUCD model. The DMCA model enumerates some exceptions to liability for circumvention or transactions for circumvention. By contrast, the EUCD does not especially include exceptions to the anti-circumvention framework ‘but rather introduces a unique legislative mechanism which foresees an ultimate responsibility on the right holders to accommodate certain exceptions to copyright or related rights.’³¹⁸ Under Article 6(4)(1), right holders are encouraged to take voluntary measures to ensure that, in the first place, the benefits of exceptions can be obtained.³¹⁹ In the circumstance where the right holders fail to take the aforesaid measures, member states have an obligation to take appropriate measures to ensure that the beneficiary of exceptions can benefit from the relevant exceptions.³²⁰

The DMCA takes two approaches to stipulate exceptions to the prohibition of circumvention: statutory exceptions and exceptions stipulated by the Librarian of Congress. As regards the former, the DMCA includes several statutory exceptions to liability for circumvention. Because the DMCA divides the conduct of circumvention into two categories, namely direct circumvention and trafficking conduct (Table 4.3), it correspondingly distinguishes these two types of conduct in setting exceptions to liability for illegally circumventing TPMs. In detail, seven statutory exceptions under the DMCA apply to the prohibition of circumventing access controls and five of them apply to the prohibition of illegal trafficking in circumvention technology, product, service or device (Table 4.4).

³¹⁸ Braun, Nora, *The Interface between the Protection of Technological Protection Measures and the Exercise of Exceptions To Copyright and Related Rights: Comparing the Situation in the United States and the European Community*, 25 E.I.P.R. 496, 499 (2006).

³¹⁹ EUCD, art. 6(4)(1).

³²⁰ *Id.*

Table 4.3 The anti-circumvention provision under the DMCA

Category of TPMs	Anti-circumvention articles	Prohibited conduct
Control of access to copyrighted work	17 U.S.C. § 1201(a)(1): ‘No person shall circumvent a technological measure that effectively controls access to a work protected under this title.’ ³²¹	Direct circumvention
	17 U.S.C. § 1201(a)(2): ‘No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that... is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title.’ ³²²	Trafficking conduct
Control of use of copyrighted work	17 U.S.C. § 1201(b)(1): ‘No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that...is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title.’ ³²³	Trafficking conduct

³²¹ 17 U.S.C. § 1201(a)(1)(A).

³²² 17 U.S.C. § 1201(a)(2).

³²³ 17 U.S.C. § 1201(b)(1).

Table 4.4 Exceptions to liability concerning circumventing TPMs

	Exceptions to liability for the circumvention of access measures	Exceptions to liability for trafficking in devices controlling access	Exceptions to liability for trafficking in devices controlling exploitation
Non-profit libraries, archives and educational institutions	√		
Law enforcement, intelligence and other government activities	√	√	√
Reverse engineering	√	√	√
Encryption research	√	√	
Minors	√	√	
Protection of personality identifying information	√		
Security testing	√	√	

The other approach with regard to exceptions under Section 1201 of the DMCA is the exceptions allowing the circumvention of access control technologies released by the Librarian of Congress. In order to respond to the concerns that the provisions of forbidding circumvention would adversely affect normal non-infringing uses regarding particular classes of copyrighted works, the Librarian of Congress is obliged to determine every three years whether users of certain classes of works are, or are likely to be, adversely affected in their ability to undertake non-infringing uses.³²⁴ Moreover, the Librarian of Congress is also required every three years to determine and publish the particular classes of works

³²⁴ 17 U.S.C. § 1201(a)(1)(C).

regarding which conduct of circumvention will be allowed.³²⁵ The aforementioned decisions of the Librarian of Congress must be made upon the recommendation of the Register of Copyrights.³²⁶ Under the latest rulemaking proceedings, the Librarian of Congress has announced that non-infringing uses of six classes of works will not violate the prohibition of circumvention.³²⁷ These classes of works include: DVDs, mobile phones – networks, mobile phones - software applications, video games, dongles and e-books.³²⁸ In conducting such rulemaking, the Librarian of Congress has seriously examined the factors impacting the justification of these exemptions: (1) the availability for use of copyrighted works, (2) the availability for use of works for non-profit archival, preservation and educational purposes, (3) the impact that the prohibition of the circumvention of technological measures applied to copyrighted works has on criticism, comments, news reporting, teaching, scholarships or research, and (4) the effect of the circumvention of technological measures on the market for or value of copyrighted works. It was found that if these exemptions were granted, the aforesaid four factors would be unlikely to be adversely affected by the proposed exemptions. Moreover, the new exceptions increase the consumers' benefits on the grounds that they are allowed to use the products by alternative methods. Thus, people who lawfully obtain a lawfully made DVD that is protected by TPMs may circumvent the TPMs for certain purposes; owners of mobile phones can jailbreak TPMs contained in phone firmware for the purpose of installing applications on wireless telephone handsets

³²⁵ 17 U.S.C. § 1201(a)(1)(D).

³²⁶ 17 U.S.C. § 1201(a)(1)(C).

³²⁷ Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Library of Congress, Copyright Office, 37 CFR Part 201 [Docket No. RM 2008–8], available at <http://www.copyright.gov/fedreg/2010/75fr43825.pdf> (last visit 12 April, 2012).

³²⁸ *Id.* According to the fourth rulemaking proceeding, in detail, the six classes of works exempted from liability against circumvention include: (1) Motion pictures on DVDs protected by TPMs where circumvention aims at incorporating short portions of motion pictures into new works and the user has reasonable grounds to believe that the circumvention is necessary in the following circumstances: (i) Educational uses; (ii) Documentary filmmaking; (iii) Noncommercial videos. (2) Computer programs enabling wireless mobile phones to execute software applications where circumvention is merely for the purpose of enabling interoperability. This exemption enables users to use software applications that are not approved by the manufacturer of the phone. (3) Computer programs used with wireless mobile phones to connect to a wireless network, where circumvention is for the purpose of the use on different networks and access to the network. Thus, users are permitted to unlock their mobile phones for use on any network. (4) Video games accessible on personal computers on condition that circumvention is conducted for the mere purpose of testing, investigating or correcting security flaws. Information obtained from such circumvention conduct should be used or maintained in a way that does not facilitate copyright infringement. (5) Computer programs protected by dongles preventing access where circumvention is for the purpose of unlocking a dongle that is no longer available in the market. (6) Literary works distributed in e-book format where circumvention is for enabling the e-book to have a 'read-aloud' function. This exemption will benefit the blind and the vision-impaired.

and this would be regarded as legitimate; users of mobile phones are allowed to change mobile carriers by jailbreaking; visually impaired people may access e-books by transforming the text into a read-aloud format through circumventing dongles and so on.

It should be noted that these exemptions are extremely narrow because they are allowed merely for very specific uses.³²⁹ For example, DVD circumvention is limited to the usage of getting short clips for non-commercial uses, to only CSS encryption and to only DVD media format.³³⁰ Video games circumvention merely permits circumvention on personal computers for the purposes of security analysis and correction.³³¹ Likewise, jailbreaking to install applications will not prohibit manufacturers of mobile phones from developing other technological measures.³³² Furthermore, although these exemptions legalize new uses of products protected under TPMs, they do not allow commercial undertakings to market or sell products or devices that are primarily designed to bypass TPMs.³³³ In addition, this administrative procedure adopted by the Librarian of Congress does not grant exemptions from copy-control technology; as a result, the permission for 'an individual to gain access to the work by circumventing the access-control measure does not assist the individual in making a copy for fair use purposes.'³³⁴ Such an administrative approach, narrowly enabling access and use in specific circumstances, aims to redress the imbalance of rights extremely in favor of right holders using TPMs to lock their work against users' access or uses.³³⁵

Section 1201(a) intends to preserve fair use, but it is not a simple task for the courts to develop fair use jurisprudence. Even though the courts could develop a case-by-case basis to delineate the scope of lawful uses under Section 1201(a), there will always be many activities in light of new technologies the courts have not assessed yet. Because such a statement is made by the Librarian of Congress every three years, it can keep pace quite well with the uncertainty generated by technological changes and social changes. For example, the issue regarding whether jailbreaking the smart phone violates the anti-circumvention provision has sparked intense debates. Finally, the rules in this context made by the Librarian of Congress have given a certain answer to handset owners, independent software

³²⁹ New exemptions to the DMCA anti-circumvention rule, available at <http://spicyipindia.blogspot.nl/2010/08/new-exemptions-to-dmca-anti.html> (last visit 12 July, 2012).

³³⁰ Bailey, Jonathan, What the new DMCA exceptions mean to you, available at <http://www.plagiarismtoday.com/2010/07/26/what-the-new-dmca-exemptions-mean-to-you/> (last visit 12 July, 2012).

³³¹ *Id.*

³³² *Id.*

³³³ Warren, Daniel J., Weslow, David E., & Curry, Joshua D., Copyright ruling allows bypass of DVD, smartphone protection mechanisms, available at <http://www.sutherland.com/files/News/38735386-f959-4f9b-a09a-029973ca7d41/Presentation/NewsAttachment/77edf062-b721-426a-bb7a-0e315f6d3e99/CopyrightRulingBypassDVDSmartphoneProtectionMechanismsJuly2010.pdf> (last visit 12 July, 2012).

³³⁴ Lipton, Jacqueline D., *Solving the Digital Piracy Puzzle: Disaggregating Fair Use from the DMCA's Anti-device Provisions*, 19 Harvard Journal of Law & Technology 111, 135 (2005).

³³⁵ *Id.*

developers and manufacturers. Moreover, such exception provisions are good for small and medium enterprises due to the effects of increasing competition in the market. In sum, the method of government intervention is of significance in the regime of the exceptions to anti-circumvention.

The EUCD takes a different approach from the DMCA, considering that it does not list particular exemptions to the anti-circumvention regime. It has two special features.

First, with respect to the public policy exceptions, the EUCD provides ‘two steps’ to ensure the objectives of the public policy exceptions can actually be achieved. In the first place, the right holders are invited to adopt voluntary measures, including agreements between right holders and other parties concerned, to make the public policy exceptions possible to the users.³³⁶ Then, in the absence of voluntary measures, Member States are required to ‘take appropriate measures to ensure that right holders make available to the beneficiary of an exception or limitation provided for in national law.....the means of benefiting from that exception or limitation.’³³⁷ In practice, Member States take different approaches to implement this obligation. For example, if the beneficiaries deem that the right holders do nothing regarding voluntary measures to ensure the beneficiaries of the public policy exceptions can in fact obtain benefits, the beneficiaries may appeal to certain institutes specifically in charge of this issue, such as the Copyright License Tribunal (Denmark), the Secretary of State (UK) or the High Court (Ireland).³³⁸ In addition, Denmark’s approach is distinctive considering that beneficiaries are permitted to circumvent TPMs without the approval of the Tribunal or anyone else in the circumstance where the right holders fail to comply with the stipulations to ensure public policy exceptions are available within four weeks.³³⁹ However, the public policy exceptions do not apply to the copyrighted works that the right holders provide to the public subject to contractual terms.³⁴⁰ In other words, both types of exceptions cannot apply to the case of an ‘on-demand-service’.

Second, in contrast to the DMCA, the EUCD does not require Member States to include exceptions to the prohibition against trafficking in circumvention products. Article 6(1) and Article 6(2) of the EUCD provide prohibitions against direct circumvention and trafficking in circumvention devices respectively. Nevertheless, all the exceptions provided are pertinent to Article 6(1), while none are pertinent to Article 6(2). This means that all the illegal dealing in circumvention products enumerated in Article 6(2), including manufacture, import, distribution, sale, rental and advertisement, cannot be exempted from liability in any case.³⁴¹

As discussed above, the regime of exceptions to anti-circumvention has its own features under the DMCA and the EUCD respectively. In comparison, the former introduces a broader scope of exceptions from liability for circumvention in view of the fact that it grants exceptions not only for direct circumvention but also

³³⁶ EUCD, art. 6(4)(1).

³³⁷ *Id.*

³³⁸ Groenenboom, Margreet, Comparing the EUCD implementation of various Member States, available at http://www.indicare.org/tiki-read_article.php?articleId=88 (last visit 12 July, 2012).

³³⁹ *Id.*

³⁴⁰ *Supra* note 336.

³⁴¹ *Id.*

for some trafficking in circumvention products. Moreover, the exceptions under the DMCA, composed of the statutory exceptions and exemptions released by the Librarian of Congress, indicate the legislature's concerns about the general public interest and the new emerging needs caused by technological development. By contrast, the EUCD focuses more on strategies ensuring the traditional public policies, which seems somewhat rigorous and conservative.

The regular intervention permitted under the DMCA is of significance due to its feasibility and efficiency. Regular intervention may have a positive impact in the case of recent emerging issues based on the consideration of technological changes, the development of the relevant industrial sectors, public interests, anti-trust considerations and so on. The previous four enactments promulgated by the Librarian of Congress have produced the good results of reducing the uncertainty generated by technological development, encouraging interoperation, promoting competition and increasing information dissemination.

The 'two-step' approach adopted by the EUCD also has its own characteristics. The first step, inviting the right holders to take positive measures, aims to encourage the right holders to ensure the public policy exceptions are available by means of supply-side initiatives. This approach holds great promise for bringing greater opportunities of access to the copyrighted content. If this approach can achieve these objectives, it may reduce legislative costs and implementing costs. The second step, administrative intervention, has considerable potential for success at the first stage. Professor Parchomovsky has expressed a similar opinion.³⁴² He suggests that the US adopt a two-stage measure to expand the user advantages concerning the circumventing of TPMs.³⁴³ At the first stage, the right holders are required to disclose expressly the substance and the scope of consumers' uses of the concerned digital content subject to the basic terms and conditions developed by the administrative authority.³⁴⁴ This measure may improve consumer benefits by making it easier for consumers to understand the user advantages and compare the user advantages offered by different content providers. It is also expected that the right holders will scramble to expand users' benefits and thereby win the market competition. In case the right holders fail to ensure and increase users' benefits effectively at the first stage, 'Congress must be ready to implement a second strategy of specifying use privileges that content owners must provide.'³⁴⁵ The measure at the second stage not only serves to increase the possibility of success at the first stage but also ensures that the objective of increasing user benefits can ultimately be achieved in any case. Both the 'two-step' approach of the EU and Professor Parchomovsky's proposal show the intention of encouraging the right holders to ensure and even increase the consumers' privileges of using digital content. They do not aim to remove TPMs that would prevent illegal copying unnecessarily, but aim to make practice more compliant with copyright exceptions. Nevertheless, the concept of 'voluntary agreement' or 'voluntary measures' taken by the right holders seems a product cooked up in a study and will not achieve its supposed objective in reality considering the fact that the content industries care very little about enforcing compliance with copyright exceptions

³⁴² Parchomovsky, Gideon & Weiser, Philip J., *Beyond Fair Use*, 96 Cornell Law Review 91, 110 (2010).

³⁴³ *Id.*

³⁴⁴ *Id.*

³⁴⁵ *Id.*

and consumers have limited knowledge of and interest in judging which digital products provide more favorable conditions in the context of user's benefits than others. In this regard, an exhaustive list of copyright exceptions seems to be a more useful starting point for clearly defining the ambit of anti-circumvention exceptions.

As regards the exceptions to anti-circumvention under China's copyright framework, this actually needs substantial improvement. There are few words pertaining to this issue under the existing Copyright Law other than just one article, which states that any person shall be liable for the conduct of intentionally circumventing or destroying TPMs without the permission of the right owners, except those circumstances where laws or administrative regulations allow otherwise. Nevertheless, it seems a hopeless case to give an explicit instruction for users as to under what circumstances the actions of circumventing TPMs can be exempted from liability. Despite the limitations and exceptions to copyright law, this is far from sufficient because the original balance between the interests of the public and the interests of the right holders achieved in an analog environment has been lost in such an era of information technology. Moreover, although the RNDI offers some provisions concerning exceptions to the anti-circumvention rule, it does not provide a wide application for online cases.³⁴⁶ Therefore, it is highly recommended that a list of exceptions to the anti-circumvention rules be created. First, it is suggested that TPMs be legally obliged to comply with some exceptions listed in Article 22, which includes fundamental exceptions grounded on civil liberties. Rationales behind some exceptions based on constitutional values, such as freedom of expression, should be re-evaluated. Exemptions from anti-circumvention should be granted for non-commercial personal copying, teaching, research, criticism and review, and reproduction by libraries because they are based on fundamental freedoms and public interests.³⁴⁷ Second, it would be sensible to incorporate new exceptions for TPMs, such as achieving interoperability of computer programs and encryption research. Without these exemptions, advanced companies may abuse the provisions of anti-circumvention to limit competition.³⁴⁸ Cases precluding fair competition also arose in China. For example, in *Beijing Jingdiao v. Shanghai Naikai*, the plaintiff utilized encryption on the output of the computer software to prevent users from using its computer software on fine carving machines produced by other manufacturers.³⁴⁹ The court finally held that the plaintiff's conduct constituted unfair competition. China, with the ambition of becoming a leading innovative country, should enact particular

³⁴⁶ As mentioned previously, Article 12 of the RNDI merely provides four exceptions: classroom teaching or scientific research, providing published written work for the blind, fulfilling official duties and testing of the computer system or the safety capability of the network. Moreover, the two former exceptions merely apply to cases where the works concerned can only be acquired online.

³⁴⁷ Favale, Marcella, *Approximation and DRM: Can Digital Locks Respect Copyright Exceptions?* 19 International Journal of Law and Information Technology 306, 311 (2011).

³⁴⁸ Geist, Michael, TPMs: A perfect storm for consumers, available at http://www.michaelgeist.ca/resc/html_bkup/jan312005.html (last visit 12 July, 2012).

³⁴⁹ *Beijing Jingdiao Technology, Ltd. v. Shanghai Naikai Electronic Technology, Ltd., Hu Gao Ming San (Zhi) Zhong Zi Di 110 Hao*.

rules in favor of innovative business and scientific research but not at the expense of the legitimate interests of right holders. These exemptions are expected to provide innovative companies and researchers the certainty they need to develop new technologies that involve uses of copyrighted works encrypted by TPMs. In setting the exceptions, the conditions of application should be strictly limited in order to be consistent with the 'three- steps' test. In detail, the following may be provided:

'It shall not be determined illegal that a person circumvents TPMs that are developed to protect the copyright interests without the authorization of the right holders under the following circumstances where:

(1) such person who has lawfully obtained a computer program or a copy of one, conducts circumvention, or offers services to the public for the purposes of circumventing a technological protection measure, for the sole purpose of making this computer program interoperable with any other computer program; or

(2) such person who has lawfully obtained the work circumvents a technological protection measure for the sole purpose of encryption research, if there is no alternative for carrying out such research without circumventing this technological protection measure; or

(3) such person who engages in accessing a computer, computer system or computer network, circumvents TPMs solely for the purpose of good faith testing, investigating or correcting a security flaw or vulnerability, with the authorization of the owner or operator of such computer, computer system or computer network.'

In conclusion, in the absence of a uniform definition of the scope of protection for TPMs under the international treaties, several models of implementation are developing. The essential factors involved in delineating the scope of protection include the interpretation of the term 'effective technological measures', the legitimate purpose of implementing TPMs and a fair and justifiable regime of exceptions. Either expanded interpretation or limited interpretation of each factor will change the balance between the interests of copyright holders, consumers and the public. Indeed, the protection for the intellectual creation and the related contribution should be safeguarded. On the other hand, the legislatures cannot turn a blind eye to the negative effects caused by upgrading TPMs, such as the diminishment of consumers' welfare and the reduction in opportunities for the public to access copyrighted information. In light of the intervention by the Librarian of Congress, the US has made considerable efforts to develop an equitable system to achieve the comprehensive objectives of protecting copyright, increasing consumers' welfare, promoting information dissemination and encouraging fair competition. In addition, the system adaptable to new technologies offers the legal certainty for subsequent innovation and expands consumer choice to some extent. In contrast, approaches adopted by the EU seem relatively conservative in view of the very limited and traditional exceptions to the anti-circumvention provision.

China, with the ambition of becoming a leading innovative country, should take effective measures to optimize the copyright law in this context. Currently, the Chinese copyright regime, which has a very small category of exemptions, seemingly favors copyright holders heavily. The facts that numerous Chinese consumers hope for interoperable application and advanced companies utilize TPMs to limit competition indicate the necessity of embracing broader exemptions from anti-circumvention. China should notice that an unclear and imbalanced

copyright system ‘may result in growing barriers to the access to all types of information, which will be increasingly channeled through digital networks. Such barriers are likely to affect not only technology, but also general factual information as well as scientific knowledge. This may consolidate existing trends of not openly diffusing the results of scientific research, and thereby restrict access by developing countries to the pool of scientific knowledge.’³⁵⁰ In contrast, if copyright legislation were amended to delineate the scope of protection for TPMs appropriately, the imbalance of interests caused by digital technologies would be redressed.

4.4 Conclusion

China has made considerable progress in the copyright regime. The achievements can firstly be observed in the three rounds of copyright law revisions. However, some basic aspects need improvement. These defects are caused by ambiguous wording, the absence of explicit definitions of fundamental concepts, the lack of uniform legislative and judicial interpretation. The legislature should endeavor to reduce the ambiguities existing in the current system on the grounds that it is a prerequisite for effective and efficient copyright protection. Moreover, the practice of other countries in this regime can be reviewed, based on which it can be determined whether it is feasible to follow this in China.

Moreover, it would be sensible to adjust the copyright system to respond to the current technological environment. This system should not only give sufficient incentives for innovation and value its contribution by granting exclusive control over it, but also appropriately leave room for subsequent creations and safeguard public interests. Thus, it can be expected that promoting the development of culture, science and the economy will ultimately benefit society. Therefore, there is sufficient justification to revise the provisions regarding the exemptions and limitations to allow legitimate uses and thereby encourage subsequent innovation and fair competition, while at the same time providing a tough protection for producers of content.

³⁵⁰ Correa, Carlos, *Intellectual Property Rights, the WTO and Developing Countries: TRIPS Agreement and Policy Options* (Zed Books, London) 160 (2000).

Chapter 5

A Reflection on China's Trademark System

5.1 The historical development of China's trademark system

5.1.1 The trademark development in the earlier era

The embryonic form of trademark in China can be traced back to the Bei Song Dynasty (960-1120 A.D.), even though there was no official system for trademark registration and protection at that time. Literature records that the earliest trademark was a painting of a white rabbit with the words 'purchasing superior steel for producing fine needles, identified by the mark of the white rabbit in front of its store', being used by a shop selling needles in Shandong Province.¹ It was neither protected as a private property nor related to the reputation of goods, but had a very limited distinctive character.

In 1890, the trademark 'WEI SHUI', being used as a brand of matches, was officially approved by the state's authority.² It was the earliest registered trademark in China.³ At the end of the Qing Dynasty, under external pressure from powerful foreign countries, the government promulgated the Trademark Registration Experimental Institution in order to provide protection for trademarks owned by foreigners and thereby to ensure their benefits from commercial activities within Chinese territory.⁴ After the demise of the Qing Dynasty, the Beiyang government released the modern trademark laws in 1923 and 1930 respectively.⁵ Both of the laws include the fundamental elements of modern trademark legislation, such as the requirements and procedures for applying for a registered trademark, the first-to-use principle and first-to-file principle, the term of exclusive rights to a trademark, dispute settlement, penalties for trademark infringement and so on.⁶ These brought some positive results. In addition to spurring trademark registration, they successfully served the administrative management in settling disputes in this

¹ Zheng, Chengsi, Intellectual Property Law [Zhi Shi Chan Quan Fa] ((Law Publishing House, Beijing) 166 - 67 (1997).

² Zhuo, Xuchu, Go Through A Hundred Years- the Mystery of the Earliest Chinese Trademark, available at http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/newmedia/2004-11/25/content_2258598.htm (last visited 2 February, 2013).

³ *Id.*

⁴ Yao, Xiulan, & Zhang, Honglin, *On Chinese Trademark Legislations in the Modern History* [Jin Dai Zhong Guo Shang Biao Li Fa Lun], 2 The Rule of Law Forum [Journal of Shanghai University of Political Science & Law] 85, 85-89 (2006).

⁵ *Id.*

⁶ *Id.*

regime.⁷ Meanwhile, the awareness of trademark protection was encouraged to some extent. For example, during 1929 to 1936, Shanghai Huashang Cement Ltd. made considerable efforts to safeguard its trademark interests.⁸

5.1.2 The development of China's trademark system from 1949 to 1979

In the early days of the new China, the Chinese government abolished all the previous trademark regulations. In 1950, it released the Temporary Regulations on Trademark Registration, regulating the principle of voluntary registration, the system of unified national management, the opposition procedure and so on.⁹ Soon after that, in order to make this temporary law more feasible, the Detailed Rules on the Implementation of Temporary Regulations on Trademark Registration were laid down.¹⁰

Since 1956, China had completed the socialist revolution in the agricultural, manufacturing industrial and commercial sectors. The non-public ownership economy was almost eradicated; as a result, public ownership became the unique component of China's economy. Influenced by the Anti-Rightist movement, the very essence of China's Constitution of 1954, respecting property and freedom, had been trampled underfoot throughout the country.¹¹ Subsequently, China released the Trademark Management Regulations in 1963, which did not highlight the protection for exclusive rights to trademarks any longer, but merely underscored the supervision of product quality. Moreover, it rejected the use of the provision of voluntary registration and instead adopted the principle of compulsory registration and revoked the original opposition procedure so that nobody could express opposition to registered trademarks.¹² During the period of the Cultural Revolution, all the laws, as well as the trademark system, existed in name only. The trademark registration system also ceased to exist. It was retrogressive legislation considering the fact that these provisions seriously violated the fundamental spirits and principles of modern trademark laws.

It merits noting that before China adopted the reopening policy, China's trademark system was an outcome of the planned economy. At that time,

⁷ Zhao, Yukun, *Trademark Legislation and Protection in the Period of Republic of China* [Min Guo Shi Qi De Shang Biao Li Fa Yu Shang Biao Bao Hu], 3 Republican Archives [Li Shi Dang An] 119, 119 - 24 (2003).

⁸ Zhong, Xia, *The Judicial Precedent of Similar Trademark in Republic of China—Dissension on Tortious Cement Trademark of Elephant in 1929* [Min Guo Shi Qi Jin Si Shang Biao Pan Li - 1929 Nian 'Xiang Pai' Shui Ni Shang Biao De Qin Quan Jiu Fen], 5 Journal of Political Science and Law [Zhen Fa Lun Cong] 86, 86-91(2007).

⁹ The Temporary Regulations on Trademark Registration was released by the state council on July 28, 1950. See Chifen Han, & Lianfeng Wang (eds.), *Intellectual property Law* (Tsinghua University Press, Beijing) 107 (2006).

