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China's IPR Battleground

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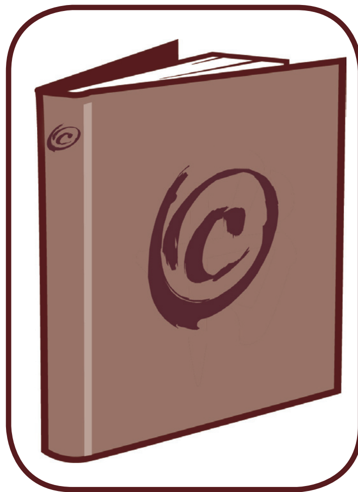
Causes of Piracy and Counterfeiting in China

Peter K. YU (余家明)

Adapted from "Piracy, Prejudice, and Perspectives: Using Shakespeare to Reconfigure the U.S.-China Intellectual Property Debate," Boston University International Law Journal *19 (Spring 2001): 16–38.*

The Chinese take a free ride on the creative efforts of Western authors and inventors, but greed alone does not account for the country's massive piracy and counterfeiting problems.

Every year, the United States is estimated to suffer billions of dollars in trade losses due to piracy and counterfeiting in China. Although commentators and policy makers tend to treat these losses as a bilateral trade issue, the causes of China's piracy and counterfeiting problems are complex. To fully account for these problems, we need to develop a better understanding of the Confucian beliefs ingrained in the Chinese culture, the country's socialist economic system and self-strengthening worldview, the leaders' skepticism toward Western institutions, the xenophobic and nationalist sentiments of the Chinese populace, the government's censorship and information control policy, and the significantly different Chinese legal tradition.



Confucianism and Cultural Practices

For more than 2,000 years, Confucianism heavily influenced the Chinese, who considered the past not only as a reflection of contemporary society, but also as the embodiment of cultural and social values. By encountering the past, they could understand the Way of Heaven, obtain guidance on future behavior, and find out the ultimate meaning of human existence. They also could transform themselves and build moral character through self-cultivation. Because intellectual property rights allow a significant few to monopolize important materials about the past, they prevent the vast majority from understanding their life, culture, and society. These rights are therefore contradictory to Confucian values.

Unlike today's Westerners, the Chinese in the imperial past did not consider copying or imitation a moral offense. Rather, they considered it a time-honored process through which people manifested respect for their ancestors. At a very young age, the Chinese were taught to memorize and copy the classics and histories. As they grew up, they became compilers by training, and the materials they learned by heart constituted their universal language. Although their extensive replication and unacknowledged quotation of these passages and key phrases might be considered plagiarism today, the practice was widely regarded as an acceptable, legitimate, or even necessary

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Recommendations for China from the IIPA

Eric SMITH

The International Intellectual Property Alliance recommends increased criminal prosecutions and enhanced spending and manpower for enforcement to combat infringement of intellectual property rights in China.

In 1984, seven trade associations, each representing a significant segment of the U.S. copyright community, came together to form

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China, IPR, and Trade

Scott ELDRIDGE II

When it comes to protecting intellectual property rights (IPR), China is often labeled one of the world's worst offenders. However, as of December 2006, China is a full member of the World Trade Organization (WTO) and is being held to the same standards as other member countries.

As a WTO member, China is required to have in place a concerted IPR protection and enforcement regime that includes consistent enforcement, criminal and civil procedures to deal with IPR infring-

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Valuing Ideas, Information, and Creativity

China's failure to protect intellectual property rights, or IPR, arouses particular ire in the West. Why don't they play by the rules and respect property? In this issue of *Guanxi*, we examine the assumptions, and the history, behind today's troubling situation.

Readers have praised *Guanxi* for its balanced perspective on China, and we indeed aspire to balance. But we have also been urged to include conflicting opinions on controversial topics. The articles here offer some strikingly different perspectives on IPR in China.

Businesspeople, including publishers like Berkshire, condemn the piracy and plagiarism that is rife in China (though not unique to China). We find ourselves wondering about trial subscription requests from Chinese institutions, for example. But we might do well to remember that a century earlier, Western powers were imposing laws on China that supported their own commercial goals while crippling China itself. Hong Kong was originally ceded to Britain after the first Opium War, one of the more sordid episodes in East-West relations, when China was attacked because it tried to prevent British traders from selling opium to the Chinese population (a business the traders undertook to restore the balance of trade between Britain and China). In the light of history, the moralizing tone many Western commentators take in talking about the IPR issue understandably rankles the Chinese.