¹⁰ *Id.* Detailed Rules on Implementation of Temporary Regulations on Trademark Registration were released by the state council on Sept. 29, 1950.

¹¹ Zhang, Qingfu & Ren, Yi, *Ensuring System of Civics Property in the Constitutional Law* [Lun Gong Min Chai Chan Quan Xian Fa Bao Zhang Zhi Du], Jurists Review [Fa Xue Jia] 4, 4-7 (2004).

¹² *Supra* note 9, Han, Chifen & Wang, Lianfeng (2006), at 107.

commodities in the market were scarce due to limited supply so people had few alternatives in the way of commodities. The amount of goods that people could buy was not allowed to exceed the quota set by the state. It was not an unusual phenomenon that people queued overnight in order to purchase a bicycle, radio, and daily necessities. The extreme shortage of the commodity resource resulted in the function of trademarks being neglected. Furthermore, the overwhelming majority of the registered trademarks were owned by the state; therefore, it was almost impossible for people to recognize fully the meaning of the exclusive right of use of a trademark.

5.1.3 The improvement of China's trademark system in the last thirty years

5.1.3.1 Legislation

In order to accommodate the national strategy of economy transition and the reforming and opening-up policy, the new China issued its first Trademark Law in 1982, which entered into force in 1983.¹³ Almost at the same time, the State Council correspondingly released the Detailed Rules of Implementation.¹⁴ The new laws served as a basic framework for trademark protection because they had included the fundamental elements of a modern trademark law, such as exclusive rights to use, procedure of registration, trademark examination, protection for consumer's interests, fair competition and so on. In addition, new concepts of trademark reputation and consumer welfare were addressed, which indicates the expansion of trademark functions.

In 1985, China entered into the Paris Convention for the Protection of Intellectual Property (Paris Convention), one of the most important international conventions in the industrial property regime. It protects trademark in a wide sense, including marks, trade names, geographical indications and unfair competition. Four years after that, in order to facilitate international trademark registration further, and thereby promote China's foreign trade and improve the internal investment environment, China acceded to the Madrid Agreement Concerning the International Registration of Marks (Madrid Agreement).¹⁵ Subsequently, China issued the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol) that seems superior to the Madrid Agreement concerning registration procedures.¹⁶

Apart from the endeavor to accede to international conventions, China revised the Trademark Law for compatibility purposes in 1993.¹⁷ First, it extended the scope of trademark protection to include the service trademark. This not only responded to developments of the service industry but also complied with the

¹³ China's Trademark Law of 1982.

¹⁴ Detailed Rules of Implementation of China's Trademark Law, 1983.

¹⁵ China acceded to the Madrid Agreement Concerning the International Registration of Marks on July 4, 1989.

¹⁶ China acceded to the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks on September 11, 1995.

¹⁷ The first revision of China's Trademark Law was issued on Feb. 22, 1993, and entered into force on July 1, 1993.

requirements of the Paris Convention and the Madrid Agreement.¹⁸ Second, the name of new administrative regions at or above county level could not be registered as a trademark except where such a trademark had been lawfully registered. This demonstrated that the legislature was paying more attention to the requirement of distinctiveness in trademark registration.¹⁹ Third, it simplified the procedures of registration. Under the new law, the same applicant only needs to file one application document to apply for the same trademark for different categories of commodities. This approach matched the general trend of facilitating registration in the world.²⁰ Fourth, the provision concerning revocation of a registered trademark was added. In detail, the Trademark Office may revoke a registered trademark, or entities or individuals may request the Trademark Review and Adjudication Board to revoke a registered trademark in the circumstance where such trademark is in violation of Article 8 or was obtained through fraud or other illegal means.²¹ This revision was of significance for protecting the rights of trademark proprietors and maintaining economic order.

With the ambition to improve the conditions of international trade and investment, China acceded to the World Trade Organization in December 2001 and signed the TRIPS Agreement. China also made concerted efforts to follow through on its international treaty obligations by revising and re-promulgating the Trademark Law once again.²² This revision makes the Trademark Law more consistent with a series of international conventions. China's endeavors can be observed in the following aspects:

First, the scope of applicants eligible for trademark registration has been extended to cover natural persons, legal persons and other organizations.²³ Under the Trademark Law of 1993, the eligible proprietors of a trademark included enterprises, institutions and privately or individually owned business proprietors, which excluded natural persons from the category of trademark proprietors.²⁴ After the revision, the wording became consistent with that adopted in the international conventions. Furthermore, the provision with regard to the joint ownership of trademark has been added.²⁵

Second, three-dimensional marks can be registered. Under the new law, any sign, or any combination of signs, capable of distinguishing the goods or services from others and visually perceptible, can be capable of constituting a trademark. Such visually perceptible signs include characters, letters, numerals, figurative elements, three-dimensional marks and combinations of colors as well as any combination of such signs.²⁶ This provision mirrors the stipulation of the TRIPS Agreement.²⁷

¹⁸ China's Trademark Law of 1993, art. 4.

¹⁹ *Id.* art. 8.

²⁰ *Id.* art. 13.

²¹ *Id.* art. 27(1).

²² The second revision of China's Trademark Law was issued on Oct. 27, 2001.

²³ China's Trademark Law of 2001, art. 4.

²⁴ *Supra* note 18, art. 4.

²⁵ *Supra* note 23, art. 5.

²⁶ *Id.* art. 8.

²⁷ Article 15 of the TRIPS Agreement gives a similar provision concerning this issue.

Third, protection for collective trademarks, geographical indications and source indications are incorporated in the new legislation.²⁸ Such marks are eligible for registration and being granted exclusive rights to use.

Fourth, protection for well-known trademarks has been strengthened. The revised law provides that the state should reject or cancel the registration and prohibit the use of a well-known trademark. Such protection is also provided for a trademark owned by foreign entities regardless of whether it has already been registered in China.²⁹ In addition, the factors to be considered in the determination of a well-known trademark are enumerated, including the knowledge of the trademark in the relevant sector of the public, the period during which that trademark has been in use, the period, extent and geographic scope of any publicity of that trademark, the record of being protected as a well-known trademark and other factors.³⁰

Fifth, not prejudicing any existing prior rights is taken as a requisite for registration and use of a trademark.³¹ Thus, any damage to any other's prior rights is illegal regardless of whether or not such damage is caused by conduct in good faith.

Sixth, new provisions in respect of enforcement have been added. The TRIPS Agreement requires member states to offer fair and equitable procedures concerning IP enforcement, especially the civil judicial procedures.³² Besides, member states should ensure that the judicial authorities have the authority to mandate the infringer to provide compensation for the damage caused by infringement.³³ Consequently, the new law provides that the right owners and stakeholders have the right to file a judicial suit in cases where the party disagrees with the decision of the Trademark Review and Adjudication Board regarding the revocation of a registered trademark or the decision of the administrative authorities relating to penalties.³⁴ In this regard, China has attempted to introduce judicial procedures to ensure the justice of settling trademark disputes. It is an important step in accommodating the general rules recognized by international society.

5.1.3.2 The dynamic of rapid development

The orientation of China's efforts can be attributed to China's serious desire to participate in globalization and the domestic needs of its industrial and social sectors. During the last thirty years, China not only successively acceded to a series of important international conventions but also amended the domestic laws for compatibility purposes. Despite these achievements, China is still faced with pressure from Western nations. For example, the US launched the Section 337 investigation to battle against China's infringing goods and released the Special 301 Reports listing China in the priority watch list and seriously criticizing the rampant piracy and inadequate enforcement in China.

²⁸ *Supra* note 23, art. 3.

²⁹ *Id.* art. 13(2).

³⁰ *Id.* art. 14.

³¹ *Id.* art. 9, 31.

³² The TRIPS Agreement, art. 42.

³³ *Id.* art. 45.

³⁴ *Supra* note 23, art. 50, 53.

Nevertheless, the external pressure is not the whole story. The improvement of trademark protection is also a response to the needs of the domestic economy.

It is obvious that China's economic boom in these last thirty years has brought significant changes in society. A lot of medium and small businesses have developed, which correspondingly creates substantial needs for trademark registration. For example, Guangdong and Zhejiang Provinces that have made the most outstanding contribution of developing medium and small businesses in China stress a great need for trademark registration.³⁵ As shown in Table 5.1, the number of trademark applications and trademark registrations has increased significantly in recent years. At the present time, the total number of trademark applications and registrations in China ranks number one in the world.³⁶

The value of brand has gradually been recognized and exploited in commercial business. Since 2008, the Chinese government has attempted to encourage enterprises to apply for loans by mortgaging their exclusive trademark rights. Although such work is still at the initial stage, some achievements can be observed. Till now, more than 50 enterprises have successfully obtained loans of RMB610 million from the Bank of Communications Beijing Branch and the Bank of Beijing through mortgages.³⁷ Similarly, the enterprises in Jilin Province received loans of RMB126 million from banks in 2010.³⁸ In addition, trademark has become the subject matter of many commercial transactions. Some brands, like 'Xiaofang' and 'Xiaowei', have been auctioned online.³⁹

Table 5.1 Number of trademark applications filed and trademark registrations issued from 2000 to 2010

	Number of trademark applications				Number of trademarks approved			
	Domestic	Foreign	Madrid	Total	Domestic	Foreign	Madrid	Total
2000	181717	24623	16837	223177	129441	16327	12807	158575
2001	229775	23234	17408	270417	167563	19017	16259	202839
2002	321034	37221	13681	371936	169904	23364	19265	212533

³⁵ According to the report released by the Trademark Office of the State Administration for Industry & Commerce of the People's Republic of China, the number of trademark registrations filed by entities in Guangdong and Zhejiang Provinces is much more than the number in other provinces in China, available at <http://sbj.saic.gov.cn/tjxx/201201/P020120117554112079528.pdf> (last visited 14 December, 2012).

³⁶ The Trademark Office of the State Administration for Industry & Commerce of the People's Republic of China: The Number of Trademark Applications and Registrations in China Ranks Number One in the World, available at <http://www.chinanews.com/cj/cj-gncj/news/2010/04-29/2254166.shtml> (last visited 14 December, 2012).

³⁷ Annual Development Report on China's Trademark Strategy 2010, available at <http://sbj.saic.gov.cn/tjxx/201104/P020110421328227178476.pdf> (last visited 14 December, 2012).

³⁸ *Id.*

³⁹ Chinese Trademark: From Zero to the Top One in the World, available at http://economy.gmw.cn/2011-09/09/content_2612172.htm (last visited 14 December, 2012).

2003	405620	33912	12563	452095	206070	21188	15253	242511
2004	527591	44938	15396	587925	225394	25069	16156	266619
2005	593382	52166	18469	664017	218731	23792	16009	258532
2006	669276	56840	40203	766319	228814	25254	21573	275641
2007	604952	59714	43282	707948	215161	19159	29158	263478
2008	590525	60704	46890	698119	342498	31870	28101	403469
2009	741763	51966	36748	830447	737228	68471	31944	837643
2010	973460	67838	30889	1072187	1211428	108510	29299	1349237

Source: the Trademark office of the SAIC⁴⁰

Furthermore, counterfeit goods are rampant throughout China, seriously distorting the normal economic order. In December 2010, the Administration for Industry and Commerce of Wuxi City, Jiangsu Province, took action to fight against counterfeits. In this action, more than 20,000 pieces of counterfeit goods were found, the total value of which exceeds RMB 50 million. It was also found that 78 world-renowned luxury brands were counterfeited, such as Hermes, Burberry, Prada, BOSS and so on.⁴¹ Another representative case took place in Chongqing Province, in which plenty of goods counterfeiting the well-known trademarks of LV, GUCCI, ROLEX, ARMANI, BMW, Rolex and Ferrari were seized, and the total value was up to RMB 20 million.⁴²

In sum, both the massive tide of globalization and the situation of the market economy stimulate China's intentions to optimize legislation and improve enforcement. In addition to the efforts mentioned above, China has launched the third round of revisions of the Trademark Law.

5.2 The draft of the forthcoming Trademark Law (hereafter 'the draft')

The forthcoming Trademark Law attempts to incorporate modern elements to improve the efficiency and effectiveness of trademark registration and protection. In comparison with the existing trademark law, the draft of the new law published by the Legislative Affairs Office of the State Council includes comprehensive revisions.⁴³

First, the draft allows non-traditional marks to be registered as a trademark. Other than traditional forms of trademark, Article 8 of the draft expands the elements eligible for trademark registration to include sound and scent.⁴⁴ In other

⁴⁰ Available at <http://www.marketbook.cn/sbzl/130374229724959.html> (last visited 15 July, 2013).

⁴¹ *Id.*

⁴² Top ten cases of trademark infringement, available at http://www.gov.cn/jrzg/2011-01/12/content_1783155.htm (last visited 15 December, 2012).

⁴³ The draft of the new Trademark Law, available at http://www.gov.cn/gzdt/2011-09/02/content_1939013.htm (last visited 15 December, 2012).

⁴⁴ *Id.* art. 8.

words, the current ‘visual’ requirement has been removed in the draft, which brings the Chinese regulations closer to international law and practice.⁴⁵

Second, trademark registration applications in electronic format are allowed. Under the current provision, only an application in writing can be accepted by China’s Trademark Office, even though electronic filing has been implemented as an experimental test. Such a provision makes it difficult for foreign entities to file applications, especially when they are based on foreign priority applications. Taking into consideration both this factor and modern practice, Article 21 of the draft provides that ‘the trademark registration applications and other relevant documents may be submitted in writing or electronic format. If it is submitted in a written format, it shall be printed out.’⁴⁶

Third, the exclusive right to geographical indications must be subject to trademark registration. The existing trademark law prohibits the registration of a trademark that contains or consists of a geographical indication if such a geographical indication causes a misunderstanding by the public as regards the original source of goods or services. However, it is unclear whether geographical indications are granted the same protection as a trademark. In order to increase the protection for geographical indications, several departments of the Chinese government have respectively formulated administrative regulations pertaining to geographical indication protection, which has resulted in the fact that applicants have to file registration applications to different governmental departments and the decisions of approval are also made by these departments respectively.⁴⁷ In addition, the absence of uniform policies has generated legal uncertainty. Therefore, the draft explicitly provides that ‘in order to acquire the exclusive right to a geographical indication, an application shall be filed for registration of the geographical indication as a collective mark or certification mark.’ Thus, geographical indications can enjoy trademark protection and the registration application procedures must follow those for a collective mark or certification mark.

Fourth, the draft indicates the attempts to prohibit registration in bad faith. Two options are addressed in this respect. One is to keep the existing provision that ‘the application for trademark registration shall not be allowed in circumstances where it prejudices other’s prior rights, or the registration

⁴⁵ The Singapore Treaty on the Law of Trademarks expressly recognizes that non-traditional marks are eligible for trademark registration. This international instrument incorporates the types of marks in a wide sense, including holograms, three-dimensional marks, color, position, motion, sound, taste and scent. China signed this Treaty on Jan. 29, 2007, but has not approved it yet.

⁴⁶ *Supra* note 43, art. 21.

⁴⁷ Provisions for the Protection of Products of Geographical Indication were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China on May 16, 2005, available at http://www.wipo.int/clea/docs_new/pdf/en/cn/cn041en.pdf (last visited 15 December, 2012).

Regulations on the Management of Geographical Indications of Agricultural Products were issued by the Ministry of Agriculture of the People’s Republic of China on December 25, 2007, available at http://www.gov.cn/flfg/2008-01/10/content_855116.htm (last visited 15 December, 2012).

application for a trademark that has been used by others and has certain influence is conducted in bad faith',⁴⁸ because this provision already includes the cases of bad faith. The other is to add a new sub-article to describe in particular the situations of bad faith and which provides that 'any application for a trademark that is identical with or similar to the other person's trademark on identical or similar goods shall not be approved for registration if the trademark owned by that person has actually been used in China and the applicant is aware of the existence of such trademark based on the contractual, business, geographical or other relations with that person'.⁴⁹ In the author's opinion, the first approach is more sensible than the second because the latter fails to recognize the wide scope of bad faith. It is worth noting that bad faith can have many aspects. In some cases, there is no relationship between the two parties, but the bad faith of the applicant can be observed by evidence such as the design, the reputation and the business scope of the trademark. Obviously, such applications should not be approved based on the principle of good faith. However, the definition of bad faith in a precise and exhaustive way implies that any conduct that does not exactly match the legal definition would be considered to be fair. Furthermore, the latter approach which requires proving that the applicant is aware of the existence of the trademark at issue places a far too high burden of proof on the older mark. Therefore, it is suggested that the first proposal be adopted.

Fifth, the draft adds an article that permits the Trademark Office to send the Examination Opinions to applicants and request their explanations or modifications of the application documents within 30 days if it believes such work is necessary.⁵⁰ This matches the orientation of providing the applicant with an opportunity to make observations on the intended refusal within a reasonable period.⁵¹ This provision is expected to reduce the number of appeals.

Sixth, the entities eligible for filing an opposition are limited to 'any prior right owner or interested party'.⁵² The current provision that allows any party to launch the opposition procedure usually causes unnecessary delays in registration. This new revision is sensible on the grounds that it will accelerate the whole procedure. In addition, in accordance with the draft, the Trademark Office should provide the opponents and applicants with the opportunity to present their arguments.⁵³ The introduction of an evidence exchange procedure for opposition proceedings has the advantage of reducing the number of potential appeals and litigation.

Seventh, the maximum statutory compensation has increased to RMB 1 million instead of the current RMB 500 thousand.⁵⁴ The aim is to offer a more effective remedy for the trademark proprietor who suffers loss through trademark infringement. The draft requires the trademark proprietor to give evidence of using such a trademark during the previous three years as well as other evidence when claiming compensation.⁵⁵ However, it does not expressly state what will be the

⁴⁸ *Supra* note 43, art. 34.

⁴⁹ *Id.*

⁵⁰ *Id.* art. 32.

⁵¹ Singapore Treaty on the Law of Trademarks, art. 21.

⁵² *Supra* note 43, art. 37.

⁵³ *Id.* art. 38.

⁵⁴ *Id.* art. 67(2).

⁵⁵ *Id.* art. 67(4).

result of a failure to provide such evidence. As a result, this provision may indicate two results: the claim for compensation will be rejected directly or the amount of compensation awarded will be affected. It should be noted that the protection of a trademark should be based on a valid registration rather than based on use. Obviously, it is unfair to reject a claim for compensation merely because the trademark proprietor cannot prove previous use. Therefore, it would be more sensible to revise this provision as follows: ‘where the proprietor of a registered trademark claims compensation, it shall provide, in addition to any other evidence, the evidence of using such trademark during the previous three years to prove the quantum of damages.’

5.3 The current contentious issues

5.3.1 Search engine keyword advertising

5.3.1.1 Introduction

Every advance in information technology will create new opportunities for marketing. The developmental history of traditional mediums, such as the printing press, radio, telephone and television, shows advertisers’ consistent endeavors to deliver the information regarding their products or services to consumers. The internet, a popular communication means, pervades every part of modern life. Its essential advantages can be seen as facilitating access to information. With the development of network technology, both advertisers and internet service providers have explored various kinds of marketing approaches, including search engine keyword advertising. Search engine advertising not only increases the ability of advertisers to present their advertising information efficiently, but is also an important revenue stream for internet service providers. For example, almost all of Google’s revenue is generated from advertising and the majority from search advertising.⁵⁶

Generally, search engine technologies improve the efficiency of online communication. When internet users enter words into a search query, the search engine will create a list of the website links, which contain the description that the users are looking for. Based on engine technology, engine search keyword advertising is a kind of service offered by the search engine operators who allow advertisers to purchase the keywords that will trigger the appearance of their website next to the search results. The advertisers can purchase the keywords containing the trademark owned by the third party with which their websites and advertising words are associated. Search engine advertising favors advertisers by allowing the sponsored advertisements to bypass the normal ranking system for non-sponsored links, despite the fact that they are subject to the ranking system among themselves. The advertisers must pay for such sponsored links. Google, the most preferred search engine in the world, charges the keyword advertisers in two ways: actual cost-per-click and cost-per-thousand-impressions. The former means

⁵⁶ Google Posts Strong Earnings and Exceeds Expectations, available at <http://www.nytimes.com/2011/10/14/technology/google-reports-strong-earnings-topping-expectations.html> (last visited 17 December, 2012).

that the charge is calculated based on the number of times internet users click on the advertisement, while the latter is based on the number of times internet users view the advertisement.⁵⁷ Then the advertisers make a decision regarding the maximum billing rate, which affects the ranking of the sponsored advertisements.

The internet has become a fertile area for trademark disputes. Auctions through the internet, domain name disputes, pop-up advertisements and metatags have resulted in a lot of trademark litigation. The story is the same for search engine advertising. Furthermore, the debates have intensified since Google expanded the scope of the keywords including the trademarked terms owned by others, which advertisers could purchase in 2004.⁵⁸ The trademark proprietors worry about the adverse effect brought by such a means of advertising on their trademark function and reputation. As a result, the arguments in such cases mainly focus on trademark infringement, dilution and unfair competition. These illegal conducts do harm to the reputation of well-known trademarks and even result in the decrease of trademark value. The damage generally continues in a long term.⁵⁹ This section will merely focus on the infringement liability of search engine operators, rather than comprehensively analyze advertisers' liability caused by sponsored advertising.

5.3.1.2 Observations on the legislation related to search engine advertising

A. International law

Article 16(1) of the TRIPS Agreement grants an exclusive right to the proprietor of a registered trademark to prevent third parties not having legal authorization 'from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.'⁶⁰ Moreover, such an exclusive right may not conflict with the existing prior rights or affect the compulsory license.⁶¹ This establishes a minimum standard of trademark protection in global society even though member parties are at liberty to afford additional protection. Under this provision, the use of a protected trademark may be actionable if using a mark identical or similar to the trademark in question (1) in commerce, (2) without authorization, (3) for identical or similar goods or services

⁵⁷ Actual Cost-per-click, available at <http://support.google.com/adwords/bin/answer.py?hl=en&answer=6297> (last visited 17 December, 2012); also see Cost-per-Thousand Impressions (CPM) Bidding, available at

<http://support.google.com/adwords/bin/answer.py?hl=en&answer=6310> (last visited 17 December, 2012).

⁵⁸ Parker, Pamela, Google Shifts Trademark Policy, available at <http://www.clickz.com/clickz/news/1703954/google-shifts-trademark-policy> (last visited 17 December, 2012).

⁵⁹ Wu, Handong (2005). Research on Basic Problems in Intellectual Property Regime, Beijing: China Renmin University Press, at 599.

⁶⁰ *Supra* note 32, art. 16(1).

⁶¹ *Id.*

and (4) leading to a likelihood of confusion. The likelihood of confusion can be presumed in cases where an identical sign is used for identical goods or services.⁶²

The foregoing provision applies to ordinary registered marks, while a well-known trademark is awarded extended protection. Article 6 *bis* of the Paris Convention provides that the member states are ‘to refuse or to cancel the registration, and to prohibit the use, of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods. These provisions shall also apply when the essential part of the mark constitutes a reproduction of any such well-known mark or an imitation liable to create confusion therewith.’⁶³ Thus, any registration or the use of a trademark that copies, imitates or translates the well-known trademark should be prohibited if such conduct causes confusion. It is important to note that the protection of the well-known trademark is unrelated to the trademark registration. The likelihood of confusion is still required as an essential element for alleging infringement of a well-known trademark.

Article 16 of the TRIPs Agreement expands the application scope of Article 6bis of the Paris Convention in two respects. First, the protection is extended to include well-known trademarks for service, rather than merely for goods. Second, the protection of a well-known trademark is allowed for non-competing goods and services.⁶⁴ This provision may be applied on condition that (1) the trademark in question has been registered, (2) the use of that trademark indicates an association between the products or services for which the mark at issue is used and the proprietor of the trademark and (3) such use is likely to harm the interests of the proprietor of the trademark.⁶⁵

B. China’s provisions

China’s Trademark Law expressly enumerates the special cases of trademark infringement.⁶⁶ Similar to the stipulation under the TRIPS Agreement, Article 52(1) states that infringement should be determined if a trademark that is identical or similar to the registered trademark is used on the same kind of goods or similar goods without the permission of that trademark proprietor.⁶⁷ However, two obvious defects can be observed, which are inconsistent with Article 16(1) of the TRIPS Agreement. One is that this provision does not serve the protection for service trademarks. This means that only the trademark for goods is the subject matter of protection under this provision. The other defect is that it does not set ‘resulting in the likelihood of confusion’ as a threshold condition for infringement, which raises doubts as to what the primary function of a trademark is. The omission of the wording ‘the likelihood of confusion’ from the necessary condition for trademark infringement indicates that the legislators do not have a keen sense

⁶² *Id.*

⁶³ The Paris Convention, art. 6 *bis*.

⁶⁴ *Supra* note 32, art. 16(2).

⁶⁵ *Id.* art. 16(3).

⁶⁶ China’s Trademark Law, art. 52.

⁶⁷ *Id.* art. 52(1).

of the fact that infringement is to be found only if the use of a sign has an adverse effect on the function of identification of a registered trademark.

Fortunately, the administrative regulations and judicial interpretations remedy the foregoing defects. Above all, the Implementing Regulations of the Trademark Law, a supplement of the Trademark Law, extend the protection from being merely for goods marks to also being for service marks.⁶⁸ Article 2 states that ‘the provisions concerning goods marks herein shall apply to service marks.’⁶⁹ Moreover, the judicial interpretations released by the Supreme People’s Court expressly address the concept of ‘the likelihood of confusion’, suggesting that it is an essential factor when considering trademark infringement.

Article 9 of the Interpretation of the Supreme People’s Court Concerning the Application of Laws in the Trial of Trademark Disputes (2002 Interpretation of the Supreme Court) offers an explanation for ‘identical trademark’ and ‘similar trademark’:

‘An ‘identical trademark’ as referred to in Article 52 (1) of the Trademark Law means a claimed mark that, visually, is not essentially different from the plaintiff’s registered trademark.’⁷⁰

‘A ‘similar trademark’ as referred to in Article 52 (1) of the Trademark Law means a claimed mark containing the words of which the pronunciation, meaning or characters are similar to that of the plaintiff’s trademark, or the picture of which the composition and color are similar to that of the plaintiff’s trademark, or the three-dimensional shape or the combination of colors that is similar to those of the plaintiff’s trademark, if such similarity causes the likelihood of the public’s confusion concerning the source of the goods and services, or causes the public’s presumption of the relationship between the claimed trademark and the plaintiff’s registered trademark.’⁷¹

Likewise, the Supreme Court’s judicial interpretation provides a guideline for determining ‘similar goods’. Under Article 11, ‘similar goods or services’ means goods or services that resemble the goods that the plaintiff’s trademark is used for, as regards their function, usage, consumers and other relevant factors, or that cause the likelihood of the public’s confusion concerning the source of the goods and services, or cause the public’s presumption of the relationship between the claimed goods and the plaintiff.

The opinions of the Supreme Court suggest that in order to prove infringement, the plaintiff bears the burden of proof to establish that there is an ‘identical trademark’ or the ‘likelihood of confusion’ in cases where similar trademarks are used. With regard to the former, according to the TRIPS Agreement, if an identical sign is used for identical goods or services, the likelihood of confusion should be presumed.⁷² As regards the latter, in cases where consumers are confused

⁶⁸ Implementing Regulations of the Trademark Law of the People’s Republic of China, art. 2.

⁶⁹ *Id.*

⁷⁰ The Interpretation of the Supreme People’s Court Concerning the Application of Laws in the Trial of Trademark Disputes, adopted at the 1246th Session of the Judicial Committee of the Supreme People’s Court on October 12, 2002. Docket No. 32 [2002] of Legal Interpretation, art. 9(1).

⁷¹ *Id.* art. 9(2).

⁷² *Supra* note 32, art. 16(1).

concerning the source of the claimed product or service due to the use of the mark in question, the ‘likelihood of confusion’ is considered to exist.

Two other provisions concerning the indirect infringement liability pertain to search engine advertising: Article 52(5) of the Trademark Law and Article 50(2) of the Implementing Regulations of the Trademark Law. The former opens a door to incorporate other possible situations of infringement by stating that the conduct should be considered to be infringement if ‘causing other damage to the exclusive right of a registered trademark of another person.’⁷³ The latter gives as a further explanation that the situations referred to in Article 52(5) of the Trademark Law include the case where any person intentionally provides a third party with facilities such as storage, transportation, postal service and concealment for the purposes of infringing a registered trademark.⁷⁴ Sometimes, these two articles are used by the plaintiff as the legal basis to support its arguments.⁷⁵

As regards protection for a well-known trademark, China’s Trademark Law imitates the approach of the TRIPS Agreement. Unlike Article 52(1), which safeguards registered well-known trademarks, Article 13 stipulates the protection for unregistered well-known trademarks and prevents third parties from using well-known trademarks for different goods or services.⁷⁶ In detail, a mark involving the reproduction, imitation or translation of a well-known trademark that has not been registered in China is prohibited from registration and use if it results in a likelihood of confusion.⁷⁷ Moreover, a mark involving the reproduction, imitation, or translation of a registered well-known trademark, which serves different or dissimilar goods or services, is also prohibited from registration and use if it results in a likelihood of confusion and may harm the interests of the well-known trademark proprietor.⁷⁸

5.3.1.3 Key consideration of the liability of the service providers of search engine advertising

A. The use of trademarks

Under China’s Trademark Law, in order to establish trademark infringement, the plaintiff must show that the defendant used a sign identical or similar to the plaintiff’s trademark. The claimed use also has to satisfy several cumulative conditions: (1) the use is unauthorized, (2) the use is for goods or services that are identical or similar to those for which the trademark has been registered and (3) the use leads to a likelihood of confusion. Moreover, Article 3 of the Implementing Regulations of the Trademark Law gives a further explanation of the use of trademarks, namely the use of trademarks on goods, packages or containers thereof and on trading instruments, or use of trademarks in advertisements, exhibitions and

⁷³ China’s Trademark Law, art. 52(5).

⁷⁴ Implementing Regulations of the Trademark Law of the People’s Republic of China, art. 50(2).

⁷⁵ For example, in *Dazhong Transportation Co. Ltd. v. Beijing Baidu Ltd.*, the plaintiff claimed infringement by the defendants based on these two articles. *Dazhong Transportation Co. Ltd. v. Beijing Baidu Wangxun Ltd.*, Higher People’s Court of Shanghai (2008) Hu Gao Min San (Zhi) Zhong Zi Di 116 Hao.

⁷⁶ *Supra* note 66, art. 13.

⁷⁷ *Id.* art. 13(1).

⁷⁸ *Id.* art. 13(2).

other commercial activities.⁷⁹ On the one hand, this provision attributes the use for advertisements to the use of trademarks, and the term ‘other commercial activities’ indicates that the list of the uses of trademarks herein is not exhaustive, which leaves an open door for other uses in commerce. On the other hand, it is unclear whether the use of trademarks as keywords for search engine advertising falls into the category of advertisements or the uses in ‘other commercial activities’. The issue is substantially important in analyzing infringements of trademarks. If the answer were ‘not’ then, naturally, the internet service providers of engine search advertising would not be liable for infringement.

Chinese judicial precedents do not give a definite answer to this question. In *Dazhong Transportation v. Beijing Baidu* (hereafter ‘*Beijing Baidu*’),⁸⁰ the plaintiff claimed that the defendants who were the search engine operators infringed its registered trademark. In this case, Baidu’s advertising platform allowed advertisers to purchase keywords that would trigger the appearance of their advertising links once such keywords were entered in the search box. The evidence showed that if the keywords ‘Shanghai Dazhong Removal & Logistics Ltd.’ were entered as a search term, 13 links containing such keywords appeared in the left column of the first results page. Below each link, the information regarding the content and web address of the linked websites was provided. The top two links were titled ‘Shanghai Dazhong Removal & Logistics Ltd.’, at the end of which the wording ‘popularization’ was attached. On the right of this web page, there were 8 web links containing some part of the search term, such as ‘Dazhong’, ‘Removal’ or ‘Logistics’. The plaintiff alleged that the provision of services for these sponsored advertisements constituted trademark infringement, referring to Article 50(2) of the Implementing Regulations of the Trademark Law, under which the provision of facilities for illegal uses of a registered trademark should be regarded as infringement.

In examining the liability of the defendants, the court held that the defendants’ keyword advertising services did not constitute direct trademark infringement, based on its findings that the information of the sponsored advertisements was provided by the advertisers but not by the defendants themselves. As regards the plaintiff’s argument that the defendants violated the foregoing Article 50(2), the court rejected this and held that no evidence could prove the defendants’ intent to facilitate trademark infringement by third parties, and the search engine services primarily served the location online rather than trademark infringement. However, the court admitted that the defendants should be liable as joint tort-feasors based on civil law.

Regretfully, the court circumvented the question whether the search engine operators, who allowed the advertisers to use another’s registered trademarks as keyword terms and display the sponsored advertisements, used the trademarks in a manner that is prohibited under the Trademark Law. It might be said that the court’s opinion implies a negative answer to this issue because it considered the fact that ‘the information in the sponsored advertisements was provided by the advertisers but not by the defendants themselves’ as an essential factor to determine the establishment of direct infringement. Despite this, it is not sensible because it arbitrarily denies any possibilities that the service providers of search

⁷⁹ *Supra* note 74, art. 3.

⁸⁰ *Dazhong Transportation Co. Ltd. v. Beijing Baidu Wangxun Ltd.*, Higher People’s Court of Shanghai (2008) Hu Gao Min San (Zhi) Zhong Zi Di 116 Hao.

engine advertising would conduct infringement itself before applying the trademark infringement test.

Another case concerning search engine advertising in China is *Gangyi Ltd. v. The 3rd Electrical Equipment Factory & Beijing Guxiang Ltd.* (hereafter *Google Beijing*).⁸¹ Beijing Guxiang is responsible for operating the website ‘www.google.cn.’ Gangyi is the proprietor of the registered trademark ‘绿岛风 nedfon’. When Google’s users entered the keyword ‘绿岛风’ in the search bar, the sponsored link entitled ‘绿岛风-The Third Electrical Equipment Factory’ appeared on the right-hand side alongside the natural search results, which ranked first among all the sponsored advertisements. The products manufactured by The Third Electrical Equipment Factory were similar to ones manufactured by Gangyi. Therefore, Gangyi brought a suit and claimed that two defendants infringed its trademark. Finally, Guxiang was held jointly liable for trademark infringement. However, the court did not devote any attention to the interpretation of ‘the use of trademarks’.

This issue has also drawn considerable attention in the EU. *Google France* is a representative case concerning search engine advertising.⁸² In this case, Google offered a paid referencing service, through which the sponsored links were displayed either on the right side of the result webpages or on the upper part of the screen, separated from the natural results.⁸³ In 2003, Louis Vuitton found that Google displayed advertising links directing to websites selling imitation products when the Louis Vuitton’s trademark was entered as a search term.⁸⁴ Louis Vuitton filed a suit against Google before the French regional court and claimed that Google had infringed its trademark.⁸⁵ The court finally found Google guilty of trademark infringement and the Court of Appeal affirmed the ruling.⁸⁶ Later, Google brought an appeal before the Cour de cassation.⁸⁷ In order to ask for clarification on several issues of EU law, the Cour de cassation referred three questions to the European Court of Justice (ECJ) and requested a ruling on the matter.⁸⁸ The first question is whether copying or imitating registered trademarks in the paid referencing service is the use of trademarks that the proprietor is entitled to prevent under the 1989 Trademark Directive.⁸⁹ The ECJ found that Google itself had not used the trademarks, by reasoning that the use of trademarks within the terms of Article 5 of the Trademark Directive ‘implies, at the very least, that that third party uses the sign *in its own commercial communication*.’⁹⁰ Based

⁸¹ *Gangyi Electrical Equipment Ltd. v. The 3rd Electrical Equipment Factory of Guangzhou & Beijing Guxiang Ltd., the Medium People’s Court of Guangzhou, (2008) Sui Zhong Fa San Zhong Zi Di 119 Hao.*

⁸² *Google Inc. v Louis Vuitton Malletier SA, Case C-236/08, Celex numner 608CJ0236.*

⁸³ *Id.* ¶ 23.

⁸⁴ *Id.* ¶ 29.

⁸⁵ *Id.* ¶ 30-31.

⁸⁶ *Id.* ¶ 31.

⁸⁷ *Id.*

⁸⁸ *Id.* ¶ 32.

⁸⁹ *Id.*

⁹⁰ *Id.* ¶ 56.

on this finding, the ECJ considered it unnecessary to apply the other prongs of the trademark infringement test.⁹¹

Traditionally, a four-step test is applied to establish trademark infringement in the EU. First, establish whether the defendant's use has been authorized.⁹² Second, establish whether the use has taken place 'in the course of trade.'⁹³ Third, establish whether the use is related to goods or services that are identical or similar to those covered by the registered trademark.⁹⁴ Fourth, establish whether the use affects or is liable to affect the fundamental functions of the trademark,⁹⁵ such as source identification function, product distinction function, quality or guarantee function, goodwill and advertisements function and so on. In *Google France*, the ECJ adopted the new criterion 'own commercial communication' in the 'use in the course of trade' prong. The term 'own commercial communication' does not derive from the 1989 Trademark Directive or from the antecedent ECJ case law, but appears in the Electronic Commerce Directive.⁹⁶ Under the Electronic Commerce Directive the phrase 'commercial communication' means 'any form of communication designed to promote, directly or indirectly, the goods, services or image of a company, organization or person pursuing a commercial, industrial or craft activity or exercising a regulated profession.'⁹⁷ Relying on this provision, the ECJ held that the fact that Google offered services necessary for the use of a trademark did not mean that Google itself used the sign.

Nevertheless, the ECJ's approach is seriously criticized because it limits liability to the cases where third parties use the sign in question to promote their own goods or services. Such an approach would result in the danger of future misbehavior. An article includes an incisive discussion as follows:

'[S]uppose that, as a bonus for its most loyal clients, Google modified its natural results so that on occasion the link to a trademark proprietor's website diverts users to an advertiser's page. This behavior would surely cause significant confusion, yet it would be difficult to attribute to the underlying advertiser, as opposed to Google itself. Under the [ECJ]'s analysis, however, Google would still be immune from trademark infringement liability.'⁹⁸

Thus, the ECJ's opinions indicate that the liability of providers who offer search engine services cannot be established in themselves without their clients' misconduct. The Advocate General has a very different opinion about this issue.⁹⁹ Poiars Maduro states that Google's use of trademarks should be separated into

⁹¹ *Id.* ¶ 51-59.

⁹² *Case C-533/06, O2 Holdings*, ¶ 57.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ Directive 2000/31/EC of the European Parliament and of the Council of June 8, 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market (Directive on Electronic Commerce), 2000 O. J. (L 178/1).

⁹⁷ *Id.* art. 2(f).

⁹⁸ European Court of Justice Holds that Search Engines Do Not Infringe Trademarks. — Joined Cases C-236/08, C-237/08 & C-238/08, *Google France SARL v. Louis Vuitton Malletier SA*, 124 Harvard Law Review 648, 654 (2010).

⁹⁹ Opinion of Advocate General Poiars Maduro, *Google France*, 2010 ECJ EUR-Lex LEXIS 119 (Sept. 22, 2009).

two parts: one when Google allows advertisers to select the keywords containing trademarks and the other when Google displays such advertisements triggered by the keywords.¹⁰⁰ The Advocate General will then separately examine in these two parts whether each use has fulfilled the four-prong test.¹⁰¹

In comparison to the ECJ's reasoning, the advisory opinion of the Advocate General seems more sensible. Above all, it follows the traditional approach, the four-prong test, to analyze the issues regarding search engine advertising, rather than creating a new controversial criterion. Second, it highlights that the test should be based on the fact whether the use harms the essential function of trademarks - identifying the source of goods or services. Third, it does not absolutely exclude the possibility that the providers of search engine advertising would conduct trademark infringement themselves by denying their uses are covered by the Trademark Directive. Instead, it suggests that the uses should be within the category of uses stipulated in the Trademark Directive, and the liability should be examined by applying the four-prong test on a case-by-case basis.

More discussion can be found in US case law. The US courts have outlined the conditions for finding infringement under §1114 of the Lanham Act: (1) the trademark must be valid; (2) such use of trademarks must happen in commerce and in connection with the sale or advertising of goods or services; (3) the use must be unauthorized; and (4) this use must result in a likelihood of confusion.¹⁰² The debates about infringement in respect of search engine advertising centered mainly on the second and fourth factors.

Traditionally, the second factor is understood to be that the user should be liable only if it uses the plaintiff's trademark as a sign, and serves as a threshold filter to infringement.¹⁰³ Not surprisingly, some courts and scholars support a strict interpretation of 'the use in commerce'. In *Interactive Products Corporation v. a2z Mobile Office Solutions, Inc.*, where the plaintiff's trademark was used in the post-domain path of a URL, the court refused to incorporate the non-trademark use into the category of 'use in commerce'.¹⁰⁴ The court stated that if the defendants used the trademark in a non-mark manner, the rules of trademark infringement should not apply.¹⁰⁵ In *Ringling Bros.- Barnum*, the court held that 'broad interpretation of statutes would undermine the balance between private and public rights' of the existing trademark law.¹⁰⁶ Likewise, the court in the case of *Lockheed Martin v. Network Solutions* echoed the approach of strictly interpreting 'use' based on the

¹⁰⁰ *Id.* ¶55.

¹⁰¹ *Id.* ¶66-92.

¹⁰² *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* 543 U.S. 111, 117 (2004).

¹⁰³ Margreth Barrett, *Internet Trademark Suits and the Demise of 'Trademark Use'*, 39 U.C. Davis L. REV. 371, 376 (2006); Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 Emory L.J. 507, 509 (2005); Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 782 (2004).

¹⁰⁴ *Interactive Products Corporation v. a2z Mobile Office Solutions, Inc.*, 326 f.3d 687 (6th Cir. 2003).

¹⁰⁵ *Id.* at 698.

¹⁰⁶ *Ringling Bros.- Barnum & Bailey Combines Shows, Inc. v. Utah Division of Travel Development*, 170 F. 3d 499, 455 (4th Cir. 1999).

concern that expanding ‘use’ would place a domain name registrar, such as Network Solutions, in a ‘gatekeeper’ position.¹⁰⁷

The supporters of the traditional trademark use theory argue that only cases regarding whether the defendant uses the trademark of others as a mark could interfere with the understanding of that trademark.¹⁰⁸ Nevertheless, this sentiment runs counter to the instance where the use of a trademark other than as a mark is sufficient to cause consumers’ confusion. In *KP Permanent*, the US Supreme Court held that descriptive use of a trademark other than as a mark could serve the fair use defense, even though such use were to result in a likelihood of confusion.¹⁰⁹ This statement indicates that non-trademark use could cause confusion.

The conventional use theory attempts to prevent the unwarranted expansion of trademark rights by strictly limiting the manner of trademark use. It has perhaps contributed for a long time to striking a balance between private and public interests. However, this theory does not embrace the proactive view that trademarks have been playing a multitude of roles in modern society. They serve the self-identity, political speech, product comparison, information collection and organization, and so on.¹¹⁰ More attention should be paid to making trademark law capable of governing contemporary consumers’ habits.

In contrast, some courts have liberally interpreted the phrase ‘use in commerce’. In *Playboy v. Netscape*, the Ninth Circuit quickly dismissed the issue concerning ‘use’.¹¹¹ Netscape was an internet service provider that offered a paid service of banner advertisements.¹¹² When internet users searched the related terms, the banner advertisements would appear on the top or side of the search result pages.¹¹³ Netscape required adult-oriented companies to link their advertisements to the words ‘playboy’ and ‘playmate’, which were the plaintiff’s trademarked terms.¹¹⁴ Therefore, the plaintiff claimed that the defendant’s banner advertising infringed its registered trademark.¹¹⁵ The court affirmed that the defendant had used the trademark in commerce by reasoning that ‘federal jurisdiction over trademark cases rest[s] on the Commerce Clause, sweep[s] as broadly as possible, and clearly encompass[es] the circumstances of this case.’¹¹⁶

Similarly, in *GEICO v. Google*, the Eastern District of Virginia presented a liberal opinion on the definition of ‘use’.¹¹⁷ In this case, Google sold keyword advertising so that when a consumer entered a particular keyword, the links to websites of sponsored advertisements would be displayed alongside the natural

¹⁰⁷ *Lockheed Martine v. Network Solutions, Inc.*, 141 F. Supp. 2d 648, 655 (N.D. Tex., 2001).

¹⁰⁸ *Supra* note 103, Stacey L. Dogan & Mark A. Lemley (2004), at 810-11.

¹⁰⁹ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* 543 U.S. 111, 123 (2004).

¹¹⁰ Dinwoodie, Graeme B. & Janis, Mark D., *Confusion Over Use: Contextualism in Trademark Law*, 92 Iowa Law Review 1597, 1659 (2007).

¹¹¹ *Playboy Enters., Inc. v. Netscape Commc’ns. Corp.* 354 F.3d 1020, 1024.

¹¹² *Id.* at 1023.

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 1024.

¹¹⁷ *GEICO v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

search results.¹¹⁸ The plaintiff, the proprietor of the trademarks ‘GEICO’ and ‘GEICO DIRECT’, alleged that Google’s actions constituted infringement because Google sold keywords and displayed advertisements containing the term ‘GEICO’.¹¹⁹ Google argued that the plaintiff failed to support its claim that the defendants’ uses of the marks were ‘in commerce’ and ‘in connection with the sale, offering for sale, distribution, or advertising of goods and services’.¹²⁰ Google further asserted that the uses of trademarks only occurred in running the internal computer programs, and such invisible uses could not cause consumers’ confusion.¹²¹ The court rejected Google’s argument and held that some precedents had affirmed that the use of trademarks in ‘metatags’, which were invisible techniques for retrieving and indexing the information, constituted a use in commerce under the Lanham Act.¹²²

In *Rescuecom Corp. v. Google Inc.*, the Second Circuit explained why the use of trademarks involved in search engine advertising belonged to the ‘use in commerce’ under the Lanham Act.¹²³ In this case, ‘Rescuecom’ was a registered trademark of the plaintiff.¹²⁴ Google allowed advertisers to purchase the keyword ‘Rescuecom’ that would trigger the sponsored links of their websites when internet users entered this word as a search term.¹²⁵ The plaintiff brought a suit against the defendant, claiming trademark infringement.¹²⁶ In the first instance, the Northern District of New York dismissed the plaintiff’s action against Google by reasoning that the plaintiff failed to establish that Google’s use of its mark was a ‘use in commerce’.¹²⁷ The plaintiff appealed.¹²⁸

The Second Circuit addressed the fact that the essence of Google’s search engine advertising was providing a list of sponsored links and showing context-based advertising in response to search requests of internet users.¹²⁹ Based on a re-examination of ‘use in commerce’, the court overturned the decision of the Northern District of New York and held that it misunderstood the holding of *1-800 Contacts, Inc. v. WhenU.Com, Inc.* (‘1-800 Contacts’).¹³⁰ The Second Circuit reiterated the two key elements of the decision in *1-800 Contacts*, where the plaintiff failed to prove the defendant’s use was within the definition of the Lanham Act. One is that the defendant did not use the mark because the pop-up advertisements were triggered by the plaintiff’s website address but not the plaintiff’s mark.¹³¹ The other is that the defendant did not allow advertisers to

¹¹⁸ *Id.* at 702.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.* at 702-03.

¹²² *Id.* at 703; also see *Bihari v. Gross*, 119 F.Supp.2d 309 (S.D.N.Y.2000); *Playboy Enterprises, Inc. v. Asiafocus Int’l, Inc.*, 1998 WL 724000 (E.D.Va. April 10, 1998).

¹²³ *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 125-30 (2nd Cir. 2009).

¹²⁴ *Id.* at 125

¹²⁵ *Id.*

¹²⁶ *Id.* at 124

¹²⁷ *Id.*

¹²⁸ *Id.*

¹²⁹ *Id.* at 125.

¹³⁰ *Id.* at 124.; *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400 (2d Cir.2005).

¹³¹ *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 128 (2nd Cir. 2009).

purchase keywords to trigger their advertisements so that the pop-up advertisements appeared randomly.¹³² In contrast, regarding these two important elements, the case of *Rescuecom Corp. v. Google Inc.* was sharply different from *1-800 Contacts*. First, Google sold and displayed Rescuecom's mark to its advertising clients; and second, Google recommended advertisers to purchase keywords to trigger their advertisements.¹³³ Based on these findings, the court held that Google's use was definitely 'use in commerce'.¹³⁴

In sum, the recent US cases have opened the prospect that liability in respect of search engine advertising can be established when providers of advertising services sell another's registered trademarks as keywords without authorization. But the establishment of such liability depends on other multi-factor tests. This approach is of significance on the grounds that it makes trademark law more adaptable to the expansion of trademark functions.

B. Likelihood of confusion

Another key element for establishing a trademark infringement claim in China is whether the defendant's use of the mark results in a likelihood of confusion. As discussed earlier, although China's Trademark Law does not expressly state the concept of 'a likelihood of confusion', the Supreme People's Court has made the rules by being explicit about it.

In the two cases concerning search engine advertising, namely *Beijing Baidu* and *Google Beijing*, China's courts did not go further to examine the element of 'likelihood of confusion' after they drew the conclusion that the defendants did not directly infringe the trademark rights because the content of the advertisements was not offered by the defendants themselves. Supposing that the courts adopt a proactive and liberal interpretation of the phrase 'using the mark in commercial activities' and need to apply 'the likelihood of confusion' test, how should the courts define 'likelihood of confusion' in the keyword advertising cases?

In addition to Articles 9, 10 and 11 of the Interpretation of the Supreme People's Court Concerning the Application of Laws in the Trial of Trademark Disputes, China's courts have articulated the factors that are relevant to a 'likelihood of confusion' inquiry. In *French Lacoste Corp. Ltd. v. Singapore Crocodile Int. Pte. Ltd. & Shanghai Dongfang Eyu Ltd.*, the Supreme Court stated that the similar marks under the Trademark Law refer to those marks that can likely confuse consumers regarding the source of the goods and services, or the affiliation between the claimed marks and the proprietors of registered trademarks.¹³⁵ In examining the 'likelihood of confusion', the complex factual assessments should be involved, including: (1) the similarity of the two marks; (2) the similarity of the goods or services that the marks are used for; (3) the defendant's intent; (4) the history and current situation of the actual use of the marks in the marketplace; and (5) other relevant market factors.¹³⁶ The Supreme

¹³² *Id.* at 129.

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *French Lacoste Corp. Ltd. v. Singapore Crocodile Int. Pte. Ltd. & Shanghai Dongfang Eyu Ltd.*, *The Supreme People's Court*, (2009) *Min San Zhong Zi Di 3 Hao*.

¹³⁶ *Id.*

Court also held that in cases where the similarity only lies in the combined elements of the marks, but is insufficient to result in a likelihood of confusion, the infringement does not exist.¹³⁷ These opinions enlighten the courts as to the standard of the 'likelihood of confusion', which is applicable in determining the cases of searching engine advertising.

A more illustrative discussion can be found in EU and US judicial precedents. In *Google France*, the Advocate General states that in order to examine the 'likelihood of confusion', the essential question is whether the links may lead consumers to confuse the origin of the goods or services offered on those sites even before consumers read the content of those websites.¹³⁸ And such likelihood of confusion must not be presumed but instead must actually exist.¹³⁹ In other words, the confusion is not established when the internet users have become aware that they must sift through the enormous natural results to obtain the information they are searching for, and sometimes they even intentionally look for other competitor's websites through keyword search.¹⁴⁰ Therefore, Poiares Madur argues that sponsored links are insufficient to result in confusion because consumers only decide on the origin of the goods or services by reading the description and entering the advertisers' websites.¹⁴¹

It is definitely correct to apply the 'likelihood of confusion' test thereto. However, this approach does not respond to the new challenge in search advertising cases. Different from the traditional trademark infringement cases, the challenge in search advertising cases is that the trademark is usually used to divert consumers to a competitor's website, rather than used merely to deceive a consumer as to the source of goods or services. The risk of confusion could be caused prior to the moment that the internet users leave the results page. Just because of such confusion, the consumers are being diverted to the competitors' websites. In this respect, the US doctrine of initial interest confusion solves this difficulty.

The doctrine of initial interest confusion acknowledges that consumers could be misled into taking an interest in the goods or services of a firm that is using a mark owned by another competitor or one perplexingly similar to it.¹⁴² The establishment of likelihood of confusion is irrelevant to the fact whether such confusion is dispelled by examination before purchase.¹⁴³ Although there is no concept of initial interest confusion in traditional EU trademark law, the EU has been accepting it.¹⁴⁴ In *Google France*, in analyzing the adverse effect on the

¹³⁷ *Id.*

¹³⁸ *Opinion of Advocate General Poiares Maduro, Google France, 2010 ECJ EUR-Lex LEXIS 119 (Sept. 22, 2009).* ¶84.

¹³⁹ *Id.* ¶84.

¹⁴⁰ *Id.* ¶87.

¹⁴¹ *Id.* ¶89.