Peter Yu's provocative article, "Causes of Piracy and Counterfeiting in China," focuses on vital but poorly understood historical and cultural reasons for China's approach to piracy and plagiarism. He writes, "Because intellectual property rights allow a significant few to monopolize important materials about the past, they prevent the vast majority from understanding their life, culture, and society. These rights are therefore contradictory to Confucian values."

Staff editor Scott Eldridge, who focuses on trade issues, provides an overview on the current IPR situation in China. He includes a remark that Karan Bhatia, the deputy U.S. trade representative for Asia, made before the House Ways and Means subcommittee on trade on 15 February 2007: "The rampant infringement of intellectual property rights that persists in China, in spite of efforts by central government officials to move against illegal practices, not only robs U.S. businesses of billions of dollars a year in legitimate sales, it also weakens China's development of its own knowledge-based industries." The Office of the U.S. Trade Representative continues to place China on its list of worst IPR infringers; countries are only placed on this "Priority Watch List" when they lack evidence of good-faith negotiation to improve or implement an IPR enforcement regime.

Furthermore, U.S. companies soon discover that protecting their patents, trademarks, and copyrights is no easy task. A case study by the attorneys Michael Wise, Zoe Wang, and James Zhu examines Pfizer's battle to protect its Viagra patent. One court ruled against Pfizer; the next ruled for it. The case is currently before the Beijing High People's Court. Chinese patent and trademark law differs from U.S. law in that China's trademark system is a "first-to-file" system as opposed to a "first-to-create" system, which means that no proof of previous use or ownership of the trademark is required. Third parties may register popular foreign marks or logos, and if they do so before the originator of the mark or logo, the trademark is theirs. The same is true for patents, which are granted to the applicants that file first, not necessarily to the original inventors.

Meanwhile, one can buy imitation Louis Vuitton bags and pirated DVDs on the streets of Beijing, and episodes of popular U.S. television shows such as *24* can be downloaded from illicit websites. As Eric Smith, president of the International Intellectual Property Alliance, notes, there are several things China should do to curb IPR-infringing activity, including ramping up criminal prosecutions and putting more money and manpower behind administrative and criminal enforcement. Certainly it will take a lot more than the government poster I saw, which urged people—in English—to "oppose to purchase without authorization; create a rational and fine shopping experience."

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W W W . G U A N X I O N L I N E . C O M

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Causes of Piracy and Counterfeiting in China

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component of the creative process in the imperial past. Indeed, early Chinese writers saw themselves more as preservers of historical record and cultural heritage than as creators. Even Confucius proudly acknowledged in the *Analects* that he had "transmitted what was taught to [him] without making up anything of [his] own."

> The Chinese in the imperial past did not consider copying or imitation a moral offense. Rather, they considered it a time-honored process through which people manifested respect for their ancestors.

Furthermore, under the Confucian vision of civilization, the family constituted the basic unit of human community, and the world was an outgrowth of that unit. Because the Chinese emphasized familial values and collective rights, they did not develop a concept of individual rights. Nor did they regard creativity as individual property. Instead, they considered creativity to be a collective benefit to their community and posterity. If that was not enough, the Confucianists also had a strong disdain for commerce and greatly despised the creation of works for sheer profit. It is therefore no surprise that merchants were considered the lowest among the four social classes in traditional Chinese society, behind scholar-officials, farmers, and artisans.

Socialist Economic System

While the Communist government did not emphasize Confucianism until very recently, its view on the function of creative works was similar to that of the Confucianists. Under the socialist economic system, property belonged to the state and the people rather than to private owners. Authors thus created literary and artistic works for the welfare of the state; they did not do so for the purpose of generating economic benefits for themselves. Indeed, as the legal scholar Susan Tiefenbrun points out, "Owning property [in a socialist society was] tantamount to a sin. Thus, stealing an object that [wa]s owned by someone else [wa]s less corrupt than owning it outright yourself."

This aversion to private property was further strengthened by the numerous mass campaigns and endless class struggles that took place during the Mao era. During the Cultural Revolution (1966–1976), the government heavily criticized scientists, writers, artists, lawyers, and intellectuals and routinely condemned them to harsh prison terms. Fearing political repercussions, many Chinese became reluctant to acknowledge their roles in creative and inventive activities. Instead, they used pseudonyms and put nonidentifying labels, such as "Red Flag," "East Wind," and "Worker-Peasant-Soldier," on their products.