¹⁴² Saunders, Kurt M., *Confusion is the Key: A Trademark Law Analysis of Keyword Banner Advertising*, 71 *Fordham Law Review* 543, 551 (2002).

¹⁴³ *Id.*

¹⁴⁴ In *O2 Holdings Ltd v. Hutchison 3G Ltd*, the ECJ held that there was no likelihood of confusion because the national court had found that the use of the sign was not confusing in the comparative advertisement from a whole perspective. However, it implied a probability that the use of the sign in the context of the comparative advertisement would lead to a likelihood of confusion under

function of indicating origin, the ECJ focused on the moment when the sponsored link appeared on the screen immediately after entry of the keyword.¹⁴⁵ It affirmed that internet users might err as to the origin of the goods or services concerned at the time when they viewed the advertising links, regardless of whether or not the links contributed to a sale and whether or not they remained confused in actual purchases.¹⁴⁶

In the US, the rule of initial interest confusion has been an important legal basis of judicial decisions involving trademark infringement online, such as cybersquatting, pop-up advertising and meta tags.¹⁴⁷ In *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, the Ninth Circuit Court analyzed the nature of using another's trademark as meta tags by applying the doctrine of initial interest confusion. Brookfield Communications' business involved gathering and selling information about the entertainment industry and it owned the registered trademark, MOVIEBUFF, for its software.¹⁴⁸ Brookfield Communications found that the defendant intended to use the word MOVIEBUFF in its meta tags and create a new website as moviebuff.com.¹⁴⁹ Brookfield Communications subsequently applied for a preprimary injunction against the defendant.¹⁵⁰

Meta tags are HTML codes that are used as official tags of a web page. Meta tags are invisible for internet users but they remain important to search engines, because search engines are usually referring to the description of meta tags when deciding which results are relevant to show users who are searching for information. The court deliberately explained how the initial interest confusion would be generated in using another's trademark in the meta tags:

trademark law. *Case C-533/06, [2008] ECR I-4231, ¶59*. In another case, the ECJ ruled that under Article 5(1) of the Directive, 'a trade mark proprietor is entitled to prohibit an advertiser from advertising, on the basis of a keyword identical, or similar to, that mark, which that advertiser has selected for an internet referencing service without the consent of the proprietor, in relation to goods or services identical to those in respect of which the mark is registered, where that advertising does not enable average internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade mark or from an undertaking economically linked to it or, on the contrary, originate from a third party.' *Case C-278/08 Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günther Guni and trekking.at Reisen GmbH., [2010] ECR I-0000, ¶17*. This means that there may be a likelihood of confusion caused by search engine advertising, whether or not the advertisement leads to an actual sale and whether or not the consumer remains confused in the purchase of goods or services in question.

¹⁴⁵ *Google Inc. v. Louis Vuitton Malletier SA, Case C-236/08, Celex nummer 608CJ0236, ¶85-86.*

¹⁴⁶ *Id.*

¹⁴⁷ See *Wash. Speakers Bureau, Inc. v. Leading Auth., Inc.*, 49 F. Supp. 2d 496 (E.D. Va. 1999); *Brookfield Communications, Inc. v. West Coast Entertainment Corp.* 174 F. 3d 1036 (9th Cir. 1999).

¹⁴⁸ *Id. Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, at 1042.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

Using another's trademark in one's meta tags is much like posting a sign with another's trademark in front of one's store. Suppose West Coast's competitor (let's call it 'Blockbuster') puts up a billboard on a highway reading-'West Coast Video: 2 miles ahead at Exit 7'-where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast's store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth the trouble to continue searching for West Coast since there is a Blockbuster right there.¹⁵¹

The court found that there was confusion when the search results were displayed by the search engine, because the defendant had the intent to divert consumers to its website and unfairly benefited from the reputation of another's trademark.¹⁵² This decision sheds light on applying the doctrine of initial interest confusion in trademark suits involving online infringement.

Based on the doctrine of initial interest confusion, the liability of search engine providers exists if the sponsored links actually result in a likelihood of confusion. Generally, the more deceptive the sponsored links are, the more likely a likelihood of confusion is to be found. There are several factors contributing to such confusion, including the featured placement of links, the affects to the natural search results, the level of consumer sophistication and so on.

The featured placement might result in more likelihood of confusion. Because search engine advertising is a kind of paid referencing service, the position of the sponsored link depends on the payment for a featured placement. Suppose that a consumer is searching for 'Ferrero' chocolate and in response a featured placement link appears, listed at the top of the natural search results with the description 'click here for the most delicious chocolate'. Even though the context of the advertising link does not directly contain the term 'Ferrero', a consumer who originally intend to look for the information of 'Ferrero' chocolate might unwittingly be diverted to a competitor's website. Different from banner advertising, the featured placement link that appears at a higher level of the organic result list seems more relevant to the search. The featured placement aims to make consumers believe that they are traveling to the website that they are seeking when they are in fact visiting another. Therefore, in cases where organic results are affected, consumers are more likely to be confused in respect of the affiliation between the competitor's website and the proprietor of the trademark.

In contrast, if search engine advertising does not affect the natural results but only displays an advertisement alongside those results with a striking banner, there is less likelihood of this resulting in consumers' confusion. In the *FragranceNet.com* case, the court explained the mere diversion by analogy with locating a similar store next to another store that consumers are searching.¹⁵³ The court held that 'as long as this did not mislead the consumer under false pretenses to its location, the mere fact that it decided to place itself in close proximity to [the store of the trademark proprietor], in an effort to potentially draw customers in

¹⁵¹ *Id.* at 1064.

¹⁵² *Id.* at 1062.

¹⁵³ *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F. Supp. 2d 545, 551 (E.D.N.Y).

search of [goods or services], is not ‘passing off’.¹⁵⁴ More importantly, many consumers choose to ignore banner advertising because they do not assume that the banner advertising is relevant to the trademark typed as the search query or even do not believe it to be useful at all.¹⁵⁵ In this case, there is no likelihood of confusion.

Besides, the level of consumer sophistication is an important factor in examining the likelihood of confusion. The level of consumer sophistication means the consumers’ tendency and ability to inspect the information offered by the search engine advertising. It is normal that some internet users are used to assessing and sorting through useful information among the huge number of search results. As Rajzer states, ‘many internet users have learned how to look critically through search engine result lists to find exactly what they are looking for and weed out unwanted and irrelevant results. Therefore, it should come as no surprise that internet users have gained a higher level of sophistication about the internet and can usually determine, on their own, the source or validity of material on web pages.’¹⁵⁶ In addition, some sophisticated consumers would like to search for competitors in the particular product category by using trademarks as a search query. Thus, it is hard to establish the likelihood of confusion. Nevertheless, sometimes, search engine advertising might tempt and confuse sophisticated consumers. In *Rosetta Stone v. Google*, the court found that the evidence was sufficient to prove consumers’ confusion concerning the affiliation between the sponsored links and Rosetta Stone even though the consumers were well-educated and sophisticated in searching and learning about the plaintiff’s products.¹⁵⁷ Therefore, consumer sophistication cannot preclude the likelihood of confusion.

In summary, if China’s courts need to evaluate the ‘likelihood of confusion’ in cases of search engine advertising as the author recommends, the key point would be whether the sponsored links result in consumers’ confusion regarding the source of the goods or services, or the affiliation between the trademark as a search keyword and advertisers’ goods or services. It is definitely correct to implement traditional factual assessments that were proposed by the Supreme People’s Court in *French Lacoste Corp. Ltd. v. Singapore Crocodile Int. Pte. Ltd. & Shanghai Dongfang Eyu Ltd.* In addition, the special factors concerning online advertisements should be taken into account, such as the effects on organic search results, featured placement, the level of consumer sophistication and so on.

C. Secondary liability

In China, the rule of joint tort is another legal basis for establishing the liability of search engine operators. If direct infringement is conducted by utilizing internet services and the search engine operators either together or individually

¹⁵⁴ *Id.*

¹⁵⁵ Dunaevsky, Yelena, *Don’t Confuse Metatags with Initial Interest Confusion*, 29 Fordham Urb. L. J. 1349, 1384-84 (2002).

¹⁵⁶ Rajzer, Julie A., *Misunderstanding the Internet: How Courts are Overprotecting Trademarks Used in Metatags*, L. Rev. M.S.U. – D.C.L. 427, 463 (2001).

¹⁵⁷ *Stone, Rosetta, Inc. v. Google, Inc.*, ___ F.3d. ___, 2012 WL 1155143 (4th Cir. April 9 2012), available at <http://pacer.ca4.uscourts.gov/opinion.pdf/102007.P.pdf> (last visited 17 July, 2012).

contribute to causing damage with joint intention or negligence in such a case of infringement, the victim could claim joint tort.

Under China's Civil Law, joint tort means that two or more persons jointly prejudice another person's legitimate rights and thereby cause damage.¹⁵⁸ However, the 1986 Civil Law does not elaborate this definition further by explaining the conditions for constituting a joint tort. An interpretation issued by the Supreme People's Court expressly states that a person who abets or assists another person in committing a tort is a joint tort-feasor and establishes joint and several liability.¹⁵⁹ China's Tort Law divides joint tort into three categories: joint conduct, joint danger and joint cause.¹⁶⁰ The case of abetting or assisting in committing a tort is attributed to joint conduct.¹⁶¹

In *Beijing Baidu*, after the court finding that the advertisers conducted trademark infringement and unfair competition, the court held that Baidu was a joint tort-feasor because it assisted the advertisers to infringe trademark rights by offering sponsored links with a subjective fault.¹⁶² Starting from the point of the fault principle, the court concluded that Baidu had breached the duty of care based on two findings. First, the search engine advertising was a paid referencing service; consequently, Baidu had an obligation to investigate whether advertisers' use of keywords was lawful, but it had failed to take measures to prevent infringement. Second, the claimed keyword term 'Dazhong' was a well-known brand in the removal business and the plaintiff had goodwill in Shanghai. The Shanghai branch of Baidu that was responsible for sponsored search advertising had reasonable grounds to know that there was likely an infringement when such a well-known trademark was selected as a keyword by the advertisers. As a result, Baidu had a duty to examine their business qualification in this case. Likewise, in *Google Beijing*, the court reasoned in a similar way.¹⁶³

Leaving aside other elements of joint tort, the discussion herein concentrates on what factors contribute to the fault of internet advertising service providers. The foregoing two judicial precedents address two points: paid services and well-known trademarks. The logic behind the courts' decisions is that payment for advertising services creates the obligation of search engine operators to investigate the legitimacy of advertisements at *prima facie*, and that selecting a well-known

¹⁵⁸ General Principles of the Civil Law of the People's Republic of China (promulgated by the National People's Congress on April 12, 1986, effective on Jan. 1, 1987), art. 30.

¹⁵⁹ Opinions of the Supreme People's Court on Several Issues concerning the Implementation of the General Principles of the Civil Law of the People's Republic of China (For Trial Implementation) (promulgated by the Supreme People's Court on Jan. 26, 1988, effective on the same date), art. 148(1).

¹⁶⁰ Tort Liability Law of the People's Republic of China (promulgated by the Standing Commission, National People's Congress on Dec. 26, 2009, effective on July 1, 2010), art. 9.

¹⁶¹ *Id.*

¹⁶² *Dazhong Transportation Co. Ltd. v. Beijing Baidu Wangxun Ltd.*, Higher People's Court of Shanghai (2008) Hu Gao Min San (Zhi) Zhong Zi Di 116 Hao.

¹⁶³ *Gangyi Electrical Equipment Ltd. v. The 3rd Electrical Equipment Factory of Guangzhou & Beijing Guxiang Ltd.*, the Medium People's Court of Guangzhou, (2008) Sui Zhong Fa San Zhong Zi Di 119 Hao.

trademark as a keyword indicates search engine operators' knowledge about potential infringement. Nevertheless, such viewpoints are questionable.

First, the obligation of investigation cannot be inferred from the payment for search engine advertising. Different from traditional advertisements, search engine advertising is an information location tool in a very real sense. It is a technical, automatic and passive process in response to the search query entered by internet users. The search engine operators generally do not contribute to the creation of advertisements, other than the case where they are active in helping their clients design or select keywords. Therefore, the payment for search engine operators is irrelevant to liability; rather, the key factor is whether they have done something beyond their neutral role. The ECJ has expressed a similar sentiment in *Google France*, that in deciding liability limitation, the necessary thing is to examine whether the role played by that search engine operator is neutral.¹⁶⁴ The mere fact that the referencing service is subject to payment cannot have an adverse effect on granting Google exemption from liability.¹⁶⁵

Second, the court drew the wrong conclusion that Baidu had known that the advertiser was selecting a well-known trademark. Under China's trademark system, a well-known trademark refers to a trademark widely known by the relevant public and highly reputable in China.¹⁶⁶ This definition creates two conditions for being a well-known trademark: (1) being widely known by the relevant public and (2) having a high reputation in China. The first condition concerns the degree of public recognition in the trading areas of the trademark. It does not require a well-known trademark to be known by everyone, but only requires it to be widely known by the relevant public. The 'relevant public' includes but is not limited to purchasers, potential purchasers, users and other persons who are involved in the production and trading of the marked goods or services.¹⁶⁷ In *Beijing Baidu*, the 'Dazhong' brand is a well-known mark in the removal and logistics business; whereas Baidu is an internet service provider so that it cannot be regarded as the relevant public of the 'Dazhong' brand in any case. As a result, it is not surprising that Baidu had little knowledge about the mark 'Dazhong'. The court's opinion in *Beijing Baidu* mistakenly led it to conclude that internet service providers should know all of the well-known trademarks in China, which is seriously wrong.

Third, it is incorrect to equate using well-known trademarks with having actual knowledge of or having reasonable grounds to be aware of the possibility of infringement. In the online world, a mark may be used in several manners. Apart from being used as a sign in commerce, trademarks may serve to product criticism and comment. Such nominative usages are allowed. Suppose a website, which provides a forum for criticism and discussion about goods or services, selects a well-known trademark in the relevant trading area as a keyword for its sponsored advertising. Are there reasonable grounds to believe such a use would infringe the trademark? Obviously, in the *Beijing Baidu* case, the court imposed excessive duties on an internet service provider.

¹⁶⁴ *Google Inc. v Louis Vuitton Malletier SA*, Case C-236/08, *Celex nummer 608CJ0236*, ¶114.

¹⁶⁵ *Id.* ¶116.

¹⁶⁶ Provision for the Determination and Protection of Well-known Trademarks (promulgated by the State Administration for Industry & Commerce of the People's Republic of China on April 17, 2003, effective on June 1, 2003), art. 2.

¹⁶⁷ *Id.*

It would be sensible to set a higher threshold to establish the subjective fault of internet service providers. The plaintiff must prove that it knows or has reasons to know another person is engaging in infringement by utilizing their services, but turn a blind eye to it. This is a prerequisite for contributory infringement in the US. Contributory infringement has developed as a judicial doctrine and derived from the common law of torts. In *Inwood Laboratories Inc. v. Ives Laboratories Inc.*, the Supreme Court explained the contributory infringement of a trademark as follows:

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.¹⁶⁸

In addition, the Fourth Circuit expressed a similar sentiment in *Rosetta Stone v. Google*. The court held that it was not sufficient to have general knowledge of the fact that some purchasers of goods or services were using them to conduct trademark infringement; rather, the defendant should *actually know or have reasonable grounds to know* that its goods or services were supplied to the persons who were engaging in trademark infringement [emphasis added].¹⁶⁹ Such a standard is similar to the criterion of ‘red flag’ established in the copyright system.

Likewise, the strict standard of knowledge is adopted by the ECJ. In *Google France*, the ECJ held that concordance between the keyword and the search query entered by internet users was not enough to establish that Google had known or controlled the data entered into its system. In contrast, the relevant factor was the role played by Google in drafting the commercial context or in the selection of keywords.¹⁷⁰

In this regard, the key factor in determining the joint liability of the search engine operator is whether it actually knows or has reasonable grounds to know about the direct infringement. It merits noting that search engine advertising is in essence a service of information location. It is unreasonable to impose the excessive duty of investigation upon internet service providers if they merely play a neutral role in online information communication. Generally, there are two rules concerning the fault of internet service providers: the notice rule and the knowledge rule. The notice rule requires an internet service provider to take necessary measures to delete, disconnect or block the content in question upon the notification about infringement that is sent by the right holder. The knowledge rule operates as a request for the internet service provider to take certain actions if it has actually known that its client is utilizing its services to conduct infringement. If the internet service provider fails to be in line with the two rules, fault will be established.¹⁷¹ Such rules not only serve as a legal basis to establish the secondary

¹⁶⁸ 456 U.S. 844, 854.

¹⁶⁹ *Supra* note 157.

¹⁷⁰ *Google Inc. v Louis Vuitton Malletier SA, Case C-236/08, Celex nummer 608CJ0236*, ¶117-18.

¹⁷¹ A similar rule has been established in China’s copyright system, referred to as the ‘red flag’ doctrine. Likewise, China’s Tort Law stipulates a general rule concerning the liability of internet service providers. Article 33 states that ‘the victim shall be entitled to notify the ISP to take such necessary measures as

liability of internet service providers, but also build a safe harbor by exempting them from liability if they properly respond to knowledge of infringement or notification about infringement sent by right holders.

In summary, search engine advertising is very popular on the internet. Despite its benefit in improving the efficiency of searching for relevant information, it arouses the concern of trademark proprietors over potential infringement when their trademarks are sold as keyword terms to advertisers. Allowing advertisers to select another's trademark as keywords and display it in search engine advertising is different from the traditional uses of trademarks in commerce. In order to deal with this new issue, the courts are attempting to re-define the term 'use of trademark in commerce'. It is suggested that China's courts adopt a liberal interpretation and incorporate the keyword use into the category of using trademarks in trademark law. Thus, the key factor in determining the liability of internet service providers is whether such uses result in a likelihood of confusion. The factors relevant to 'likelihood of confusion' in this respect include featured placement and the level of consumer sophistication, as well as the traditional factual factors. In addition, as regards joint infringement, the court should follow a strict standard to examine the subjective fault of search engine operators. In other words, joint liability can only be determined in cases where the evidence is quite sufficient to prove that the advertising service provider knows or has reason to know its client is using its service to infringe trademarks.

5.3.2 Domain name and cybersquatting

A domain name is an identification string that enables internet users to identify the website.¹⁷² One study indicates that large numbers of consumers access their favorite website by directly typing the domain name of a website into the internet browser address box.¹⁷³ For the past several years, domain names have become an important resource for doing business online. The domain name serves to identify both the website owner and their goods or services. Consequently, it is essential for enterprises to obtain a domain name that is particularly pertinent to their business.

deletion, block or disconnection. If, after being notified, however, the ISP fails to take the necessary measures in a timely manner, it is jointly and severally liable with the internet user for any additional harm.' The Tort Liability Law of the People's Republic of China (promulgated by the Standing Commission, National People's Congress on Dec. 26, 2009, effective on July 1, 2010), art. 33. It serves as a safe harbor to shelter the ISP from liability when the ISP has taken the necessary measures at the victim's request. Second, it provides a legal ground for the victim to hold the ISP jointly and severally liable if the ISP ignores the victim's request.

¹⁷² Barrett, Margreth, *Domain Names, Trademarks and the First Amendment: Searching for Meaningful Boundaries*, 39 Conn. L. Review 973, 1006 (2007).

¹⁷³ Cook, John, *Marchex Solidifies Its Web Presence* (Nov. 24, 2004), available at <http://www.seattlepi.com/business/article/Marchex-solidifies-its-Web-presence-1160365.php> (last visited 17 December, 2012).

In his study, he found that direct navigation is a popular means to conduct Web searches. He also estimates that about 10 percent of the internet search market is associated with this direct navigation.

Nowadays, cybersquatting behavior is not a new phenomenon. In order to earn revenue, some domain name speculators register numerous domain names before the actual right owners who have a prior right in respect of goods or services, and then sell them back to the actual right owners. Sometimes, the speculators also use the domain names in association with another's prior rights to produce profits from click-on advertising. Such prior rights have extended from traditionally the rights to registered trademarks to currently the rights to personal names, geographical indicators and generic words.

As regards the cybersquatting issue, the Internet Corporation for Assigned Names and Numbers (ICANN),¹⁷⁴ the body administering the domain name system, has adopted the Uniform Domain Name Dispute Resolution Policy (UDRP) to resolve disputes.¹⁷⁵ However, the application of this policy only relies on the justification of trademark protection. The complainant must prove that the domain name at issue is identical or confusingly similar to the trademark or commercial symbol in which he/she has prior rights.¹⁷⁶ This means that the cybersquatting will be denied if it constitutes trademark infringement, but it gives no answer to the question whether cybersquatting that conflicts with other categories of civil rights will be enjoined. The limitation of the UDRP is due to its policy role of '[coordinating] policy development reasonably and appropriately related to these technical functions.'¹⁷⁷ Therefore, domestic laws seem more promising for developing a robust system to deal with the intricate situation of cybersquatting. In China, resolving this issue could be based on the Trademark Law, Unfair Competition Law, Civil Law and the relevant judicial interpretations. This section will discuss the application of these rules, address the challenges in the existing system and thereby propose solutions.

5.3.2.1 Cybersquatting and trademark protection

The most common case of cybersquatting is that the domain name taken is identical or confusingly similar to a registered trademark or a well-known trademark, which might involve trademark infringement. Under the 2002 Interpretation of the Supreme Court, trademark infringement occurs in cases where speculators register the words that are identical or similar to another's registered trademark as domain names or use these domain names to do e-business, and such use results in a likelihood of confusion.¹⁷⁸ Furthermore, the Interpretation of the Supreme People's Court on Application of Laws in the Trial of Civil Disputes over Domain Names of Computer Network ('Interpretation of Domain Names') elaborates the test in examining the legitimacy of domain names.¹⁷⁹ Article 4

¹⁷⁴ The information is available at its official website, www.icann.org.

¹⁷⁵ The UDRP was approved by the ICANN on October 24, 1999, available at <http://www.icann.org/en/help/dndr/udrp/policy> (last visited 08 October, 2012).

¹⁷⁶ The UDRP, art. 4.(a) (i).

¹⁷⁷ Bylaws for Internet Corporation for Assigned Names and Numbers, art. I, Section 1(3), available at <http://www.icann.org/en/about/governance/bylaws#I> (last visited 08 October, 2012).

¹⁷⁸ 2002 Interpretation of the Supreme Court, art. 1(3).

¹⁷⁹ The Interpretation of the Supreme People's Court on Application of Laws in the Trial of Civil Disputes over Domain Names of Computer Network, promulgated on July 17, 2001, and entered into force on July 24, 2001.

provides that the defendants' registration or use of the domain name at issue should be determined as infringement or unfair competition if the following multiple conditions are met. First, the plaintiff's civil rights and interests concerned are legal and valid. Second, the defendant's domain name or its core part constitutes reproduction, imitation, translation or transliteration of the plaintiff's well-known trademark, or is identical or confusingly similar to the plaintiff's registered trademark or domain name. Third, the defendant neither has rights or legitimate interests in the domain name, nor has reasonable grounds for registering or using this domain name. Fourth, the defendant acted in bad faith.¹⁸⁰

The Interpretation of Domain Names also lays out a non-exhaustive list of factors for determining the bad faith intent of the domain name registrant. In detail, the factors of 'bad faith' which the court may consider include: (1) whether the defendant registered a domain name that is identical to another's well-known trademark for commercial purposes; (2) whether the defendant registered and used a domain name that is identical or similar to the plaintiff's registered trademark or domain name, with the intent to cause confusion as to the source, sponsorship or affiliation of the website accessible under this domain name, and thereby divert internet users from the plaintiff's website to the site at issue; (3) whether the defendant had offered to transfer, sell or otherwise rent the domain name to the plaintiff or the third party to derive benefit from that; (4) whether the defendant held up the registered domain name, with the intent to prevent the right owner from using it; (5) other factors indicating bad faith.¹⁸¹

It can be observed that the domain name regulation under the 2002 Interpretation of the Supreme Court and the Interpretation of Domain Names is mainly based on trademark policy. It offers protection for well-known trademarks and registered trademarks against cybersquatting, even though the domain name regulation requires 'bad faith intent' that is distinct from the trademark infringement. Like the test of trademark infringement, one essential factor for determining the illegitimacy of cybersquatting is whether the domain name concerned is identical or similar to a mark in which another person has interests and whether this domain name leads to a likelihood of confusion.

There is little doubt as to how to analyze cybersquatting that involves reproduction, imitation, translation or even misspelling of a trademark, because both the trademark law and the domain name regulation expressly cover these situations, and the element of the likelihood of confusion is not a new matter in analyzing trademark infringement. On the other hand, it merits discussing the dispute that is caused by some domain names directing to complaint sites, because this involves a new commercial method. Many complaint sites use the domain name with registered trademarks and words like 'sucks', 'stinks', 'blows' or other similar terms. The common forms include '[trademark]sucks.com', '[trademark].sucks.com', '[trademark]stinks.com' and the like. A complaint website usually serves as a forum for consumers to give negative comments on goods or services covered under the trademark. Although it has been widely recognized that individuals enjoy freedom of speech so that they have the right to complain about the products or services of undertakings, 'the question remains whether these people should be able to utilize a domain name for that forum that

¹⁸⁰ *Id.* art.4.

¹⁸¹ *Id.* art.5.

somehow corresponds with a trademark associated with the relevant entity.’¹⁸² It should also be noted that using a trademark in domain names, even adding derogatory words, could be used as a business strategy because it would attract the interest of internet users. Although Chinese courts have not reviewed cases involving complaint sites with a domain name comprising another’s trademark, the fact that the WIPO has heard a few of such cases in recent years indicates that both the marketing environment and business strategy are changing. In this regard, the WIPO decisions have made some reference to possible disputes in the future.

In analyzing the legitimacy of domain names, the WIPO panels follow the test stipulated in the UDRP.¹⁸³ The panel will decide to transfer the domain name to the complainant if it finds that: (1) the domain name is identical or confusingly similar to the complainant’s trademark; (2) the respondent has no rights to the domain name; and (3) the respondent acts in bad faith.¹⁸⁴ Much of the WIPO’s assessment focuses on the likelihood of confusion test.

The panels’ decisions in favor of the complainants are based on the following reasons. First, although the suffix ‘sucks’ could make an English speaker recognize that the trademark owner has no connection to the domain name, not every internet user is well educated in the English language.¹⁸⁵ Second, an internet user could be led to deem that the domain name comprising a well-known trademark is associated with the trademark owner.¹⁸⁶ Third, the addition of derogatory terms to a famous trademark could not function as definitely demonstrating that the domain

¹⁸² Lipton, Jacqueline D., *Beyond Cybersquatting: Taking Domain Name Disputes Past Trademark Policy*, 40 Wake Forest Law Review 1361, 1399 (2005).

¹⁸³ UDRP, art. 4(a)

¹⁸⁴ *Id.*

¹⁸⁵ ADT Services. AG v. ADT Sucks.com, Case No. D2001-0213, WIPO Administrative Panel Decision (Apr. 23, 2001), available at <http://www.wipo.int/amc/en/domains/decisions/html/2001/d2001-0213.html> (last visited 08 October, 2012). (The addition of the suffix ‘sucks’ is a crude attempt to tarnish the mark. Although ‘sucks’ could make an English speaker consider that the name does not promote the complainant or its products, not every user of the internet is well versed in the English language. Consequently, a user could be led to believe that any name using a world-famous mark is associated with the complainant.)

¹⁸⁶ *Id.* also see *Dixons Group PLC v. Purge I.T.*, Case No. D2000-0584, WIPO Administrative Panel Decision, available at <http://www.wipo.int/amc/en/domains/decisions/html/2000/d2000-0584.html> (last visited 12 October, 2012).

(‘Given the apparent mushrooming of complaints sites identified by reference to the target’s name, can it be said that the registration would be recognized as an address plainly dissociated from the Complainant? In the Panel’s opinion, this is by no means necessarily so. The first and immediately striking element in the Domain Name is the Complainant’s name. Adoption of it in the Domain Name is inherently likely to lead some people to believe that the Complainant is connected with it. Some will treat the additional ‘sucks’ as a pejorative exclamation and therefore dissociate it after all from the Complainant; but equally others may be unable to give it any very definite meaning and will be confused about the potential association with the Complainant.’)

name is irrelevant to the trademark owner.¹⁸⁷ Fourth, internet users have reasonable grounds to believe that a complaint website is established by the trademark owner to collect feedback on its goods or services, and thus internet users may assume there is an association between the complaint website and the trademark owner.¹⁸⁸ Fifth, the search engine technique could help divert consumers of the complainant to the website under the domain name that is similar to the complainant's trademark, because consumers would be puzzled, surprised or made curious by the domain name being a combination of the complainant's trademark and a provocative phrase.¹⁸⁹

In some cases, the WIPO Panels found for the domain name registrants because they did not accept that the domain name resulted in a likelihood of confusion. In *Asda Group Ltd. v. Kilgour*,¹⁹⁰ the Panel gave two reasons to deny the likelihood of confusion. One is that internet users who do not know the meaning of 'sucks' are so few that it is too insignificant for consideration,¹⁹¹ which responded to the language barrier argument.¹⁹² The other is that internet users will realize that a website under a domain name containing a negative suffix is not created by the trademark owner.¹⁹³ Likewise, in *Lockheed Martin Corp. v. Dan Parisi*, in response to the search engine technique argument, the Panel explained that when internet users saw the domain names of complaint websites before a further search, they

¹⁸⁷ *Alstom v. Jerry Jonn*, Case No. D2010-2075, WIPO Administrative Panel Decision, available at

<http://www.wipo.int/amc/en/domains/search/text.jsp?case=D2010-2075> (last visited 12 October, 2012). ('The addition of the negative term 'sucks' at the end of 'alsthom' does nothing to dispel confusion').

¹⁸⁸ *Koninklijke Philips Elecs. N.V. v. In Seo Kim*, Case No. D2001-1195, WIPO Administrative Panel Decision, available at

<http://193.5.93.81/amc/en/domains/decisions/html/2001/d2001-1195.html> (last visited 12 October, 2012). ('On this basis, the Panel considers that the Domain Name is confusingly similar to the trademark 'Philips' in which the Complainant undoubtedly has rights. Not all internet users are English speaking or familiar with the use of 'sucks' to indicate a site used for denigration. Furthermore, it is not unknown for companies to establish complaint or comment sites or areas of sites to obtain feedback on their products; accordingly, some people might suppose that a website of this nature at the Domain Name was operated by the Complainant.')

¹⁸⁹ *Wal-Mart Stores, Inc. v. Walsucks and Walmarket Puerto Rico*, Case No. D2000-0477, WIPO Administrative Panel Decision, available at

<http://www.wipo.int/amc/en/domains/decisions/html/2000/d2000-0477.html> (last visited 12 October, 2012).

¹⁹⁰ *Asda Group Ltd. v. Mr. Paul Kilgour*, Case No. D2002-0857, WIPO Administrative Panel Decision, available at

<http://www.wipo.int/amc/en/domains/decisions/html/2002/d2002-0857.html> (last visited 13 October, 2012).

¹⁹¹ *Id.*

¹⁹² The English language barrier argument was addressed in *ADT Services. AG v. ADT Sucks.com*.

¹⁹³ *Id.*

could distinguish the complaint websites from the complainant's websites because such domain names are not commensurate with the goals of the trademark.¹⁹⁴

In view of these arguments, there is inconsistency in the rulings of the WIPO panels. Such inconsistency focuses on the causation between the addition of a derogatory modifier to a trademark and the likelihood of confusion. As a result, the Panels' decisions do not give a definitive guide as to whether using another's trademark plus a derogatory modifier in a domain name would constitute trademark infringement. Nevertheless, the Panels' reasoning has demonstrated that the key factor to be considered in this respect is whether the domain name has led consumers to believe the relevant complaint website was created by the trademark owner.

In analyzing consumers' understanding, the marketing environment and advertising techniques cannot be ignored. Nowadays, the new advertising techniques have obscured the trademark identity. For example, Steven Singer, a jewelry store, has created a website with the domain name 'www.ihatestevensinger.com'. If consumers happen to come upon this domain name, they may assume that this is a complaint website for blaming products of Steven Singer, because the wording 'hate' clearly expresses a negative meaning. The fact that Steven Singer is just utilizing reverse psychology to resonate with consumers is not expected. Many internet users are curious to visit the website to learn more about negative information regarding Steven Singer.¹⁹⁵ Thus, internet users promote the website without knowledge concerning the ownership of the website. Another example is that Southwest Airlines strategically registered 'www.southwestsucks.com' as a domain name of its website to collect its clients' feedback.¹⁹⁶ Other companies may emulate the business strategy of Southwest Airline because they attach great importance to consumer relationship management.¹⁹⁷ The new advertising environment indicates that even though an English speaker sees a domain name comprising a trademark and a derogatory suffix such as 'sucks', he or she cannot arbitrarily make the decision that it is not

¹⁹⁴ *Lockheed Martin Corporation v. Dan Parisi*, Case No. D2000-1015, WIPO Administrative Panel Decision, available at <http://www.wipo.int/amc/en/domains/decisions/html/2000/d2000-1015.html> (last visited 13 October, 2012).

¹⁹⁵ Indrajit Sinha & Thomas Foscht, *Reverse Psychology Marketing: The Death of Traditional Marketing and the Rise of the New 'Pull' Game*, 260 (2007).

¹⁹⁶ When 'www.southwestsucks.com' is entered in the ULR address box, the webpage is automatically diverted to the site 'http://www.southwest.com/new_message.html'. On this webpage, Southwest Airlines makes the statement that 'Southwest Airlines strives to maintain a high level of Customer Service and is proud of its corporate reputation and responsiveness to its Customers. As part of that effort, Southwest wants to control the release of inaccurate and irresponsible information about the Company via the internet. If you would like more information on Southwest, please go to www.southwest.com.

¹⁹⁷ Available at <http://www.imediaconnection.com/content/17033.asp> (last visited 15 October, 2012), ('One of the most common pieces of user-generated content on the web is the customer review. According to a recent study by Forrester, 71 percent of online shoppers read reviews, making this type of content the most widely read of consumer-generated content.')

operated by the trademark holder. As a result, consumers may be more defensive and thereby cautiously consider the source of media information; if not, confusion is likely to be caused because consumers are intrigued enough by the ironic message.¹⁹⁸

Therefore, in assessing trademark infringement and domain name infringement, the court should realize that the new advertising tactics used in domain names may confuse consumers or make consumers more sophisticated in identifying the source of internet information. A domain name using a trademark plus a derogatory modifier cannot indicate that such a domain name is not owned by the trademark owner, because sometimes the trademark owner will adopt this creative strategy to attract consumers' attention or solicit their feedback. Thus, without careful consideration of the consumer environment, it is unreasonable to presume consumers are unlikely to be confused about the relationship between the domain name and the trademark owner just because of the derogatory modifier.

5.3.2.2 Cybersquatting, generic terms and unfair competition

The specialized provisions of trademark law do not preclude the application of the anti-unfair competition rules. The Interpretation of Domain Names offers a legal base for claiming infringement or unfair competition in that cybersquatting could constitute infringement or unfair competition if the multiple requirements stated in Article 4 are satisfied as aforementioned. In particular, the actions likely to be determined as infringement or unfair competition include registering or using a domain name, which, or part of which, involves reproduction, imitation, translation or transliteration of a well-known trademark, and registering or using a domain name that is identical or confusingly similar to the plaintiff's registered trademark or domain name.¹⁹⁹ It should be noted that Article 4 merely provides a blanket description concerning the illegal conduct but does not differentiate between infringement and unfair competition. Anyway, it is at least clear that the protection for well-known trademarks in this respect goes beyond trademark law, because it does not require the likelihood of confusion. Under trademark law, one of the elements for determining trademark infringement, whether concerning well-known trademarks or registered trademarks, is that the mark identical or similar to another's trademarks will cause consumers' confusion about the identification of goods or services. In this regard, the conduct, which only involves the reproduction, imitation, translation or transliteration of a well-known trademark but does not lead to confusion, can still be actionable under the anti-unfair competition policy.

Moreover, the Anti-Unfair Competition Law regulates a general principle for all commercial activities: a business operator should, in commerce, abide by the principles of voluntariness, equality, impartiality, honesty and good faith, and also adhere to public commercial moral in its business transactions.²⁰⁰ It also describes the concept of 'unfair competition' as a commercial action violating the provisions

¹⁹⁸ Mindy P. Fox, *Does It Really Suck?: The Impact of Cutting-Edge Marketing Tactics on Internet Trademark Law and Gripe Site Domain Name Disputes*, 20 Fordham Intellectual Property, Media and Entertainment Law Journal 227, 275 (2009).

¹⁹⁹ The Interpretation of Domain Names, art. 4.

²⁰⁰ Anti-Unfair Competition Law of the People's Republic of China, entered into force on Dec. 1, 1993, art.2(1).

of this law, prejudicing legitimate interests of other business operators and disturbing the order of social economy.²⁰¹ This definition stipulates tripartite factors of unfair competition. First, a business operator must conduct the unfair competition in its business practice. Therefore, protection under the anti-unfair competition policy exists in commerce. As a result, this protection is unavailable if a domain name is operated for the sole purpose of private use. Second, there must be a competitive relationship between the business operator and the victim. As regards cybersquatting disputes, the registrant of the domain name must be a competitor of the complainant in commerce. This competitive relationship typically exists in circumstances where both parties operate similar businesses. Third, the conduct must have the nature of inequity because it damages another's legitimate interests or well-balanced market order. The damage includes diminishing the capability of a mark to identify the owner of the website directed by the domain name, misleading consumers to visit the website and thereby prejudicing the reputation of the mark owner, lessening commercial opportunities and so on.²⁰²

Based on this general principle of regulating unfair competition, the competition policy establishes a flexible system to deal with the issues involving commercial competitive relationships. As regards commercial actions that do not interfere in trademark interests, the anti-unfair competition laws may apply perfectly to regulate the relevant issues. For example, the anti-unfair competition rules are appropriate for conflicts involving generic terms used in domain names. The generic terms herein refer to the common way of referring to items, such as insurance, travel, hotel, sex, business and so on. Generally, generic terms cannot be registered as a trademark due to the absence of distinctive features, subject to some rare exceptions. In contrast, the domain name regulations do not enforce generic terms to be registered as domain names. In fact, generic terms are the main targets of domain name speculation because they are often valuable virtual property. 'Business.com' has been sold for 350 million US dollars.²⁰³ Likewise, 'Pizza.com' was successfully auctioned at a net price of 2.6 million US dollars.²⁰⁴

An important Chinese case in relation to generic domain names is *Beijing Zaijisong Ltd. v. Shanghai Dibang Zaijisong Ltd.*²⁰⁵ Both of the parties were engaged in the business of Express delivery. 'Zaijisong' is the Chinese phonetic spelling of the words '宅急送', which means fast home delivery. The plaintiff's current company designation was changed from the initial name 'Shuangchen Yichen' in September 2003. The plaintiff owned a website with the domain name

²⁰¹ *Id.* art.2(2).

²⁰² *Yantai Binglun Co. Ltd. v. Yantai Liuyi Ltd.* (2006) *Yan Min San Chu Zi Di* 88 *Hao*; *Shanghai Xindan Electronic Business Ltd. v. China Edible Mushroom Development Ltd.* (2009) *Yi Zhong Chu Zi Di* 655 *Hao*; *Guangdong Yuanjin Information Technology Ltd. v. Tencent Technology(Shenzhen) Ltd.* (2010) *Sui Zhong Min San Zhong Zi Di* 151 *Hao*.

²⁰³ RH Donnelley Buys Business.com Domain Name-WSJ, 26 July 2007, available at <http://www.reuters.com/article/2007/07/26/donnelly-domain-idUSN2639237020070726> (last visited 18 October, 2012).

²⁰⁴ How Valuable Are Domain Names? available at <http://www.ip21.co.uk/2011/05/valuable-domain-names> (last visited 18 October, 2012).

²⁰⁵ *Beijing Zaijisong Ltd. v. Shanghai Dibang Zaijisong Ltd.*, (2004) *Er Zhong Min Chu Zi Di* 03775 *Hao*.

'www. zjs.com.cn', but had no trademark interests in the mark '宅急送', because in a judicial precedent these words had been determined as generic words in the industry of express delivery.²⁰⁶ The defendant's current company name was altered from the initial name 'Shanghai Dibang' in December 2003. Since 1997, the defendant has used the wording '宅急送' on the documents and forms of its express delivery business. In 2003, the defendant registered two domain names: '宅急送.中国' and '宅急送.cn'. The plaintiff consequently brought a suit against the defendant and claimed that the defendant's domain name comprising a part of its company name constituted unfair competition. However, the court rejected the plaintiff's unfair competition argument, based mainly on three reasons. First, the evidence showed that the defendant had used the wording '宅急送' in its business before the plaintiff used these words as its company designation. Second, the words '宅急送' were generic terms of the express delivery industry so that they appeared to be descriptive common words; the defendant therefore also used these words in the company name. Third, the domain names at issue were not confusingly similar to the plaintiff's domain name.

This case indicates that a company designation only containing generic terms has a weak distinguishing function so that it does not necessarily take precedence over the domain name right. Under the competition policy, using a generic term as a domain name is generally allowed only if it does not conflict with another's legitimate interests. Nevertheless, if a generic term has obtained a secondary meaning and thereby has a strong identifying function, it will enjoy stronger protection. In *Shanghai Human Resource Website Ltd v. Shanghai Chuanghui Technology Ltd.*, the court explained that a common phrase may be protected by the anti-unfair competition rules in cases where it is equipped with distinguishable features to identify the source of goods or services through use.²⁰⁷ Although these cases demonstrate the correct direction of the courts' case laws, the courts devote little attention to analyzing how the use of generic terms in domain names influences the fair competitive environment. The court should recognize that unfair competition actions must cause the anti-competitive impairment of business opportunities with the intent to disrupt the original fair market order.

A German domain 'mitwohnzentrale.de' case is of considerable merit in this context.²⁰⁸ The defendant, an association of 25 German hostel room agencies, had registered the domain name 'Mitwohnzentrale.de', meaning 'roommate centre' in English. It was argued against by the plaintiff, which is an association of 25 German hostel room agencies. The plaintiff alleged that the defendant used a generic term as its domain name so that internet users who were looking for roommate information could type 'Mitwohnzentrale.de' directly in the browser address box to access the website, rather than using the search engine technique. Thus, the plaintiff asked for an injunction against the defendant's use of the domain name. Both the Hamburg Court and the Hamburg Court of Appeal held for the plaintiff by reasoning that the use of a generic term without distinguishing

²⁰⁶ *Beijing Zaijiesong Ltd. v. Beijing Bishengke Pizza Ltd. (2003) Chao Min Chu Zi Di 22372 Hao.*

²⁰⁷ *Shanghai Human Resource Website Ltd v. Shanghai Chuanghui Technology Ltd., (2010) Pu Min San (Zhi) Chu Zi Di 249 Hao.*

²⁰⁸ 'Mitwohnzentrale.de' – short-term letting agency, the Judgments of the German Supreme Court of 17th May 2001, Docket No. I ZR 216/99.

additions in the domain name was anti-competitive because potential consumers would be diverted to the defendant's website if they used the navigation bar.²⁰⁹ However, the Supreme Federal Court of Germany overturned this decision and acknowledged as lawful the widespread practice of using generic terms in domain names. The court held that diverting consumers away would be unfair only if the consumers were forced to change their purchase decision through advertising. However, the situation here was different on the grounds that the defendant merely acquired a marketing advantage by using a generic domain name, but did not unfairly influence consumers who were already attributed to the competitor. Furthermore, the Supreme Court gave some reservations about the possible anti-competition in circumstance where the generic domain name misled consumers into believing that the domain name owner was the sole provider of the relevant products.

In sum, the violation of the competition policy requires diminishing the competitors' business opportunities with the intent to drive them out of the market, luring away competitors' consumers by misrepresentation, or an intensity of the impairment of competitors' marketing reaching an unacceptable degree. Otherwise, using a generic domain name does not constitute unfair competition even though internet users may directly use the navigation bar rather than use a search engine method.

5.3.2.3 Cybersquatting, personal names and unjust enrichment

The domain name regulations rely mainly on the trademark policy and anti-unfair competition policy. However, the forms of domain name disputes do not merely exist in trademark infringement or unfair competition. Domain name speculators also register less obviously trademarked terms for commercial purposes, such as personal names. Registering the name of a famous person as a domain name could be for at least one of the two commercial purposes. One is that the speculator intends to sell the domain name back to the famous person for revenue. Alternatively, the speculator has a motive for click farming, which uses the domain name corresponding with a famous personal name to earn profit from click-through advertisements. Supposing there were a hypothetical scenario in which a speculator registers a domain name identical to the name of a famous actor or a politician, then application of trademark law does not fit perfectly if that personal name has not obtained trademark status. It merits noting that famous individuals may have invested in or contribute to building up their public persona. Although they may have no intention of using their own names for an internet presence, they are reluctant to see other people using their names in domain names. However, the domain name speculator can take unfair advantages of that reputation and is unlikely to be sanctioned under the competition law if the famous individuals do not want to use their names in commerce, due to the absence of a competitive relationship between the speculators and the famous persons.

There are less clear provisions in the context of domain name issues involving personal names under the UDRP, which is based on trademark protection policies. Case law also establishes a strict standard for eligibility for protection under the UDRP. In *Jay Leno v. Garrison Hintz*, the Panel stated that a personal name to be

²⁰⁹ 'Mitwohonzentrale.de', the Hamburg Court of Appeal, OLG Hamburg CR 1999,779.

granted protection must function as a trademark.²¹⁰ The mere fact that a personal name has come to be recognized by the public is insufficient for it to be safeguarded by the UDRP.²¹¹ On the other hand, the WIPO and its Panels readily extend protection for personal names in arbitration. The Second WIPO Process concerns a range of identifiers used in domain names. Other than trademarks, these identifiers include personal names, trade names, geographical identifiers, international nonproprietary names for pharmaceutical substances and names and acronyms of international intergovernmental organizations.²¹² Moreover, in *Julia Fiona Roberts v. Russell Boyd*, the Panel held a liberal opinion that the UDRP does not require that the complainant must hold rights in a registered trademark or service mark; instead, it is sufficient for the complainant to bring an action for passing off.²¹³ Much depends on the national legal system, as to what extent it provides protection of personal names.

Currently, a Chinese domain name case is attracting attention. In *Zhou Libo v. Hong Yishen*, the complainant is a famous talk show actor, who has claimed that the respondent prejudiced his legitimate interests by registering the domain name 'zhoulibo.com'.²¹⁴ The complainant has a high professional reputation in Chinese TV shows. He has requested that the domain name be transferred by alleging that the main part of 'zhoulibo.com' is exactly the same as the Chinese phonetic spelling of his name, the respondent had no interest in the domain name and the respondent registered and used the domain name in bad faith. The respondent argued that there were two famous persons with the name 'Zhou Libo' in the Chinese contemporary era: the complainant and a novelist, and that the domain address used the name of that novelist, not the complainant. Furthermore, the respondent argued that the complainant has no trademark interest in the word 'zhoulibo'; consequently, it should not be granted protection under the UDRP. The Asian Domain Name Dispute Resolution Centre (ADNDRC) heard this case. The Panel held that the words 'zhoulibo' corresponded to the complainant based on the finding that using the Google search engine to search for this term, the majority of

²¹⁰ *Jay Leno v. Garrison Hintz*, Case No. D2009-0569, WIPO Administrative Panel Decision (June 26, 2009), available at http://www.google.com.hk/url?sa=t&rct=j&q=Jay+Leno+v.+Garrison+Hintz%2C+WIPO+Case+No.+D2009-0569&source=web&cd=1&ved=0CFkQFjAA&url=http%3A%2F%2Fwww.wipo.int%2Famc%2Fen%2Fdomains%2Fdecisions%2Fword%2F2009%2Fd2009-0569.doc&ei=SJ3YT7XiFiIal0AWQmpzzAw&usg=AFQjCNFp-gssDiG-mAEMZ-W4v_DBywM8-w (last visited 18 October, 2012).

²¹¹ *Id.*

²¹² Second WIPO Internet Domain Name Process, The Recognition of Rights and the Use of Names in the Internet Domain Name System, available at <http://www.wipo.int/amc/en/processes/process2/report/html/executivesummary.html> (last visited 18 October, 2012).

²¹³ *Julia Fiona Roberts v. Russell Boyd*, Case No. D2000-0210, WIPO Administrative Panel Decision (May 29, 2000), available at <http://www.wipo.int/amc/en/domains/decisions/html/2000/d2000-0210.html> (last visited 18 October, 2012).

²¹⁴ *Zhou Libo v. Hong Yishen*, Case No. CN-1100503 (Dec. 7, 2011), available at http://www.adndrc.org/cn/CaseStorage/CN-1100503/Decision/CN-1100503_Decision.pdf (last visited 18 October, 2012).

results directed to him. In addition to the finding of bad faith, the Panel also stated that the personal name could be protected under the UDRP if it has acquired the distinguishing nature for identifying the sources of services through the commercial use of it. Therefore, the panel awarded for the complainant.

The respondent did not accept this verdict and thus brought a suit before Shanghai No.2 Intermediate People's Court.²¹⁵ Hong Yishen is not the real name of the registrant but Yue Tongyu is, because registration of a domain name allows registrants to use their fictitious names. Like the ADNDRC panel, the court held for Zhou Libo, even though the Interpretation of Domain Names did not expressly grant protection for personal names.²¹⁶ The court held that the domain name conflicted with the civil interest which Zhou Libo had. Obviously, the court used a broad concept to extend protection to non-trademark interests. In fact, in order to deal with such new challenges, the China Internet Network Information Center (CNNIC) Domain Name Dispute Resolution Policy (CNNIC Policy) has adopted this broad concept. Article 8 provides that 'support of a Complaint against a registered domain name is subject to the following conditions: (1) the disputed domain name is identical or confusingly similar to the Complainant's name or mark in which the Complainant has civil rights or interests; (2) the disputed domain name holder has no right or legitimate interest in respect of the domain name or major part of the domain name; and (3) the disputed domain name holder has registered or has been using the domain name in bad faith.'²¹⁷ In this regard, the CNNIC Policy has recognized that a personal name is protectable if the complainant has legitimate interests in it. However, the CNNIC Policy is only applicable to domain names within the range of .CN domain names and Chinese domain names that were under the administration of CNNIC²¹⁸. There is less definite provision concerning issues generated by other forms of domain names, including .com domain names.

When panels or courts give an expansive interpretation of the existing provisions concerning non-trademark interests, they should provide sufficient theoretical justifications. However, they rarely do so. Although the Interpretation of Domain Names does not expressly grant protection for non-trademark or non-domain name marks, it is obviously unreasonable to allow speculators to take unfair advantages of another's interests. Therefore, the unjust enrichment rationale can be relied on.

The unjust enrichment rationale is a general principle underlying civil law. Subject to this principle, an action is actionable if one party is unreasonably enriched, the other party is impoverished, and there is a causal link between enrichment and impoverishment. It does not prohibit people from obtaining an interest through their efforts, but from unjustly exploiting other persons' efforts. As

²¹⁵ *Yue Tongyu v. Zhou Libo, Shanghai No.2 Intermediate People's Court, (2011) Hu Er Zhong Min (Zhi) Chu Zi Di 171 Hao.*

²¹⁶ Article 4 of the Interpretation of Domain Names prohibits that the domain name or its core part constitutes reproduction, imitation, translation or transliteration of another's well-known trademark, or is identical or confusingly similar to another's registered trademark or domain name, which does not show protection for personal names.

²¹⁷ China Internet Network Center (CNNIC) Domain Name Dispute Resolution Policy, entered into force on March 17, 2006, art.8.

²¹⁸ *Id.* art.2.

regards the domain name issue, unjust enrichment does not require a complainant to have trademark interests in his/her personal name, but merely requires that the speculator unfairly benefit from his/her name. An unfair advantage could be established if the speculator has a sale motive, a click farming motive or other commercial motives.²¹⁹ The unjust enrichment principle may broadly prevent unfair commercial profits regardless of the trademark status and the competitive relationship. Thus, it may be useful for the analysis of the disputes involving non-trademark interests in the domain space. Once the unjust enrichment has been established, the claim for transferring the domain name or injunction should be awarded. On the other hand, it does not deny every act of enrichment by exploiting another's efforts, because the principles of freedom of speech and free competition take precedence over the principle of unjust enrichment.²²⁰ Thus, this principle also leaves enough room to allow expressive uses or non-commercial uses of personal names.²²¹

In order to establish a convincing principle, it is necessary to set a criterion to define the concept of 'unjust' and thereby to clarify what situations should be determined unfair. At least, unfairness may be found in cases where confusing use or misrepresentation has led to enrichment. In other words, if the use of personal names causes internet users' confusion in connection with the owner of the website, this seems to be unfair.

Because unjust enrichment is a general principle of civil laws, it can be applied more broadly than the trademark policy. Other than personal names, it is applicable to domain name disputes concerning other forms of non-trademark terms, such as cultural phrases and geographical words.