Even worse, many Chinese developed a contempt for authorship and remuneration for creative efforts. As one comrade would ask rhetorically during the Cultural Revolution, "Is it necessary for a steel worker to put his name on a steel ingot that he produces in the course of his duty? If not, why should a member of the intelligentsia enjoy the privilege of putting his name on what he produces?" Even though Deng Xiaoping and other reformist leaders tried to rehabilitate the intelligentsia after the Cultural Revolution by enhancing their positions and facilitating their endeavors, these reforms have yet to cultivate the needed respect for intellectual property rights.

Self-strengthening Worldview

During the 19th and 20th centuries, China was constantly attacked by Western imperialist powers. The first major attack came in the early 1840s, when Britain defeated China in the Opium War. From that time on, China experienced repeated attacks and was forced to sign unequal treaties giving out significant economic and territorial concessions. Such submission eventually led to the "scramble for concessions" in 1898, in which foreign imperialist powers reduced China to a semicolonial state by carving it into leased territories and spheres of influence. Desperate to save the country, the Chinese adopted a self-strengthening worldview, under which attaining independence and liberating the nation became the country's first priority.

What Is Copyright?

The United States Patent and Trademark Office defines the term "copyright" in the following manner:

> Copyright is a form of protection provided to the authors of 'original works of authorship' including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished. The 1976 Copyright Act generally gives the owner of copyright the exclusive right to reproduce the copyrighted work, to prepare derivative works, to distribute copies or phonorecords of the copyrighted work, to perform the copyrighted work publicly, or to display the copyrighted work publicly.
>
> The copyright protects the form of expression rather than the subject matter of the writing. For example, a description of a machine could be copyrighted, but this would only prevent others from copying the description; it would not prevent others from writing a description of their own or from making and using the machine. Copyrights are registered by the Copyright Office of the Library of Congress.

China's copyright law, first established in 1990 and amended in 2001 (coming into force in 2002), protects persons from countries belonging to international copyright conventions or bilateral agreements to which China is a signatory. Copyright holders are not required to register copyrighted works in China. However, registration is helpful should enforcements actions arise. One can register with China's National Copyright Administration (NCA).

Sources: United States Patent and Trademark Office, "What Are Patents, Trademarks, Servicemarks, and Copyrights?" 12 May 2004, http://www.uspto.gov/web/offices/pac/doc/general/whatis.htm, and Embassy of the United States (Beijing, China), "IPR Toolkit," December 2005, http://beijing.usembassy-china.org.cn/protecting_ipr.html.

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This worldview persisted even after the establishment of the People's Republic of China in 1949. While many Chinese believed it was morally acceptable to freely reproduce or to tolerate the unauthorized reproduction of foreign works that would help strengthen the country, others contended that copying was a necessity if China was to catch up with Western developed countries. Thus, in the 1980s and early 1990s, Chinese bookstores often contained special rooms selling pirated works from Western publishers. One could also find in *Reference News* (*Cānkǎo Xiāoxi;* 参考消息) translated excerpts from foreign news materials published abroad. As one commentator notes, some Chinese even referred to pirated computer programs "as 'patriotic software,' out of a belief that it speed[ed] the nation's modernization at little or no cost."

In the 1980s and early 1990s, Chinese bookstores often contained special rooms selling pirated works from Western publishers.

Xenophobia and Nationalism

Reluctant to open up the country for foreign trade, the Chinese, particularly those in the imperial court, were initially skeptical of Western technologies, ideas, and institutions. This skepticism soon gave way to xenophobia and nationalism, partly as a reaction to the continuous humiliations China suffered at the hands of the Western powers.

During the Mao era, the Chinese leaders drew on those sentiments strategically to mobilize the public to catch up with the West and to fight against foreign domination. As leading Chinese historian Immanuel Hsü notes, Mao was keenly aware of China's misfortunes in the 19th and 20th centuries and had "a burning desire to restore China's rightful position under the sun, to achieve the big power status denied it since the Opium War, and to revive the national confidence and self-respect that had lost during a century of foreign humiliation."

When Deng Xiaoping returned to power in the late 1970s, he saw economic wealth as the foundation of China's power and adopted a more pragmatic approach. Although Deng, like his predecessors, remained conscious of potential imperialist threats and the need for national unity, he believed that such unity would depend on whether China could catch up with the developed West. Thus, Deng and other reformist leaders vigorously pushed for what were known as the Four Modernizations (*sìgè xiàndài huà;* 四个现代化)—modernization in agriculture, industry, science and technology, and national defense. They also established special economic zones to transform socioeconomic conditions in the coastal areas and renewed diplomatic and commercial ties with the United States, Japan, and other Western countries.