Moreover, the common law tort of passing off may be relied on to prevent a person from using another's personal names as domain names. Under the common law protection, misappropriation of personality is prohibited if the goods or services are misrepresented as those of another individual, or it is suggested that the goods or services are associated with that individual. Historically, in order to establish passing off, the plaintiff must prove a common field of activity, which means that both parties are competitors in the same field.²²² Nowadays, the requirement of a common field of activity is unnecessary so that the provision concerning passing off can be applied more broadly. In *Taittinger SA v. Allbev Ltd.*, the Court of Appeal held that the defendant using the plaintiff's name 'Champagne' for a non-alcoholic drink was actionable as regards passing off because it damaged the singularity and exclusiveness of such description, even though the parties were not competitors.²²³ Therefore, sharing a common field of activity is not a necessary condition to assert passing off. In this regard, this principle can also be used to deal with domain name disputes where a person has registered a domain name

²¹⁹ Lipton, Jacqueline D., *Bad Faith in Cyberspace: Grounding Domain Name Theory in Trademark, Property and Restitution*, 23 Harvard Journal of Law and Technology 447, 467 (2010).

²²⁰ Wolfgang Sakulin, *Trademark Protection and Freedom of Expression* (Kluwer Law International, The Netherlands) 73 (2011).

²²¹ *Id.*

²²² *McCulloch v. May* [1947] 65 RPC 58. In this English case, the court refused to extend the tort of passing off to the situation involving different fields of activity.

²²³ *Taittinger SA v. Allbev Ltd* [1993] FSR 641.

incorporating the personal name of other individuals for commercial purposes and such a use causes misrepresentation.

5.4 Conclusion

In order to participate successfully in globalization and satisfy the domestic needs of the changing society, China has brought about a great revolution in the trademark regime. During the past years, China has not only successively entered into a series of important international treaties but has also concentrated efforts to amend trademark law comprehensively to incorporate advanced systems. Taking into consideration the forthcoming new trademark law, China has made a contribution to expanding the scope of protection, facilitating the procedure of registration and claiming for protection, strengthening enforcement, promoting legal certainty and so on. Despite that, the protection of well-known trademarks should be extended and the enforcement should become more efficient. It is inevitable that contentious issues will always exist, not only because of the ambiguous provisions but also due to the different understanding of courts. This will lead to legal uncertainty. In dealing with intractable issues, it is suggested that the court seriously consider the justification for trademark protection, including trademark functions in commerce, economic rationales and fairness rationales. Moreover, courts must fully understand new marketing techniques and their influence on trademark protection.

Chapter 6

Intellectual Property Enforcement in China

China has established a comprehensive legal system for intellectual property right (IPR) protection, which is compliant with a series of international treaties. It also should be noted that the effectiveness of IPR protection is largely based on enforcement. China adopts two parallel approaches in IPR enforcement: the administrative route and the judicial route.

6.1 Introduction

6.1.1 Administrative enforcement route

As regards the administrative route, there are several enforcement agencies involved in the IPR administrative management and protection, including the State Intellectual Property Office (SIPO), the State Copyright Administration (SCA), the State Administration of Industry and Commerce (SAIC), the General Administration of Customs (GAC), the National Working Group on Intellectual Property Protection (NWG) and local administrative agencies.

The SIPO is directly under the State Council. It is in charge of matters related to patent application and administrative management, as well as matters involving international coordination. It also drafts laws and formulates regulations in the IP regime. The SIPO has five departments: the general affairs office, the law and regulation department, the international cooperation department, the coordination department and the development department. Local intellectual property offices are under their corresponding local governments, while they must follow the guidance of the SIPO. The local intellectual property offices are in charge of patent enforcement and even the comprehensive enforcement in the whole IP regime.

The SCA, also known as the General Administration of Press and Publication, is an organization directly under the State Council. It drafts laws and formulates regulations concerning publishing and copyright, and supervises their enforcement. It is in charge of approving copyright collective management organizations, provides guidance for local copyright administrative agencies and investigates copyright infringement that causes comprehensive concern within the whole country. Furthermore, the SCA usually represents China when participating in foreign activities, including international negotiations regarding copyright.

The SAIC is also an organization of the State Council, undertaking the administrative management and supervision of law-enforcement in the market. The Trademark Office under the SAIC undertakes trademark registration and administration, drafts regulations in this context, supervises the enforcement of trademark laws and regulations, carries out investigations of trademark infringement, gives guidance for local agencies on handling infringement cases

and deals with matters related to the negotiation and ratification of international treaties.

The GAC is an important organization for enforcing IPRs. The GAC undertakes the task of preventing the import and export of counterfeiting and pirated goods. In detail, it investigates and identifies IPR infringement, controls and detains suspected shipments, disposes of infringing goods and transfers the suspected criminal cases to the judicial authorities.

The NWG has been established by the Chinese central government since 2004 and aims to strengthen IPR enforcement. At that time, the Vice Premier of the State Council, Wu Yi, was appointed as the head of the NWG, which is responsible for the coordination of national IP protection and the supervision of IP enforcement. Its work comprehensively involves several authorities, including the Office of Legislative Affairs of the State Council, the Ministry of Public Security, the Ministry of Commerce, the SAIC, the GAC, the SCA, the State Food and Drug Administration, the Ministry of Information Industry, the General Administration of Quality Supervision, Inspection and Quarantine, the State IP office, the Supreme People's Court and the Supreme People's Procuratorate. Its responsibilities mainly include: promoting the establishment of an optimal system for IPR protection, promoting the construction of laws and regulations, promoting the establishment of an inter-departmental coordination mechanism, improving the conjunction of administrative enforcement and judicial enforcement, and strengthening the dissemination of IPR information and knowledge in the whole society.

Overall, the administrative agencies have authority over enforcement inspection, infringement investigation and raids.¹ They can also preside over mediation once the parties specifically agree on using mediation to settle the dispute regarding the amount of compensation. On the other hand, they have no authority to determine the amount of compensation. In other words, if the mediation has failed, the administrative agencies cannot award compensation to IPR holders; alternatively, the party may file a suit before the courts subject to civil procedure law. The administrative route has the merits of effectiveness and efficiency; therefore, many right holders prefer to use this route.² However, if actions or commodities infringe different kinds of IP rights, the effectiveness and efficiency of administrative enforcement largely depends on the coordination of the administrative agencies. Furthermore, the jurisdiction of the administrative agencies is generally limited within the local region. Complainants cannot obtain compensation from the administrative enforcement, even though the fines are levied on the infringers.

¹ Article 64 of Chinese Patent Law empowers the patent administrative agencies to investigate a suspected counterfeit case, and review and copy the involved contracts, invoices, account books and other materials. Both Article 48 of the Chinese Copyright Law and Article 53 of the Chinese Trademark Law provide that if enforcement agencies conclude that infringement has occurred, it may order the cessation of the infringement and may confiscate or destroy the infringing commodities and the tools especially used for the manufacturing of infringing commodities.

² Dahman, Samire B., *Protecting Your IP Rights in China: An Overview of the Process*, 1 Entrepreneurial Business Law Journal 63, 63 (2006).

6.1.2 Judicial enforcement route

The Chinese court system has four tiers: the Supreme People's Court, the Higher People's Courts, the Intermediate People's Courts and the Basic-Level People's Courts. The Supreme People's Court is the highest level, which is responsible to the National People's Congress. The Higher People's courts, the provincial courts, make up the second level. The Intermediate People's Courts are the second lowest local courts, which handle important local cases in the first instance and hear appeals from the basic courts. The basic courts are the courts at county and municipal district level. Judgments and orders of the second instance of intermediate courts, higher courts and the Supreme People's Court and judgments and orders of the first instance of the Supreme People's Court are final.

In general, there are two categories of IP disputes. One involves the procurement of IPRs, including the recognition, granting, maintenance and revocation of IPRs. Other disputes form the second category. If an issue falls into the first category, the Beijing Intermediate Courts have exclusive jurisdiction over it. In contrast, if an issue falls into the second category, other courts have jurisdiction subject to the relevant procedure laws. IP tribunals are established in China's judicial system to handle IP cases. The third civil tribunal of the Supreme People's Court is the IP tribunal. In addition, some higher courts, intermediate courts and basic-level courts also set up IP tribunals. As regards an infringement case that only involves civil issues, the case should be heard by the IP tribunal where the IP tribunal is established in that court. Otherwise, the case should be heard by the civil tribunal or the economic tribunal. In the circumstance where the party disagrees with punishment decisions made by administrative authorities, the party may bring a suit before administrative tribunals. If the party is suspected of a crime, the case should be heard by the criminal tribunal. On the other hand, some local courts are implementing reforms to allow their IP tribunals to hear all kinds of IP cases except ones of the first category.

According to the laws, in order to safeguard the rights and interests of IP holders, courts can adopt temporary measures to deter infringement and preserve evidence and property. In the event of IP infringement, courts can grant injunction, award compensation, confiscate illegal income and levy fines. If the conduct constitutes a crime, the offender will face criminal liability.

6.2 Achievement in recent years

6.2.1 Judicial interpretations regarding IP enforcement

In recent years, several judicial interpretations have been made by the Supreme People's Court and the Supreme People's Procuratorate to provide detailed and definite stipulations on IP law enforcement. In 2004, the Supreme People's Court and the Supreme People's Procuratorate jointly promulgated the Interpretations of Several Issues of Concrete Application of Laws in Handling Criminal Cases of IP Infringement.³ This establishes standards on the application

³ Fa Shi [2004] 19 Hao. It was promulgated on Dec. 8, 2004 and entered into force on Dec. 22, 2004.

of criminal law regarding IP crimes. Because it enumerates several cases in detail, which should be determined as crimes but are not definitely stated in criminal law, it actually lowers the threshold of penal punishment and thereby strengthens IP enforcement.

In 2007, the Supreme People's Court and the Supreme People's Procuratorate promulgated the Interpretations of Several Issues of Concrete Application of Laws in Handling Criminal Cases of IP Infringement (II).⁴ This stipulates the circumstances where probation cannot be given to those convicted of a crime, offers a non-exhaustive list of relevant factors to be considered in sentencing, gives interpretations of what circumstances constitute 'reproduction or distribution' as stated in Article 217 of the Criminal Law and so on.

Furthermore, the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security jointly released the Opinions on Several Issues of Application of Laws in Handling Criminal Cases of IP Infringement on Jan. 10, 2011.⁵ Different from previous judicial interpretations, this file provides more definitive and comprehensive guidelines on jurisdiction, the effect of evidence, conviction and identifying IP crimes. In particular, some articles aim to regulate rampant online IP infringement, which would promote IP protection.⁶

6.2.2 Special campaigns for IP enforcement

During the last few years, the national IP enforcement system has carried out a series of nationwide special campaigns for IP protection. In 2004, the Ministry of Public Security carried out the 'Eagle Action' ('Shan Ying Xing Dong'), which specifically fought against counterfeit registered trademarks and well-known trademarks. From Nov. 2004 to Apr. 2005, China's public security organs cracked 379 trademark infringement cases that involved 167 million Yuan and they arrested 625 suspected infringers.⁷ Once again, the Ministry of Public Security launched 'Eagle Action II' ('Shan Ying Er Hao Xing Dong') in 2006, determined

⁴ Fa Shi [2007] 6 Hao. It was promulgated on Apr. 4, 2007 and entered into force on Apr. 5, 2007.

⁵ Fa Fa [2011] 3 Hao.

⁶ *Id.* For example, Article 10 of the Opinions on Several Issues of Application of Laws in Handling Criminal Cases of IP Infringement enumerates some circumstances that can be identified as 'for profit purposes' in crimes of copyright infringement: (1) putting a paid advertisement or bundling works of a third-party into another's works, or other means to earn profits directly or indirectly; (2) offering advertising services on the website by means of distributing another's works online or using infringing materials uploaded by others to earn profits directly or indirectly; (3) distributing another's works online and using a membership subscription website business model to charge subscribers' registration fees or other fees; (4) other circumstances of using another's works to earn profits. The aforesaid circumstances are the popular business models that are adopted by IP infringers. In addition, the open-ended clause includes other potential circumstances constituting 'for profit purposes'.

⁷ 379 Cases of Trademark Infringement Were Cracked in the Eagle Action, available at <http://legal.people.com.cn/GB/42733/3351358.html> (last visited 12 July, 2013).

to crack down on all kinds of IP crimes. In this action, under the uniform deployment of the Ministry of Public Security, the local public security organs in 32 provincial cities and the majority of municipal cities established a comprehensive coordination mechanism.⁸ From March to December of 2006, China's public security organs cracked 3775 IP criminal cases that involved 260 million Yuan and arrested 5698 suspected infringers.⁹ In 2011, the Ministry of Public Security implemented the 'Showing Sword Action' ('Liang Jian Xing Dong'), fighting against crimes of IP infringement and the production and selling of shoddy goods. This campaign cracked 43550 cases that involved 2410 million Yuan and they apprehended 54858 suspected infringers, exposed 32573 crime dens and stopped 7731 crime gangs.¹⁰

The GAC also achieved remarkable results. Due to its outstanding contribution in IP enforcement, the GAC won the 'Governmental Agency Encouragement Award' in 2006, which was granted by the Global Anti-Counterfeiting Organization.¹¹ In the 'Double Combat Special Action' of 2011, the GAC actively took measures to seize suspected goods destined for import or export. In 2011, the GAC seized more than 18 thousand batches of infringing goods and 103 million articles.¹² In addition, due to the transparent style and its achievements in IP protection, the Global Anti-Counterfeiting Organization granted the unique 'Best Government Agency in Anti-Counterfeiting Award' to the GAC.¹³

6.2.3 Use of legitimate software by the Chinese government

Around 2000, the Chinese government bodies widely use pirate software.¹⁴ In June 2000, the State Council released Several Policies for Encouraging the Development of the Software Industry and Integrated Circuit, showing China's great determination to develop the software industry.¹⁵ It especially emphasizes the IP protection for software and states that no entity is allowed to use the software products without authorization. One year later, the Office of the State Council released a file entitled the Notice on Government Agencies Should Use Legitimate

⁸ The Ministry of Public Security Released the Relevant Information Regarding 'Eagle Action II', available at <http://www.mps.gov.cn/n16/n1237/n1432/n1522/138989.html> (last visited 12 July, 2013).

⁹ *Id.*

¹⁰ The SIPO Talks about the Status of IP Protection in China in 2011, available at http://cn.chinagate.cn/webcast/2012-05/02/content_25282686.htm (last visited 12 July, 2013).

¹¹ Chinese Customs Won 'Best Government Agency in Anti-Counterfeiting Award', available at <http://ip.people.com.cn/GB/152255/15041738.html> (last visited 12 July, 2013).

¹² *Supra* note 10.

¹³ *Supra* note 11.

¹⁴ Piracy Brings Disasters to Assembly Machines Produced by China, available at <http://news.sina.com.cn/w/2004-04-06/14053100131.shtml> (last visited 12 December, 2013).

¹⁵ Several Policies for Encouraging the Development of the Software Industry and Integrated Circuit, June 2000, No. 18 of the State Council.

Software and Clean Up the Pirated Software in the Lead, which launched the process of using legitimate software in the Chinese government. In 2004, the Office of the State Council promulgated the Notice on Local Government Should Use Legitimate Software, and required Chinese governmental organs and state-owned enterprises to establish a regular inspection system and complete the relevant work on time. Because of software upgrades, software license expiry, computer replacements and other reasons, the Chinese government launched a campaign in Oct. 2010 to examine and rectify problems related to the work of using legitimate software. At the end of June 2012, all the provincial governmental agencies have completed this task.¹⁶

6.2.4 Reflection of achievements

From the foregoing discussion, it can be observed that China has made considerable efforts to strengthen IP enforcement. On the one hand, it is good news for right holders and intellectual innovators because it is at least a promising start to create a good environment for IP protection. On the other hand, it should be noted that the enforcement measures have not eradicated or even decreased IPR infringement and copyright piracy. Right holders still encounter difficulties in protecting their rights. Foreign right holders still express insufficient confidence in seeking administrative and judicial remedies. These raise a question why China's efforts cannot produce a desired effect. Apart from the reasons of sufficient economic development and social cultures, which were discussed in the previous chapters, it should shed new light on institutional and political obstacles to analyze the enforcement problem. Effective enforcement requires reasonably allocation of resources among different organs. However, China's administrative enforcement system demonstrates an issue of overlapping jurisdictions between different authorities, which causes uncertainty of responsibility and accountability of enforcement institutions. Another serious difficulty is caused by local protectionism. In order to promote economic reform, the local governments are equipped with considerable authority to make decisions on local economic activities and establishment of administrative institutions. Consequently, local governments have their own motivations for failing to diligently enforce IPR once the enforcement would harm the local economic growth. As the scholar blames, 'the Chinese political structure has been transformed from one that was once reputed for its high degree of centralization and effectiveness into one in which the center has difficulty coordinating its own agents' behavior.'¹⁷ The local protectionism is not only an economic issue, but also reflects the weakness of the institutional structure, transparency of policy decision and implementation, and the rule of law. Therefore, it is necessary to give careful attention to institutional

¹⁶ Records about the Chinese Government's Efforts to Push the Process of Using Legitimate Software, available at http://www.sipo.gov.cn/ztzl/zxhd/kxfzcyjhh/kxfzcyjhhztwz/201210/t20121022_763064.html (last visited 12 July, 2013).

¹⁷ Wang, Shaoguang, *The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China*, in Walder, Andrew G., *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary* (University of California Press, Berkeley)109 (1995).

impediments and political impediments in studying IP enforcement, which will be discussed in the next section.

6.3 Contentious issues in IP enforcement

Despite the great achievements China has made, the level of enforcement still cannot satisfy the requirements of some advanced countries and their supportive IPR holders.¹⁸ In light of the continuous efforts in amending IP laws, the biggest challenge for IP protection is mainly about the limited effectiveness in enforcement. The following sections will analyze the challenges results from the administrative institutional system, professional competence of judges, forum shopping, rule of law in China, and other issues.

6.3.1 Optimize the administrative enforcement system for IP protection

Some problems existing in the administrative enforcement system have caused inefficiency in IP enforcement. Other than the common reason caused by insufficient economic development, the IP enforcement problem ‘results from the systemic dystrophy fundamental to Chinese institutional development.’¹⁹ As mentioned above, the administrative enforcement system involves more than 10 administrative agencies. Different administrative agencies have different responsibilities. In general, the SAIC and local Administration of Industry and Commerce are mainly in charge of law enforcement for trademark infringement; the SCA and local copyright bureaus crack down on copyright piracy and related illegal conduct and the local intellectual property bureaus are in charge of fighting against patent infringement, but the SIPO does not directly engage in enforcement activities. It should be noted that these agencies still have to deal with matters regarding administrative management, such as registration, regular management, official propaganda, education and so on. The administrative agencies need to allocate considerable manpower and other resources to deal with these duties. Therefore, as regards law enforcement, they usually feel that they are under considerable pressure. Furthermore, because there are several enforcement authorities, China sometimes shows a severe lack of coordination among them in IP enforcement. Such non-coordination can be observed from two aspects. One is that each authority only cares about matters that form part of their responsibilities in the circumstance where it is easy to identify the demarcation of responsibilities. The other aspect is that if their responsibilities overlap each other, conflicts of interests and opinions may occur.

Moreover, some authorities have limited power to ensure the efficiency of IP enforcement. For example, according to the Copyright Law, the copyright bureaus are the authorities for copyright enforcement and can confiscate illegal gains, confiscate and destroy the reproductions of infringement and impose fines on

¹⁸ Yu, Peter K., *The Rise and Decline of the Intellectual Property Powers*, 34 Campbell Law Review 525, 529 (2012).

¹⁹ Shi, Wei, *Incurable or Remediable? Clues to Undoing the Gordian Knot Tied by Intellectual Property Rights Enforcement in China*, 30 University of Pennsylvania Journal of International Law 542, 543 (2008).

infringers. In the case of gross infringement of copyright, the copyright administrative authorities may also confiscate the materials and equipment mainly used to make the reproductions of infringement.²⁰ However, the Copyright Law does not entitle the copyright administrations to seal or impound the suspected goods or equipment. As a result, if they need to preserve the evidence, they can only take a photograph of the related evidence or record it on video. These measures are not adequate to preserve the evidence and track the evidence, especially if the case involves online infringement.

Shortage of manpower is another difficulty. Some local copyright bureaus and IP bureaus have to handle burdensome administrative management work, so they assign a limited number of professional staff to deal with IP enforcement. Some copyright bureaus below municipal level have nothing more than a doorplate hanging together with the one of the local cultural administrative department;²¹ how can there be a question of IP enforcement under such conditions?

Furthermore, some infringing activities exhibit the characteristics of complexity and mobility, which increases the difficulties of IP enforcement. Infringers gradually learn to utilize high technology to imitate patents, produce pirated DVDs and software or produce counterfeit goods. The dens of these illegal activities are usually geographically dispersed and the location of them changes frequently. If only a limited number of professional staff are assigned for IP enforcement, the battle against IP infringement will be difficult to win or even continue.

Therefore, the level of enforcement in China at this point in issue is insufficient and insufficiently available. In order to solve these difficulties, China should take measures to reform the current IP enforcement system. The sensible way is to separate the administrative management departments and the enforcement departments. Thus, the IP bureaus, copyright bureaus and trademark bureaus can concentrate purely on the administrative management work, such as registration, records and other regular management. Meanwhile, they may provide consulting services for the public, provide services to help enterprises protect and utilize their IPRs appropriately and disseminate the knowledge regarding IP protection to the public. On the other hand, China should centralize the professional staff who are originally dispersed in several administrative agencies, in order to establish a special and relatively independent department for IP enforcement. There are some rationales for this proposal.

First, the characteristics of administrative management and enforcement are different. The purpose of the former is to provide services for right holders and the methods of such services generally include reviewing applications, registration and revocation of the registration. The latter aims to impose punishment on offenders and thereby the main measures of IP enforcement include preventive measures, administrative punishment and coercive measures. In this regard, administrative management and IP enforcement are separable.

Second, the centralization of the control of the administrative enforcement power has some outstanding merits. If a unified department is established particularly for IP enforcement, the lack of coordination between different

²⁰ The Copyright Law, art. 48.

²¹ IP Center of Chinese Academy of Social Science, *Research on Revolution of China's IP Protection System* [Zhongguo Zhishi Chanquan Baohu Tixi Gaigei Yanjiu] (Intellectual Property Press, Beijing) 86 (2008).

enforcement departments can be avoided. Thus, the efficiency and strength of IP enforcement are expected to be improved. Without non-coordination issues, the cost of administrative enforcement may decrease as well. In addition, when control has been centralized, it is more convenient to train staff to fight against all kinds of illegal activities.

Third, this proposal is feasible. A similar approach has been tested by practice by many foreign governments. For example, the IP agencies of the US, Canada, UK, Germany, Italy, France, Singapore, India and Japan have no direct responsibilities regarding administrative enforcement. In these countries, the tasks of IP administrative enforcement are undertaken by the police, customs or other professional enforcement organs. These organs that have a very powerful force and professional experience are competent to ensure the efficiency of IP enforcement.

In detail, if a particular department for IP enforcement is established, it can put such a department under the SAIC and local Administrations of Industry and Commerce, because the SAIC and its lower level agencies are the principal authorities for safeguarding the market order. Compared with other administrative agencies, the SAIC has more resources to supervise business activities and regulate competition. In fact, the Shenzhen government has successfully implemented a similar reform, which allows the Market Supervisory Bureau to take charge of all the administrative work in the regime of patents, trademarks and copyright. It should be noted that Shenzhen, a special administrative region in China, takes the lead in implementing a series of reforms regarding the administrative system. The Market Supervisory Bureau is an outcome of these reforms. Therefore, as regards other cities, the Administrations of Industry and Commerce is the principal authority for enforcing IPRs.

6.3.2 IP administrative enforcement for safeguarding private rights or public interests

In view of the coexistence of the administrative route and judicial route, right holders may file a suit before the court or complain to the administrative authorities in circumstances where their IPRs are infringed. The right holders often prefer to choose the administrative route due to its simple procedure and the psychological custom of Chinese people.²² In addition, compared to the judicial route, the administrative route is relatively less time and cost consuming, which is of interest to right holders.

All the infringement cases brought before the administrative authorities can generally be divided into two categories. One includes those cases only infringing private rights. The other includes those cases that not only infringe private rights but also harm public interests. In this regard, if the administrative authority handles a case that falls into the first category, the corresponding administrative enforcement merely protects private rights.

As regards administrative enforcement merely for private rights, the administrative authority should primarily investigate whether the complainant is the IP right holder, whether the IPRs are valid, whether the respondent infringes

²² In ancient Chinese society, people were extremely reluctant to file a civil suit or be involved in litigation.

IPRs and thereby decide whether the infringement should be stopped. The procedure and burden of proof are similar to the ones for civil litigation. Therefore, although such decisions are made by administrative authorities, the factors impacting decision-making are very similar to the judgment made by civil tribunals. When the administrative authority has made a decision on the issue but the party concerned does not agree with it, the party can bring a suit before the court. Such suits involve both civil disputes and administrative disputes, but most issues concern the former. These cases will be heard by civil tribunals or IP tribunals.

Furthermore, administrative authorities can preside over mediation upon the request of the parties to settle a dispute regarding the amount of compensation; but they have no authority to determine the amount of compensation.²³ Such stipulations are the modification points of the current IP laws. Under the previous IP laws, the administrative authorities might determine the amount of compensation in dealing with IP disputes. In other words, under the existing laws, if the mediation has failed, the administrative agencies cannot award compensation to IPR holders. Thus, the party will finally choose the judicial route. In fact, many right holders hope for both the order to stop infringement and compensation for damages. In view of this, as regards those cases only harming private rights but not public interests, the function of the administrative enforcement is limited.

Differently, the administrative enforcement for public interests refers to the enforcement of preventing or stopping illegal activities that undermine the market order and harm the interests of consumers, such as copyright piracy and trademark counterfeiting. As regards these illegal activities, the administrative authorities may take proactive actions to fight against them and do not need to wait for the complaint from right holders. In this circumstance, administrative decisions are aimed at pirates and counterfeiters rather than at right holders and, if necessary, the administrative authorities may impose punishment upon the pirates and counterfeiters, which is totally different from the administrative enforcement for private rights.

Therefore, it is suggested changing the administrative enforcement route. In detail, administrative enforcement only deals with IP infringing activities that harm public interests and the market order, but no longer deals with activities merely impairing private rights. As regards the latter, right holders can seek remedy through the judicial route.

6.3.3 Establishing IP courts of appeals

Among IP issues, there are some special issues due to their technology-intensive characteristics. For example, issues regarding patents, new plant varieties, integrated circuit layouts, know-how and computer programs are generally considered technology-intensive. The technology-intensive issues involve not only legal problems but also technical problems. In this respect, the cases involving such issues are different from the ones regarding trademarks, designs, copyright work except computer programs, or geographical indicators. Therefore, the judges who hear such cases should have the right qualifications. Taking into account these factors, the Supreme People's Court designates some intermediate people's courts to handle technology-intensive cases. Until the end of Oct. 2008, the number of

²³ Chinese Patent Law of 2008, art. 60; Chinese Copyright Law of 2010, art. 48, 55, and 56, Chinese Trademark Law, art. 53.

intermediate people's courts having jurisdiction over cases regarding patents, new plant varieties and integrated circuit layouts is 71, 38 and 43 respectively.²⁴

As regards these cases, there are 31 higher courts having jurisdiction to hear the second instance cases. Because 31 higher courts hear the appeals from about seventy intermediate courts, on average, each higher court handles the appeals from less than 3 intermediate courts. As a result, despite the small number of such cases brought before some higher courts, they still have to allocate the necessary resources to handle them, on a permanent basis. This causes both shortages and a waste of resources.

Moreover, forum shopping has become a general phenomenon in IP litigation. Although forum shopping is discouraged by rules of civil procedure, it would not be entirely eliminated as long as different level of effectiveness are still available. Litigants regard forum shopping as a practical approach to achieve a favorable judgment. In general, the plaintiff will select a forum that is not convenient to the defendant, or a court that is most likely to favor its case. Because of the increasing number and complex technical nature of IP cases, the efficiency of litigation as well as competence of judges is the first priority for IP holders. The efficiency of a court means a higher probability of successful evidence preservation or property preservation, or short duration of proceeding. Professional competence of judges would contribute to a decrease of the appeal ratio and modification ratio. However, the regional disparity also manifests in the performance of the court. For example, Table 6.1 presents the situation of copyright infringement litigation in five leading cities in Midwest China. Wuhan, Zhengzhou, and Changsha, leading cities of Middle China, are respectively the capitals of their provinces. The other two cities located in Southwest China. Chengdu is the capital of the Sichuan Province, and Chongqing is a municipality. The data date from 2006 and are obtained from a notable website analyzing IP litigations in China.²⁵ Table 6.1 shows the average time the courts spend on dealing with copyright infringement cases. This varies from 5 months to 7 months. There is also much difference in the second instance ratios in different courts. In detail, the second instance ratio in Wuhan is only 15%, while the ratios in Zhengzhou and Chengdu are higher, respectively 53% and 49%. The case is the same for the modification ratio, which refers to the percentage of the second instance cases in which the court amends the award made by the first instance court. The lowest ratio occurs in Chengdu, but the highest occurs in Zhengzhou. Similarly, such differences exist in the patent infringement litigation and trademark infringement litigation, which is demonstrated in Table 6.2 and Table 6.3. In general, a short term of litigation proceeding indicates high efficiency; and the low second instance ratio and modification ratio imply high competence of judges. Of course, these differences may also be caused by other factors, such as localism and independence of judicial enforcement, which would be discussed in the next section. Therefore, it is unsurprising that the litigants would like to go forum shopping to achieve an efficient and predictable outcome. However,

²⁴ The Supreme People's Court: Basic Achievement on Judicial Protection for IPRs in the Last 30 Years, available at http://www.court.gov.cn/zscq/dcyj/201205/t20120509_176778.html (last visited 12 July, 2013).

²⁵ CIELA (China IP Litigation Analysis), available at <http://www.ciel.cn/Content2.aspx?pageId=4&ppId=4&language=en> (last visited 28 September, 2013).

excessive forum shopping raises concerns about procedural fairness, substantive fairness and convenience for defendants. In this regard, it is necessary to reduce forum shopping mainly caused by regional disparity in courts' competence and performance. In light of the limited judicial resources, the immediate step could be to establish unified appeal courts to reduce the plaintiff's concerns about competency of judges and fairness of judicial decisions.

**Table 6.1 Comparison of copyright infringement litigation
in five leading cities in Midwest China**

	Wuhan (Hubei Province)	Zhengzhou (He'nan Province)	Changsha (Hu'nan Province)	Chengdu (Sichuan Province)	Chongqing
Type of damage (SD/LP/ OTHER)	97%/3%/0% (63 cases)	100%/0%/0% (30 cases)	94%/2%/4% (67 cases)	94%/2%/4% (36 cases)	97%/2%/1% (100 cases)
Average damages claimed	RMB 63,585	RMB 65,606	RMB 157,853	RMB 118,581	RMB 75,247
Average damages awarded	RMB 14,173	RMB 15,061	RMB 33,854	RMB 28,701	RMB 13,599
Damages awarded ratio	22%	23%	21%	24%	18%
Injunction ratio	75%	68%	83%	81%	79%
Duration of proceeding	6 months	5 months	7 months	5 months	5 months
Instance ratio	1 st : 85% 2 nd : 15%	1 st : 47% 2 nd : 53%	1 st : 68% 2 nd : 32%	1 st : 51% 2 nd : 49%	1 st : 59% 2 nd : 41%
Modification ratio	31%	31%	14%	22%	10%

Type of damage

SD: Statutory Damage

LP: Loss of Profit

OTHER: Damages awarded to the plaintiff calculated on other bases, such as infringers' illegal income and other bases.

Instance ratio: 1st refers to the percentage of cases that were ended in the first instance and parties did not appeal; 2nd refers to the percentage of cases in which one party or both of parties appealed.

Source: CIELA (China IP Litigation Analysis)²⁶

²⁶ *Id.*

**Table 6.2 Comparison of patent infringement litigation in five leading cities
in Midwest China**

	Wuhan (Hubei Province)	Zhengzhou (He'nan Province)	Changsha (Hu'nan Province)	Chengdu (Sichuan Province)	Chongqing
Type of damage (SD/LP/ OTHER)	64%/7%/29% (14 cases)	91%/2%/7% (86 cases)	85%/1%/14% (55 cases)	90%/0%/10% (31 cases)	88%/0%/12% (26 cases)
Average damages claimed	RMB 218,929	RMB 190,333	RMB 420,673	RMB 134,266	RMB 1,571,985
Average damages awarded	RMB 103,993	RMB 44,121	RMB 147,916	RMB 85,258	RMB 90,182
Damages awarded ratio	48%	23%	35%	63%	6%
Injunction ratio	88%	89%	87%	84%	72%
Duration of proceeding	8 months	6 months	9 months	6 months	7 months
Instance ratio	1 st : 70% 2 nd : 30%	1 st : 72% 2 nd : 28%	1 st : 85% 2 nd : 15%	1 st : 50% 2 nd : 40%	1 st : 44% 2 nd : 56%
Modification ratio	18%	17%	18%	18%	20%

Type of damage

SD: Statutory Damage

LP: Loss of Profit

OTHER: Damages awarded to the plaintiff calculated on other bases, such as infringers' illegal income and other bases.

Instance ratio: 1st refers to the percentage of cases that were ended in the first instance and parties did not appeal; 2nd refers to the percentage of cases in which one party or both of parties appealed.

Source: CIELA (China IP Litigation Analysis)²⁷

²⁷ *Id.*

**Table 6.3 Comparison of trademark infringement litigation in five leading cities
in Midwest China**

	Wuhan (Hubei Province)	Zhengzhou (He'nan Province)	Changsha (Hu'nan Province)	Chengdu (Sichuan Province)	Chongqing
Type of damage (SD/LP/ OTHER)	82%/0%/18% (22 cases)	99%/0%/1% (84 cases)	89%/2%/9% (76 cases)	86%/0%/14% (7 cases)	81%/0%/19% (67 cases)
Average damages claimed	RMB 318,095	RMB 185,381	RMB 233,677	RMB 313,590	RMB 188,194
Average damages awarded	RMB 98,790	RMB 32,142	RMB 70,488	RMB 134,286	RMB 48,102
Damages awarded ratio	31%	17%	30%	43%	26%
Injunction ratio	85%	82%	94%	88%	88%
Duration of proceeding	8 months	5 months	6 months	6 months	5 months
Instance ratio	1 st : 79% 2 nd : 21%	1 st : 80% 2 nd : 20%	1 st : 78% 2 nd : 22%	1 st : 28% 2 nd : 72%	1 st : 52% 2 nd : 48%
Modification ratio	43%	27%	18%	20%	9%

Type of damage

SD: Statutory Damage

LP: Loss of Profit

OTHER: Damages awarded to the plaintiff calculated on other bases, such as infringers' illegal income and other bases.

Instance ratio: 1st refers to the percentage of cases that were ended in the first instance and parties did not appeal; 2nd refers to the percentage of cases in which one party or both of parties appealed.

Source: CIELA (China IP Litigation Analysis)²⁸

²⁸ *Id.*

It is hereby proposed to establish several IP courts of appeals according to geographical distribution. These courts of appeals should specifically deal with the second instance technology-intensive cases, which involve patents, new plant varieties, integrated circuit layouts, computer programs and know-how issues. According to civil procedure law, the second instance courts should examine both the facts and law application of the case. If the number of appeal courts were too few, this would impose a heavy burden on them. In contrast, if the number were too great, the purpose of saving resources cannot be achieved. Therefore, it is suggested that six IP courts of appeals should be established, located in East China, North China, Northeast China, Northwest China, South Central China and Southwest China respectively. In each region, a higher court should be chosen as the court of appeals, which should have considerable experience in hearing these cases and of the ability to apply and develop advanced legal techniques for dealing with technological issues and legal issues. In these higher courts, it would be unnecessary to establish additional courts or IP tribunals; instead, the existing IP tribunals should be designated to handle appeal cases.

This approach has at least three merits. First, the courts of appeals may concentrate on hearing the technology-intensive cases. After centralizing these cases, the judges would gain more experience and thereby trial efficiency would be improved. Second, appointing some technical judges or technical investigators in the courts of appeals may be considered. Technical judges should have technical skills and job-related education or training. They are expected to present the technical issues relevant for decisions to legally qualified judges. They should also ensure that the court can handle issues involving a considerable level of technical complexity. In addition, they can help the court determine whether a further delay caused by a new submission of a party has justification. In other words, technical judges would contribute to expediting the decision-making process. Third, the establishment of the appeal courts may, to some extent, prevent the local protectionism brought about by the different geographical location of 31 higher courts.

Establishing courts of appeals is not a novel concept in the world, in view of other countries' judicial history. For example, the US established the Court of Appeals for the Federal Circuit in 1982, which has nationwide jurisdiction in some special subject areas, including patents, trademarks, government contracts and other claims.²⁹ The United States Court of Appeals can hear appeals from all federal district courts.³⁰ Another example is the Federal Patent Court of Germany, which was established in 1961. It has jurisdiction over cases involving the grant, denial or withdrawal of industrial property rights.³¹ In detail, it can hear the appeals against decisions made by the German Patent and Trade Mark Office regarding patents, trademarks, utility models and designs, and against decisions of the boards of appeal of the Federal Office of Plant Varieties regarding plant variety

²⁹ Court jurisdiction, available at <http://www.cafc.uscourts.gov/the-court/court-jurisdiction.html> (last visited 28 September, 2013).

³⁰ *Supra* note 24.

³¹ Gericht, Bundes Patent, available at

<http://www.bundespatentgericht.de/cms/index.php?lang=en> (last visited 28 September, 2013); also see Guo, Shoukang & Li, Jian, *China's IPR Specialized Tribunals [Wo Guo Zhi Shi Chan Quan Shen Pan Zu Zhi Zhuan Men Hua Wu Ti Yan Jiu]*, 3 Jurists Review [Fa Xue Jia] 59, 59-65 (2008).

rights.³² However, it does not handle disputes about infringement or the amount of remedy, for which the civil courts have jurisdiction.³³ These approaches can be taken as a reference for China's judicial reform in this area.

6.3.4 Rule of law

Rule of law can be simply defined as 'the supremacy of law as opposed to the arbitrary power of government'.³⁴ During the past three decades since the introduction of the 'reform and opening-up' policies, China has concentrated efforts to promote the rule of law. Despite serious defects, the rule of law has been gradually established as a fundamental state principle and a common understanding of the society. The progress can be observed in establishing a legal system, building a government under the rule of law, building a fair and independent judicial system, fostering popular understanding of the rule of law, and promoting international corporation in combating illegal conducts.³⁵

Although rule of law is not the only matter of IPR regime, it has a considerable influence on IP enforcement. Despite the aforesaid progress, the impediments to IP protection still exist, mainly including incompetence, corruption, localism, lack of judicial independence and other factors.

A. Incompetence

Competence of judges and court personnel is crucial for implementing rule of law. Judges should operate with skill, efficiency as well as professionalism. Likewise, the decision and ruling of a court should be fair, lawful and reasonable. It can be envisaged that poorly educated and inexperienced judges neither have capabilities to ensure the application and interpretation of laws with a uniform standard, nor to offer expert guidance for further cases. China experiences severe difficulties all along in building a sufficient pool of competent judicial personnel. In order to ensure the necessary qualification of judges, China enacted the Judges Law in 1995.³⁶ The law regulates the qualification standards of judges, and emphasizes the examination and professional training for judges. The new Judges Law, amended in 2001, requires that junior judges and assistant judges should have obtained the bachelor degree and passed the 'Unified National Bar Examination'. This examination is a threshold for the legal professions, including judges, junior prosecutors, and lawyers. It aims at improving the competence of judicial staff in general. By the end of 2011, about 500,000 people had passed this examination.³⁷

³² *Supra* note 31.

³³ *Id.*

³⁴ Berkman, Jeffrey W., *Intellectual Property Rights in the P.R.C.: Impediments to Protection And The Need for The Rule of Law*, 15 UCLA Pacific Basin Law Journal, 34, 1 - 44 (1996).

³⁵ The State Council Information Office published a white paper entitled China's Efforts and Achievements in Promoting the Rule of Law, available at http://www.china.org.cn/government/news/2008-02/28/content_11025486.htm (last visited 2 December, 2013).

³⁶ Judges Law, enacted on 28 Feb., 1995.

³⁷ Judicial Reform in China, available at

Moreover, the Supreme People's Court has organized a lot of training for judges; as a result, nearly 85,000 judges have received training in the recent 5 years.³⁸ Since 2009, the Supreme People's Court have implemented special training for the presidents of the middle and district courts, in which 5202 presidents participated.³⁹

Despite these achievements, there are still some challenges in building competent judicial personnel. Currently, China has approximately 196,000 judges, accounting for 58 percent of total number of the court employees.⁴⁰ Until 2008, only about 10,000 judges have master's or doctoral degrees.⁴¹ Some judges with less skills and intelligence seem incapable of dealing with complex legal issues and ambiguities in laws. Although special training contributes to improving judges' skills, judges in less-developed areas do not have the same learning opportunities as ones in developed areas, because the latter have more opportunities to deal with new types of disputes arising along with the urban high-speed development and access more educational resources. For example, Shanghai courts organize training through research programs.⁴² In detail, the high court selects several important research topics, which lower-level courts put forward proposals to bid for. A committee composed of professors, experts and senior judges reviews the proposals and thereby decides to approve certain proposals.⁴³ Furthermore, Shanghai courts have launched a long-term plan that encourages their judges to pursue a higher academic study and obtain a master's degree.⁴⁴ However, such professional and academic training is not always available for courts in less-developed areas.

More importantly, the quality of legal education in China causes concerns about the competence. First, the number of law undergraduate students had greatly increased to 520,000 by the end of 2008, which is 200 times of the number of 30 years ago. Meanwhile, China have established 603 law schools, increasing 105 times compared with 30 years ago.⁴⁵ However, such a massive scale of legal education have resulted in the general decline of curriculum quality because of the limited teaching resources cannot satisfy the needs of drastic expansion of Chinese

http://www.china.org.cn/government/whitepaper/2012-10/09/content_26733731.htm (last visited 1 December, 2013).

³⁸ Illiteracy, and Illiteracy in Law Is Eliminated in Judge Staff, *Legal Daily* (July 26, 2013); also available at

<http://epaper.legaldaily.com.cn/fzrb/content/20130726/Article05001GN.htm> (last visited 1 December, 2013).

³⁹ *Id.*

⁴⁰ The Number of Chinese Judges Is Close to 200,000, available at http://www.chinadaily.com.cn/hqj/zxqxb/2013-07-25/content_9677804.html (last visited 11 November, 2013).

⁴¹ Time Keywords Witness Changes of Judges in The Past 30 years, available at http://www.legaldaily.com.cn/bm/content/2008-12/07/content_996843.htm (last visited 11 November, 2013).

⁴² Gechlik, Meiying, *Judicial Reform in China: Lessons from Shanghai*, 19 Columbia Journal of Asian Law 124, 97-137 (2005).

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ 2009 Blue Book of Rule of Law in China – Development Report of Rule of Law in China.

legal education. Professor Jiang Ping, the former president of China University of Political Science and Law, points out that the scarcity of educational resources would cause difficulties in cultivating first - class talents as well as qualified legal practitioners.⁴⁶ Second, Chinese legal profession exerts little influence on legal academic education. Because the threshold of the legal profession is the bar examination and a bachelor degree, the legal profession is separated from the legal education. As a result, Chinese law schools face little pressure from the legal profession, and the teaching quality cannot be evaluated directly by the legal profession. Moreover, Chinese legal education aims to train professionals not only for judicial system and legal service, but also for enterprise management and government administration.⁴⁷ In addition, the bachelor degree that the legal profession requires does not limit to the Bachelor in Law, but includes the bachelor degree in other subjects. In other words, a person who does not receive a systematic academic education in law can enter the legal profession if only he/she passed the national bar examination. Therefore, Chinese legal education does not yet play a proper role in improving legal profession.

B. Corruption

The rule of law can hardly survive without honest judiciary, which is usually hampered by judicial corruption. Judicial corruption discourages public respect to the law in general and undermines public confidence in building a country ruled by law. Judicial corruption encompasses various forms: abuse of procedure rules to allow or dismiss cases, false statement of the facts that would lead to desired conclusions, and false interpretation of laws and regulations to partially favor one party in litigation. The motives of judicial corruption are actual bribes, potential interests in wealth and power and other reasons. The sources of corruption lie in both inside and outside the judiciary. Other than the interference from the internal judicial system, the administrative, political and even individual interference usually threatens the honest judiciary. Judicial corruption is tightly attached to those outside sources of corruption.⁴⁸

Detailed statistics of judicial corruption are unavailable for the public. The successive reports made by the Supreme People's Court and submitted to the National People's Congress provide some reference concerning violation of laws and discipline. Although such conduct is not equivalent to judicial corruption, it at least indicates a significant number of violators in the court employees. It may also indicate the situation of judicial corruption because of the close relationship between them in many circumstances. Table 6.4 shows the statistics of judges and other court employees violating laws or disciplines from 2008 to 2012. The statistics demonstrate a three times increase in 2012 compared to 2011 in the number of legal violation. Although the number of 2012 concerning being prosecuted is not mentioned in the Supreme Court's report, the figures of previous

⁴⁶ Summary on Forum of Four Deans of Law Schools, available at http://article.chinalawinfo.com/Article_Detail.asp?ArticleID=1697 (last visited 11 November, 2013).

⁴⁷ He, Weifang, *China's Legal Profession: The Nascence and Growing Pains of A Professionalized Legal*, 19 Columbia Journal of Asian Law 146, 138-51(2005).

⁴⁸ Eric Chi-yeung Ip, *Judicial Corruption and Its Threats to National Governance in China*, available at http://joaag.com/uploads/8_IpFinal.pdf (last visited 11 November, 2013).

years draw a disappointing picture of severely breaking legal rules. Especially, a piece of recent news attracts wide attentions. Five senior judges of Shanghai Higher People's Court were penalized because of the prostitution scandal. After a 10-minute video, showing five judges summoning prostitutes in Shanghai's Pudong New Area, was posted on Sina Micro-blogging, the Court had launched an investigation immediately.⁴⁹ Soon, the facts were verified.⁵⁰ Three of the five judges have been expelled three court officials from the Communist Party of China (CPC), and four of them have been suspended from their duties.⁵¹

Table 6.4 Statistics of judges and other court employees violating laws or disciplines in 2008-2012

Year	Number of violating laws or discipline (Unit: person)	Number of being prosecuted (Unit: person)
2012	1548	unknown
2011	519	77
2010	783	113
2009	795	137
2008	712	105

Source: Data collected from the Annual Working Reports of the Supreme People's Court⁵²

In fact, China has paid considerable attention to the importance of honest judiciary. In order to maintain the judicial justice and combat judicial corruption, Judges Law explicitly prohibits judges taking bribes or doing business for profits. Not only that, the corresponding judicial interpretation stipulates that the judge violating the prohibition will be disciplined or dismissed.⁵³ If the judge violates the

⁴⁹ Judges of Shanghai Court Collectively Summoned Prostitutes and Were Expelled From CPC, available at <http://news.qq.com/a/20130806/018033.htm> (last visited 06 November, 2013).

⁵⁰ Shanghai Judges Penalized over Prostitution Scandal, available at <http://english.people.com.cn/90882/8355133.html> (last visited 06 November, 2013).

⁵¹ *Id.*

⁵² The Annual Working Reports of the Supreme People's Court, available at http://www.gov.cn/test/2008-03/21/content_925627.htm (last visited 06 November, 2013); the number of persons who entered into criminal judicial proceedings in 2012 is not mentioned in the Working Report.

⁵³ Supreme People's Court, Several Rules Concerning the Strict Enforcement of the Severe Punishment System Enshrined in the Judges Law of China, enacted 10 June 2003, art. 15, 16, 18, available at <http://www.china.com.cn/chinese/PI-c/350464.htm> (last visited 06 November, 2013).

criminal law, he/she would face public criminal prosecution. The Supreme Court also open a website to receive tip-offs, both in real name and in anonymity.⁵⁴ According to Supreme Court, the information will be reported on the network to ensure response to each tip-off. These endeavors present China's determination to reduce judicial corruption. However, serious dishonesty in judiciary always poses strong challenges to rule of law; consequently, it is necessary to further intensify supervision on the operation of judicial power, to conduct all-dimensional supervision on trial and enforcement activities, and to develop more ethic training for judges and other employees in courts.

C. Localism

In the process of building the socialist economy, China adopts an important measure to promote economic reform – decentralizing authority to local government. This policy allows local governments to independently deal with locally microeconomic management. On the one hand, the decentralization of authority has great merits of developing local economy. On the other hand, it also results in a degree of localism that hinders the further economic reform and social development. A modern society, a long-term goal China is pursuing, requires a legal system that have strong enforcement capability to resist external interference from the government, the army and political party. Localism usually takes two forms. One is right holders or administrative agencies are confronted with official leaders who are lax in carrying out their duties because of the engagement in bribes or illegal activities. The other is officials are unwilling to enforce the laws if the enforcement would harm local economic pillars or important sources of local revenue.⁵⁵ For example, Tsinghua University, a leading university in China, encountered localism in safeguarding its patent rights.⁵⁶ In 2007, Tsinghua University brought a suit against an enterprise located in the Southwest China based on the finding that its several patents were infringed by that enterprise.⁵⁷ Due to localism, the claims brought by Tsinghua University were dismissed by both the first instance court and the second instance court.⁵⁸ During the course of the litigation, the local IP governmental department attempted to persuade Tsinghua University to give up its claims by stating that the alleged enterprise was a business entity located in their less – developed county. Such a statement implies the reason of local protectionism.⁵⁹ Fortunately, the Supreme Court reversed the judgments made by the lower courts and awarded RMB 300,000 in economic damages to Tsinghua University.⁶⁰ Although Tsinghua University seemingly won the case, such a damage remedy seems nothing for a patent infringement, especially continuing for a long time. Foreign enterprises often experience similar difficulties

⁵⁴ The address of the website is <http://jubao.court.gov.cn> (last visited 06 November, 2013).

⁵⁵ *Supra* note 34, at 19.

⁵⁶ Tsinghua University's Difficult Experience in Safeguarding IPRs: IP Cases Encounter Localism, available at <http://news.sciencenet.cn/htmlnews/2012/3/261106.shtm> (last visited 06 November, 2013).

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.*

as well. In 2010, EU Chamber of Commerce carried out an investigation concerning enterprises' confidence in business. Among 514 enterprises doing business in China, 39% of them were unsatisfied with the law enforcement in China, 29% were disappointed with the IP protection in China, and 26% believed local government tended to protect local enterprises.⁶¹ They also complained that, due to the prevalence of localism, European enterprises had encountered more serious discrimination in Chinese middle-small cities than that in big cities.⁶² In this regard, localism has become an obstacle for the rule of law and IP enforcement. Therefore, it is important to minimize the localism in China. The central government should prohibit local government from paying attention only on local economic revenue but ignoring IP protection. It also should ensure the uniform in nationwide law enforcement, and establish an accountability mechanism to punish officials who intentionally harbor IP infringement or crimes. Thus, it can be expected to establish a fair and just environment for IP enforcement.

D. Judicial independence

Lack of judicial independence threatens the rule of law and hinders IP enforcement. Plenty of cases handled by basic courts are interfered by officials who have less respect for law, where it is common that governmental departments or officials 'care' about particular cases in various ways.⁶³ The interference, sometimes, occurs in cases handled by courts at higher level as well. The root reasons of interference may be explored from the following two aspects. First, the ambiguous legislation leaves room for interference. Due to the ambiguity in laws and the lack of legislative and judicial interpretations, judges interpret and apply the law based on their understanding or opinions of the adjudication committee or superior courts. And even, some powerful officials require judges to make interpretations favoring a party. Second, the appointment and promotion of judges are dependent on local governments. For example, in Shanghai, the presidents of basic courts were selected by its Higher Court together with the local Party organizations around 2002.⁶⁴ The Party organization agreed with Shanghai Higher Court concerning the nominations in most cases.⁶⁵ Nevertheless, the Party organization sometimes rejects the court's proposal and recommended candidates who had never received legal education and were not qualified for judicial work because it completely ignored the importance of competence of judges.⁶⁶ Moreover, the financial funds for courts are managed local governments. As a result, the court likely plays a role of the government agency, rather than an isolated organ of independently applying laws. According to Chinese official policy, China has

⁶¹ Localism Is Prevalent in China, European Enterprises Confront Discrimination, available at <http://finance.ifeng.com/news/hqcj/20100723/2436845.shtml> (last visited 07 November, 2013).

⁶² *Id.*

⁶³ Yu Wei, Who Is Interfering the Judicial Independence, available at <http://news.sina.com.cn/c/sd/2011-03-02/143822039887.shtml> (last visited 07 November, 2013).

⁶⁴ *Supra* note 42, at 121.