With Deng's death in 1997, some commentators surmised that there might be a resurgence of xenophobic and nationalist sentiments. Evidence cited included the publication in the mid-1990s of bestselling books like *China Can Say No* (*Zhōngguó kěyǐ shuō bù;* 中国可以说不) and *Behind a Demonized China* (*Yāomóhuà zhōngguó de bēihòu*; 妖魔化中国的背后), the Chinese reaction to the United States' bombing of their embassy in Belgrade in 1999, and China's standoff with the United States over the collision of its jet fighter and a U.S. reconnaissance plane in 2001. If these commentators are right, these sentiments may eventually result in day-to-day bureaucratic actions that hinder the success of foreign companies, such as permit delays, application denials, and bid rejections. The heightened sentiments may also lead to harassment of foreign businesses, the general belief that equates "screwing foreigners" with patriotism, or even boycotts of foreign products and services.

Censorship and Information Control Policy

Since the establishment of the People's Republic of China, the Communist government has exercised very strict control over the dissemination of information and the distribution of media products. The logic behind such control is that, as an instrument of political indoctrination and mass mobilization, media not only has the ability to create an atmosphere conducive to political development, but also can help mobilize the masses and foster political struggle. Thus, information control and content regulations are needed to ward off those politically sensitive materials that would destabilize the country and the Communist regime.

Today, the media industries remain the most heavily regulated in China. Only about 20 foreign motion pictures are approved annually for distribution within the country, and Chinese authorities continue to place heavy restriction on imported books, audiovisual products, and online materials. Because many media products are still unavailable on the Chinese market despite being in great demand, consumers have no choice but to settle for black-market products or pirated goods, which are often indistinguishable in appearance from but inferior in quality to the genuine products. As time passes, the Chinese market will become more and more saturated with infringing substitutes, which in turn will make it difficult for foreign manufacturers and distributors to capture market share even when the market is finally open.

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Legal Tradition with Chinese Characteristics

Throughout history, the Chinese have had an entrenched tradition of regarding laws as an inefficient, arbitrary, and cumbersome instrument for governance. As Confucius explained in the *Analects,* "Govern the people by regulations, keep order among them by chastisements, and they will flee from you, and lose all self-respect. Govern them by moral force, keep order among them by ritual and they will keep their self-respect and come to you of their own accord."

Under the Confucian tradition, the Chinese lived by the concept of *lǐ* (rites; 礼), rather than the concept of *fǎ* (law; 法). While *lǐ* covered a whole range of political, social, and familial relationships that encompassed a harmonious Confucian society, *fǎ* represented penal laws that were associated with punishment and the maintenance of public order. Because people guided by *lǐ* always understood their normative roles, responsibilities, and obligations to others, they were able to adjust their views and demands, based on self-reflection, to accommodate others' needs and desires, avoid confrontation and conflict, and preserve harmony. The Chinese therefore considered *fǎ* only as a last resort and seldom insisted on the protection of their individual rights.

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As Peter Feng describes in *Intellectual Property in China,* during the Mao era, formal laws were further denounced as "inherently bureaucratic, hampered by legislative formalities and fed on professional interests, slow to come, rigid in procedure, prone to ramifying into technical details and yet unable to cover all the circumstances of the ever-changing social relationships." Feng notes that even today, laws are still sometimes considered a "concrete formulation of the Party's policy." Being little more than "a summary of practical administrative and judicial experience," laws do not "constitute a detailed, comprehensive and self-containing rule system, justifiable on ideological as well as jurisprudential grounds, with coherent principles and well-defined concepts." At times, they are "incomplete, incoherent, ideologically compromising, as well as broadly and vaguely termed pending further administrative and judicial experience in its implementation."

Moreover, Chinese laws are intended to be flexible and can be formulated on a trial-use basis. Given China's rapid economic growth and development, they are also likely to fall behind policies and socioeconomic conditions. As a result, statutory provisions that are presently in effect may quickly become outdated when a new policy or a new law is implemented in a relevant or related area. In addition, as Feng reminds us, Chinese laws "are generally broadly drafted, leaving the detailed rules to be provided by the relevant administrations under the State Council." Thus, "it is often the detailed administrative implementing rules that provide the concrete information about the definition, limits, and practical implication of legal rights established in the laws."