⁶⁵ *Id.*

⁶⁶ *Id.*

attempted to launch judicial reforms to promote judicial independence,⁶⁷ but have not achieved overall progress. Ji Weidong, a famous legal scholar in China, expresses his hope in his article that judicial independence would be achieved before 2018.⁶⁸

E. Other factors

Other than the aforesaid issues, there are other factors impacting the rule of law and IPR enforcement. All the sectors of the society hope for a transparent legislative system. The related documents in the process of legislation should be published, not only the enacted laws, but also interpretations, decisions and documents regarding legislation. It merits noting a progress that the several drafts and interpretations of the third round revisions of the Copyright Law were officially released.⁶⁹ The detailed explanation on revisions encourages a wide discussion among the industry and the masses. Several sensible suggestions have been included in the new version of the modification. It is reasonable to believe that an IP law considering helpful opinions from the industry and the masses would be better than one completed behind closed doors.

The competence of administrative officials arises concerns of right holders. China's IP laws and regulations grant administrative officials the authority to implement investigation proactively or upon the requests of right holders. This arrangement aims to improve the efficiency of IP enforcement and free the courts from cases involving sole IP matters. In this regards, these officials should be familiar with the related laws and legal procedures, because the professional competence of administrative officials to some extent decides the outcomes of administrative enforcement. Therefore, China must ensure proper training offered to them.

The concerns about the competence of administrative officials apply to lawyers as well. By the end of 2010, the number of lawyers nearly approaches to 200,000.⁷⁰ Lawyers should use their legal knowledge and techniques to offer their professional opinions and assistance for the interested parties. Lawyers play an important role in the modern society, especially for the society where people generally have little understanding of laws. Well-trained lawyers are helpful for

⁶⁷ Chinese official policy, namely China's White Paper for Judicial Reform, released in October 2012, emphasizes the importance of judicial reform, available at

<http://www.chinalaw.org.cn/html/ljrd/3310.html> (last visited 07 November, 2013).

⁶⁸ Ji, Weidong, *Building the Rule of Law Roadmap and Timetable For China*, 347 China Reform, available at

<http://magazine.caixin.com/2012-10-04/100444023.html> (last visited 07 November, 2013).

⁶⁹ China's Copyright Office Requests Comments on Copyright Law, available at http://www.gov.cn/gzdt/2012-07/10/content_2180033.htm (last visited 07 November, 2013); also available at <http://www.gapp.gov.cn/govpublic/96/116997.shtml> (last visited 07 November, 2013); also see Volper, Thomas E., *TRIPS Enforcement in China: A Case for Judicial Transparency*, 33 Brooklyn Journal of Intellectual Law 309, 309-10 (2007).

⁷⁰ The Number of Lawyers Personnel Is Nearly to 200,000, available at http://news.xinhuanet.com/legal/2010-11/23/c_12806164.htm (last visited 07 November, 2013).

court proceeding, because their assistance and expertise may improve the efficiency of proceeding and free the courts from trivia. In contrast, unqualified lawyers would have deleterious effects on proceedings. Judges cannot learn from them. It is necessary to note that some lawyers, who have passed the national bar examination, in fact have not received academic legal education. Few of them have comprehensive and systematic understanding of legal principles and the legal system. If worse, having little experience, they seem to be incapable to handle complex cases. In order to build the pool of competent lawyers, China has adopted several measures. First, China enacts the Lawyer Law that provides the qualification, training requirements, and ethical standards for lawyers.⁷¹ Second, Chinese government and lawyer associations has organized a variety kinds of training for lawyers, domestically or overseas.⁷² Lawyers are also encouraged to study international laws and foreign legal systems to deal with new challenges brought by the globalization. These efforts are expected to continue.

6.4 Conclusion

China's considerable efforts to improve IP enforcement can be observed from various aspects. In order to adapt to the changed situation, China has subsequently enacted and revised a series of laws, judicial interpretations and relevant legal files, aiming to create a good legal environment for IP protection. As regards the widespread piracy and counterfeiting, China has consistently launched several special campaigns to fight against these illegal acts during the last ten years. These campaigns have achieved great success in view of the effects on the market and consumers. China's efforts can also be praised because of the consistency and transparency of its policies and measures. Furthermore, China is endeavoring to popularize the use of legitimate software, and this work has generally been completed at provincial level.

On the other hand, China may achieve more through further reforms in future. Just like what Professor Yu said, the success in resolving enforcement problems can be partly attributed to the will of the policymakers to put IP protection at the very top of the political agenda.⁷³ In order to improve the efficiency of IP enforcement, China could establish a unique and particular department to optimize the administrative enforcement system. Moreover, it could separate the administrative enforcement for public interests and for private rights only, and the

⁷¹ China's Lawyer Law, enacted in May 1996 and revised in October 2007.

⁷² Ministry of Justice Released Notices on Further Standardizing The Training For Lawyers, available at http://china.findlaw.cn/fagui/p_1/339095.html (last visited 09 November, 2013);

Training of 2012 For Senior Solicitor Was Successfully Ended, available at http://www.moj.gov.cn/sfxzxy/content/2012-11/13/content_3981970.htm?node=4139 (last visited 09 November, 2013); Special Website For Lawyer Training, available at <http://www.aclaedu.cn> (last visited 09 November, 2013).

⁷³ Yu, Peter K., *Three Questions That Will Make You Rethink the US - China Intellectual Property Debate*, John Marshall Review of Intellectual Property Law 412, 413 (2008).

administrative enforcement should concentrate on safeguarding public interests that are harmed by IP infringement. As regards infringement that harms private rights only, the jurisdiction could lie with the civil courts. China could establish courts of appeals to handle at least the technology-intensive cases and appoint technical judges, which would improve trial efficiency and the ability to deal with disputes involving complex technologies. In addition, the rule of law would improve the IPR enforcement. In summary, IP enforcement is an arduous task for China and the road ahead is still long.

Chapter 7

Summary and Conclusion

7.1 The issue of intellectual property protection

Ideas and knowledge are essential components of modern society. People prefer the products that contain high-technology and novel designs to improve the efficiency of their lives and to enjoy the visual richness of our wonderful world. As a result, the value of such products has increased greatly. With the evolution of information technology and cultural markets, people have more opportunities to access music recordings, books, films, computer software and other cultural products. The cultural industry has become an important source of national revenue, especially in some advanced countries. Furthermore, new biotechnology products, new plant varieties and other outcomes of information and technology are also changing people's lives.

Both innovations and creations need IP protection to safeguard R&D and investment. However, the traditional IP system is being challenged by the complexity and diversity of technology. The emergence of new technology calls for the extension of IPRs to new subject matters, including genetic creation, plant varieties, software and so on. New technology itself increases the ability of preventing legitimate access to creations and innovations through technological barriers, such as encryption or other technological measures. On the other hand, new technology makes imitation and piracy much easier. By using high technology, the quality of imitated products increases as well. Some imitated products are very popular because of the low price advantage and the small difference between the original and imitated products. To some extent, this also contributes to the rampant piracy and imitation in some countries. These challenges have broken the original balance of interests between right holders and the public.

In order to adapt to social changes, a new balance ought to be achieved. Strong IP protection will stimulate innovation, literary and artistic creation, and market development; nevertheless, it may also increase the cost of subsequent innovations and thereby reduce public interests. IP protection would have effects on trade flows, FDI and R&D, which are important parts of the industries. Furthermore, countries that are members of the international IP treaties should comply with the requirements laid down by the global community. Therefore, designing an IPR system should be based on multiple considerations. In other words, under the international framework of IP protection, countries may develop an appropriate IPR system from their own standpoint.

Several approaches are usually used to strike the balance of the IP regime, including limiting the scope of protection, setting the length of protection duration, stipulating exceptions or limitations to IPRs and so on. The scope of protection means which subject matters IPRs can be granted to. For example, copyright only protects expression but not ideas. Likewise, IP holders have exclusive rights to exploit their IPRs during the term of protection; but after this term, their creation

will enter into the public domain. In addition, exceptions or limitations to IPRs are useful to ensure public interests under certain circumstance, such as the doctrine of fair use and compulsory licenses.

In this respect, the key issue concerning IP protection is how to establish an appropriate and efficient system to safeguard IPRs. A good system will encourage innovation and creation, relieve the hardship suffered by right holders and improve the efficiency of enforcement.

7.2 The dynamic of China's development

The orientation of China's efforts originated from both its serious desire to participate in globalization and the domestic needs of its industrial, social and cultural sectors.

China has made great efforts to amend laws and regulations to be more consistent with the international regulations, in preparation of its accession to the most influential IP organizations in the world. The WIPO plays a major role at the formation stage of China's IP protection. Since China became a member country, it has ratified a series of international conventions and agreements, which are embedded in the relevant national laws. For example, the first Patent Law was formulated referring to the Paris Convention and the first Copyright Law was framed based on the Universal Copyright Convention. Moreover, after entering into the Berne Convention, China has revised the Copyright Law to comply with its obligations. China's WTO membership is another source of pressure. It is well known that the TRIPS agreement, one of the most important agreements in the WTO system, has established a minimum standard for IP protection. Pursuant to the Protocol of Accession for China, China must comply fully with the TRIPS Agreement upon its entry into the WTO. After acceding to the WTO, China has devoted itself to reforming its IP system in fear of retaliation, which may be incurred following any violation.

The external stimulus comes from the pressure of some advanced countries. A typical example is the US. It is not only a leading country in the regime of innovation and artistic creation, but also one of the most important trade partners of China. The US uses the memorandum of understanding on IPRs, Section 301, and the Special 301 Report to urge China to optimize its IP laws and improve the level of IP protection. The US also uses the WTO Dispute Settlement mechanism Body to enforce international IP rules in China. Besides, the EU adopts 'soft' approaches to achieve similar purposes.

The internal dynamics is the other factor, and is even the strongest motivation behind the comprehensive revolution in the IP regime. China's socialist market economy needs a healthy environment to respond to domestic needs. During the past several years, the tremendous increase in patent applications and patents granted, trademark applications and trademarks granted, and copyright registrations generally indicate the domestic need to protect IPRs. As discussed in previous chapters, now the total number of trademark applications and patent applications ranks number one in the world. The value of brand is gradually recognized and exploited in commercial business. Trademarks are used to apply for loans and become the subject matters of many commercial transactions. The industries of computer software, film production, television program production, animation and music, due to their drastic evolvement and upward trend, have

become important elements of Chinese economy. Therefore, both industrial development and cultural prosperity need an optimal system for IP protection.

Nevertheless, imitated patents, piracy and counterfeit goods are rampant throughout China, seriously distorting the normal economic order. In each campaign fighting against counterfeits and piracy, numerous pieces of products are involved, and the total value of suspected infringing goods is huge. Plenty of world-renowned luxury brands have been counterfeited, many design patents are infringed and a large number of DVDs are illegally reproduced. This disappointing phenomenon will inevitably discourage intellectual creation. Consequently, strengthening IP protection is imperative, including providing for facts effective and efficient enforcement of IPRs.

7.3 The achievements in legislation and enforcement

Since the establishment of the modern IP system, China has launched several rounds of revision of laws. In order to adapt to the market economy, the first round of revision for the Patent Law and the Trademark Law was launched around 1992. The second round of comprehensive revisions for the three IP Laws happened around 2000, pushed by China's motivation to join the WTO. The third round took place in 2008 for the Patent Law, and in 2010 for the Copyright Law. Currently, China is working on a new round of revision with an ambition of building an innovation country where innovative technology and knowledge substantially contribute to the domestic economy. As a result, these efforts have expanded the scope of IP protection to cover new kinds of subject matter, simplify the process of application to encourage registration, increase the maximum statutory compensation to offer a more effective remedy for right holders, and add limitations to IPRs to safeguard public interests.

The first Patent Law came into force in 1984. After that, it was revised three times, in 1992, 2000 and 2008 respectively. The revisions clarify the ownership of employee inventions; recognize the right to remuneration of the employee inventor; provide patentees with a new exclusive right to 'offer to sell'; confirm that using, selling and offering to sell a patented product without a license from the patentee would be an infringement, even where an act in good faith is concerned; create a system of pre-trial injunction; introduce an 'absolute standard' to raise the novelty standard; stipulate the conditions for implementing a compulsory license; and accept the concept of international patent exhaustion. Generally, all the amendments aim to strengthen IP protection, facilitate procedures of patent application, examination and assignment, promote the national innovation capacity and build a more advanced IP regime in China.

The first Copyright Law was enacted in 1990. It sets up a basic legal framework for copyright protection, which includes the necessary contents of a modern copyright legal system, such as legislative objectives, definitions of conceptions, the scope of protection, contents of copyrights and so on. Only one year later, the Regulations for the Implementation of the Copyright Law of the People's Republic of China were promulgated,¹ providing explanations for the

¹ The Regulations for the Implementation of the Copyright Law of the People's Republic of China were issued on 30 May, 1991, and entered into force on June 1, 1991.

implementation of the Copyright Law in detail. Almost at the same time, the Regulations for the Protection of Computer Software were issued,² presenting China's attitudes towards fighting against software piracy. The revision of 2001 that prepares for the entry into the WTO substantially increases copyright protection and reduces legal uncertainty. It explicitly offers copyright protection to works of foreigners, as well as stateless persons, as long as the work is first published in China, or enjoys copyright under international treaties. It details the economic rights and increases the rental right, the right of presentation and the right to network dissemination of information. In order to improve protection for the rights of publishers, performers, phonogram producers and broadcasting organizations, the Copyright Law of 2001 enriches the content of related rights. It also adds provisions concerning the collective management of copyright. More importantly, it is the first time that temporary measures in the enforcement process are stipulated, including preservation of evidence, preservation of property and temporary injunction. In response to the decision of the WTO panel, the revision of 2010 deletes the provision denying protection for prohibited works. In addition, this revision adds an article requiring copyright holders to go through the record procedure before obtaining a mortgage.

As regards trademark law, the first and second rounds of revisions greatly expanded the scope of protection for trademarks. As a result, three-dimensional marks can be registered; protection for collective trademarks, geographical indications and source indications are embedded into the trademark system; natural persons can be eligible proprietors of a trademark; and the provisions regarding well-known trademark protection have been revised to comply with international treaties. In order to ensure the justice of the trademark system, the revisions introduce judicial procedures to settle trademark disputes. In detail, the right owners and stakeholders have the right to file a judicial suit in cases where a party disagrees with the decision of the Trademark Review and Adjudication Board regarding the revocation of a registered trademark, or the decision of the administrative authorities relating to penalties. The third round of revisions will create the forthcoming trademark law. Under the new draft, non-traditional marks, such as sound and scent, will be eligible for registration, trademark registration applications in electronic format will be allowed, registration in bad faith will lead to negative effects and the maximum statutory compensation will increase significantly.

At international level, China has ratified a series of international conventions, as well as the TRIPS Agreement. It acceded to the Paris Convention in 1985 and signed the Patent Cooperation Treaty in 1994,³ which is of significance for patent protection. As regards copyright issues, China acceded to the Berne Convention in 1992,⁴ the UCC in 1992⁵ and the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of Their Phonograms

² The Regulations for the Protection of Computer Software were issued on June 4, 1991; and entered into force on October 1, 1991.

³ China ratified the Patent Cooperation Treaty in 1994.

⁴ Berne Convention for the Protection of Literary and Artistic Works (Berne Convention), Sept. 9, 1886, as last revised in Paris, July 24, 1971, 828 U. N. T. S. 221. China decided to accede to it on July 1, 1992.

⁵ Universal Copyright Convention, Sept. 6, 1952, as last revised in Paris, July 24, 1971, 216 U. N. T. S. 133. China acceded to it on July 1, 1992.

in 1993. Subsequently, China ratified the WCT and the WPPT in June 1997. On the road to establishing a trademark system, other than the Paris Convention, China entered into the Madrid Agreement in 1989⁶ and the Madrid Protocol in 1995.⁷ All these efforts make China's IP law more consistent with the international standards.

In addition to its legislative endeavors, China has also made considerable efforts to strengthen IP enforcement. China subsequently enacted and revised a series of laws, judicial interpretations and relevant legal files to create a good legal environment for IP enforcement. In order to fight against the rampant piracy and counterfeiting, China has launched several special campaigns all over the country during the last ten years, such as 'Eagle Action', 'Eagle Action II', 'Showing Sword Action' and so on. These campaigns have achieved great success in restoring the market order and safeguarding consumers' interests. Furthermore, during recent years, the international community has appreciated the significance of China's new policies and measures for IP enforcement.

7.4 Challenges in the current system

There are still serious defects in the current system, which are reflected in the following aspects. First, the roughness of legislative techniques results directly in the ambiguous wording of rules, the absence of explicit definitions of basic concepts, the absence of uniform rules and judicial interpretations and so on. Differences between laws and some complementary regulations of lower hierarchy levels generate misunderstandings of the relevant rules. In the absence of judicial interpretations of the Supreme People's Court, the advanced judicial interpretations of some local courts are persuasive for but not binding on other courts. This makes the courts encounter difficulties in finding a definite legal basis in determining cases; instead, courts often have a different understanding of legal rules. This ultimately creates legal uncertainty so that right holders, subsequent innovators and consumers cannot have accurate knowledge concerning the scope of IP protection. Second, the current system has not reacted adequately to new technologies. New technologies create new products, new designs, new ways of information communication, new marketing methods and new life. Furthermore, because of the continuous technology upgrade, a long-lasting battle between copyright holders and stakeholders has become a cat-and-mouse game. Infringement might be much easier, and dissemination of pirated work might be much quicker and wider as well. In this light, the original balance in an IP system that was largely established ten years ago has been lost. Such an imbalance must be redressed. Third, the structure of the enforcement system results to some extent in inefficiency. More than 10 administrative agencies that have different responsibilities are in charge of enforcement matters. As a result, non-coordination situations usually occur. In addition, the shortage of manpower also seriously results in the inefficiency of enforcement.

Following solutions may be attempted to tackle these problems. The legislature should endeavor to systematically reorganize interrelated statutes in

⁶ China acceded to the Madrid Agreement Concerning the International Registration of Marks on July 4, 1989.

⁷ China acceded to the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks on September 11, 1995.

laws, administrative regulations and judicial interpretations, and give explicit definitions to some fundamental concepts. Such efforts are expected to reduce the ambiguities and uncertainty in the current legal system. The legislature also needs to actively respond to the challenges brought about by continuous technology upgrade. New rules would redress the balance of interests between different parties, so that a fair and effective situation is created for ensuring IPRs, subsequent innovation and fair competition. The practice of other countries in this regime can be reviewed because it would be useful for designing new rules. As for IPR enforcement, China may change the current institutional structure of the administrative system to establish a unique and particular department to administratively enforce IPRs. Furthermore, China could establish courts of appeals to handle the technology-intensive cases and appoint technical judges, because it would improve trial efficiency and the ability to deal with disputes involving complex technologies.

7.5 Final remarks

Technological development and social changes bring a lot of challenges in the regime of IP protection. In order to respond to domestic needs and pressures from other countries, China should dedicate itself to optimizing its IP system. Notwithstanding the considerable efforts China has made, quite a long way ahead still remains. Effectiveness, fairness and encouraging innovation are still the key issues for both the legislation and enforcement. More attempts should be made to reduce legal uncertainty, facilitate procedures for obtaining IPRs and respond to the social development. Reforms of the administrative system and judicial system, attempts in building a government under the rule of law, and efforts in developing popular understanding of IPRs should be continued to improve the efficiency of IPR enforcement.

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Summary

Ideas and knowledge are essential components of modern society, in which the IP system serves to safeguard both intellectual creations and R&D investment. However, the traditional IP system is being challenged by the complexity and diversity of technology. In order to adapt to these social changes, a new balance ought to be achieved.

The orientation of China's efforts originated from both its serious desire to participate in globalization and the domestic needs of its industrial, social and cultural sectors. In recent years, China has made great efforts to amend laws and regulations to be more consistent with the international regulations, in preparation of its accession to the most influential IP organizations in the world. The WIPO plays a major role at the formation stage of China's IP protection. The external stimulus comes from the pressure of some advanced countries. The US uses the memorandum of understanding on IPRs, Section 301, and the Special 301 Report to urge China to optimize its IP laws and improve the level of IP protection. The US also uses the WTO Dispute Settlement mechanism Body to enforce international IP rules in China. Besides, the EU adopts 'soft' approaches to achieve similar purposes.

The internal dynamics is the other factor, and is even the strongest motivation behind the comprehensive revolution in the IP regime. China's socialist market economy needs a healthy environment to respond to domestic needs. During the past several years, the tremendous increase in patent applications and patents granted, trademark applications and trademarks granted, and copyright registrations generally indicate the domestic need to protect IPRs. Nevertheless, imitated patents, piracy and counterfeit goods are rampant throughout China, seriously distorting the normal economic order. This disappointing phenomenon will inevitably discourage intellectual creation. Consequently, strengthening IP protection is imperative, including providing for facts effective and efficient enforcement of IPRs.

Since the establishment of the modern IP system, China has launched several rounds of revision of laws. At international level, China has ratified a series of international conventions, as well as the TRIPS Agreement. These efforts make China's IP law more consistent with the international standards. In addition to its legislative endeavours, China has also made considerable efforts to strengthen IP enforcement. China subsequently enacted and revised a series of laws, judicial interpretations and relevant legal files to create a good legal environment for IP enforcement. In order to fight against the rampant piracy and counterfeiting, China has launched several special campaigns all over the country during the last ten years. These campaigns have achieved great success in restoring the market order and safeguarding consumers' interests.

There are still serious defects in the current system. First, the roughness of legislative techniques directly results in the ambiguous wording of rules. Second, the current IP system has not reacted adequately to new technologies so that the original balance of the IP system that was largely established ten years ago has been lost. Such an imbalance must be redressed. Third, the structure of the enforcement system results in inefficiency. Therefore, more attempts should be made to reduce legal uncertainty, facilitate procedures for obtaining IPRs and respond to the social development. Reforms of the administrative system and judicial system, attempts in building a government under the rule of law, and efforts in developing popular understanding of IPRs should be continued to improve the efficiency of IPR enforcement.

Samenvatting

Ideeën en kennis zijn essentiële onderdelen van de moderne samenleving, waarin het systeem van intellectuele eigendomsrechten (IE) dient om zowel intellectuele creaties als R&D investeringen te veilig te stellen. Echter, het traditionele IE systeem wordt op de proef gesteld door de complexiteit en diversiteit van moderne technologie. Een nieuwe balans moet worden gevonden om aan deze sociale veranderingen aan te passen.

De richting van China's inspanningen komt voort uit zowel de serieuze wens om te participeren in de globalisering als uit de binnenlandse behoeften van de industriële, sociale en culturele sectoren. In de afgelopen jaren heeft China aanzienlijke inspanningen verricht om wet- en regelgeving meer in overeenstemming te brengen met de internationale regelgeving, ter voorbereiding op de toelating tot een van de meest invloedrijke organisaties ter wereld op het terrein van intellectuele eigendom. De WIPO speelt een belangrijke rol in de ontwikkeling van China's bescherming van intellectuele eigendom. De externe stimulans komt van de druk van een aantal ontwikkelde landen. De VS gebruikt het Memorandum of Understanding on IPRs, Section 301 en het Special 301 Report om China aan te sporen de wetgeving op het gebied van intellectuele eigendom te optimaliseren en het niveau van bescherming van intellectuele eigendom te verbeteren. De VS gebruikt ook het WTO Dispute Settlement Mechanism Body (WHO Orgaan voor Geschillenbeslechting) om internationale regels op het gebied van intellectuele eigendom in China te handhaven. Daarnaast neemt de EU 'zachte' maatregelen om hetzelfde doel te bereiken.

De interne dynamiek is de andere factor, en is zelfs de sterkste beweegreden achter de uitgebreide omwenteling binnen het IE beleid. China's socialistische markteconomie heeft een gezond klimaat nodig om aan de binnenlandse behoeften te voldoen. In de afgelopen jaren is er een enorme toename te zien van octrooiaanvragen en -verleningen, merkregistraties, alsmede auteursrechtregistraties, wat de binnenlandse behoefte aan bescherming van intellectuele eigendomsrechten aantoont. Toch zijn octrooiinbreuk, piraterij en nagemaakte goederen wijdverbreid in heel China

en verstoren in ernstige mate de economische orde. Dit teleurstellende fenomeen zal onvermijdelijk intellectuele creaties afremmen. Derhalve is het noodzakelijk dat de bescherming van intellectuele eigendom wordt versterkt, met inbegrip van een effectieve en efficiënte handhaving van intellectuele eigendomsrechten.

Sinds de instelling van het moderne IE systeem zijn er in China verscheidene rondes van wetsherzieningen geweest. Op internationaal niveau heeft China een aantal internationale verdragen geratificeerd, alsmede het TRIPs-verdrag. Deze inspanningen zorgen ervoor dat China's wetgeving op het gebied van intellectuele eigendom meer in overeenstemming is met de internationale standaarden. In aanvulling op deze juridische inspanningen heeft China ook aanzienlijke inspanningen verricht om de handhaving van intellectuele eigendomsbescherming te versterken. China heeft achtereenvolgens een aantal wetten, gerechtelijke interpretaties en relevante juridische dossiers uitgevaardigd en herzien om een goede, juridische omgeving voor de handhaving van de bescherming van intellectuele eigendom te creëren. Teneinde de strijd aan te gaan met de wijdverbreide piraterij en nagemaakte goederen heeft China in de afgelopen tien jaar in het hele land verscheidene speciale campagnes gevoerd. Deze acties hebben een groot effect gehad op het herstellen van de marktorde en het veiligstellen van consumentenbelangen.

Er zijn nog steeds ernstige tekortkomingen in het huidige systeem. Ten eerste resulteert de grofheid van juridische technieken direct in een onduidelijke formulering van regels. Ten tweede heeft het huidige IE systeem niet adequaat gereageerd op nieuwe technologieën waardoor de oorspronkelijke balans van het IE systeem, die grotendeels tien jaar geleden werd bereikt, verloren is gegaan. Een dergelijk evenwicht moet worden hersteld. Ten derde resulteert de structuur van het handhavingssysteem in ondoelmatigheid. Derhalve zouden er meer pogingen moeten worden ondernomen om rechtsonzekerheid te verminderen, om procedures ter verkrijging van intellectuele eigendomsrechten te vergemakkelijken en om te reageren op de sociale ontwikkelingen. Hervormingen van het administratieve en van het gerechtelijke systeem, pogingen om een overheid binnen een rechtsstaat op te bouwen, en inspanningen om een algemeen begrip van intellectuele eigendomsrechten te ontwikkelen, moeten worden voortgezet om de effectiviteit van de handhaving van intellectuele eigendomsrechten te verbeteren.