Toward a Holistic Approach

The causes of piracy and counterfeiting in China are complex and manifold. If we are to develop an effective strategy for protecting intellectual property rights in the Chinese market, we need to develop a deeper and more holistic understanding of China's historical, political, social, economic, and cultural conditions.

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Recommendations for China from the IIPA

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the International Intellectual Property Alliance (IIPA) to represent U.S. copyright-based industries in bilateral and multilateral efforts to improve international protection of copyrighted materials. The IIPA follows developments in copyright legislation and enforcement in more than 80 countries, including China, and it reviews whether foreign countries' acts, policies, or practices prevent or hinder protection of intellectual property rights (IPR). In 2007, the IIPA has a number of recommendations for China. We consider several of them below.

Increase Criminal Prosecutions of Copyright Piracy

China has been extremely reluctant to prosecute criminal cases of copyright piracy, and its reluctance has left in place a nondeterrent enforcement system that has proven incapable of meeting China's obligations as a member of the World Trade Organization (WTO) and of delivering on China's 2004 commitment, in the context of the U.S.-China Joint Commission on Commerce and Trade, to reduce IPR infringements in the near term. Overly high and complex thresholds for criminal liability and failure to refer an appropriate number of cases for criminal prosecution has thwarted reduction of "commercial-scale" piracy. The IIPA recommends that China's Public Security Bureau and the Supreme People's Procurator-

> Overly high and complex thresholds for criminal liability and failure to refer an appropriate number of cases for criminal prosecution has thwarted reduction of "commercial-scale" piracy.

ate investigate potential criminal infringements based on reasonable suspicion that a crime has been committed—as done in the rest of the world—and not require "proof" that the thresholds have been met or that a crime has been committed as a basis for even initiating an investigation. In particular, the IIPA would like to see prosecution of more criminal cases in the following areas:

1. Software End-user Piracy

China continues to insist that use of unauthorized software in a commercial business environment is not a crime. The criminal law need not be interpreted so narrowly; the Supreme People's Court (SPC) should clarify that such unauthorized uses involve unauthorized reproduction or distribution and that prosecutions should proceed when such acts are on a commercial scale.

2. Infringements on the Internet

China must significantly reduce Internet piracy, not only through administrative enforcement by the National Copyright Administration of China (NCAC), but through the prosecution of infringements that meet the criminal thresholds in the 2004 judicial interpretations of the SPC. China currently fails to initiate prosecutions despite the fact that a large number of these infringements meet various thresholds in the 2004 judicial interpretations. Although there have been a very few prosecutions in 2007 involving video game Internet piracy, prosecutions must be significantly expanded to cover Internet infringements of music, movies, literary works, and all computer software.

3. Unauthorized Production and Export of Pirate Optical Disks

Optical disk (OD) piracy continues unabated in China's factories. The Chinese government should take effective and well-publicized action against factories that pirate U.S. products to send a strong message to Chinese society and to pirate producers that illegal production will not be tolerated. Temporarily closing plants without any further action, as China did in March 2006, will not deter China's pirates; they will reopen or move to new locations. The authorities must seize and destroy the equipment used in the infringements and prosecute those responsible. Investigations must be commenced based on a reasonable suspicion that a crime has been committed and prosecutions, convictions, and deterrent penalties should ensue. China should also assure that proper forensic examinations of disks found in the marketplace are conducted and should criminally prosecute those plants found to be producing pirate materials.

To help move IP criminal cases through the system, China should assign specialized IPR judges to hear those cases, and the cases should be moved to courts at the intermediate

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level. China successfully developed a cadre of well-trained IPR judges to hear civil cases in intermediate-level courts, and now similar reforms should be applied to the criminal justice system.

Increase Funding for Enforcement of Copyright and Piracy Laws

Prosecutions of criminal cases should be combined with increased funding for enforcement. Industry reports and surveys indicate that the 2006 government campaign against piracy, though involving thousands of raids and seizures, had only a minimal and temporary impact in the marketplace. The resources available to the NCAC and the local copyright bureaus are inadequate to deal with piracy in China, and administrative enforcement must not be left solely to inspections by other agencies (such as the Ministry of Culture) for licensing violations.

> Industry reports indicate that the 2006 government campaign against piracy, though involving thousands of raids and seizures, had only a minimal impact in the marketplace.

Resources for the NCAC Headquarters in Beijing

While the NCAC opened and concluded a number of investigations of Internet infringements in 2006, more training and resources are sorely needed, and deterrent administrative penalties must be imposed on website owners and peer-to-peer uploaders, and particularly against Internet service providers (ISPs) who fail to comply with takedown requests from right holders.

Resources and Training for Local Copyright Bureaus

China's local copyright bureaus are woefully understaffed; their employees are insufficiently trained (particularly to fight online piracy), and the local bureaus require much greater coordination with the NCAC headquarters. Some of these offices have no more than five employees and must depend on other agencies to assist in enforcing their own administrative regulations.

Enhance Enforcement of Prerelease Piracy

A U.S. Department of Commerce press release issued on 11 July 2005, announcing the then most recent JCCT commitments by China, noted that China promised to "regularly instruct enforcement authorities nationwide that copies of films and audiovisual products still in censorship or import review or otherwise not yet authorized for distribution that are found in the marketplace are deemed pirated and subject to enhanced enforcement." This should apply to all other subject matter, including sound recordings, as increasingly such prerelease copies (that is, pirate copies made available before the legitimate product has been released) have been found to be distributed online from servers located in China, even before worldwide legitimate release. The Motion Picture Association of America reports that China has had moderate success in reducing prerelease piracy, but the problem needs to receive even more focused attention.

Clarify China's New Internet Regulations

China's promulgation of new Internet regulations in July 2006 was a positive step. However, Chinese authorities should clarify how those regulations will be implemented and then implement them aggressively. China should make clear that deep linking to infringing files, as well as maintenance of directories of infringing materials, is prohibited. It should clarify that services that permit conversion of infringing files (for example, MP3s to ring tones) are in violation of the copyright law.

All ISPs should be told that notices of infringement may be served on them by right holders by e-mail (and that they must take down the infringing material immediately), and in cases of piracy of prerelease materials or in other exigent circumstances, notices of infringement can be served via telephone communication and takedowns required. China should publicly clarify that the word "expeditious" in the regulations means that ISPs must remove infringing content, or block access to it, in no more than 24 hours after receiving notice. The government should also clarify that ISPs must restrict repeat infringers' access to their systems. Finally, China must ensure that an accurate database of its many ISPs is maintained to ensure that notices from right holders can be filed in a timely manner.

Ensure Government and State-owned Enterprises Use Legal Software

China promised in the 2006 U.S.-China Joint Commission on Commerce and Trade to begin the process of legalization of software in private and state-owned enterprises that year and to implement its legalization plan in 2007. China must continue to honor this commitment. The Chinese government has declared that all levels of government are now using legal software, but it must recognize that because software is continually evolving, the process is ongoing and has no fixed end point. Software asset management programs must be established at each ministry and governmental level.

Continue Efforts against Illegal Textbook Copying

The General Administration of Press and Publications (GAPP) and the NCAC, in cooperation with the Ministry of Education, local copyright bureaus, and right holders, have made great strides in addressing the problem of illegal copying by university textbook centers during 2006. These agencies should work together to ensure proper implementation of their August, September, and November notices about such copying, and enforcement actions and deterrent penalties should continue against universities that fail to fully implement the notices.

Comply with the WIPO Internet Treaties

The World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty (together known as the "Internet treaties") were adopted in Geneva in 1996. In December 2006, the Chinese government passed legislation authorizing China to deposit its instruments of accession to those treaties in Geneva, and on 9 March 2007, it made deposit, with the treaties to enter force on 9 June. Having taken this significant positive step, China should now make efforts to comply with the provisions of those treaties, including establishing adequate and effective enforcement.

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Bring China's Criminal Law into Compliance with the TRIPS Agreement

In 1994, the WTO instituted an agreement on trade-related aspects of intellectual property rights (TRIPS). On 1 January 1996, that agreement entered into force for all WTO members except developing countries that qualified for a transition period to 1 January 2000, when TRIPS obligations went into full effect for all WTO members (except a few of the "least" developed countries). To come into compliance with the IPR obligations in TRIPS, China must criminalize all copyright piracy "on a commercial scale," including piracy involving acts not currently recognized as piracy under China's criminal law. The for-profit criterion for establishing a criminal offense (that is, the criterion that says that the piracy must have been committed for profit) should be eliminated. An amended criminal law should eliminate all thresholds or, at a minimum, ensure that they are low enough to criminalize all copyright piracy on a commercial scale, as required by the TRIPS

China is the only country in the world that calculates a threshold for bringing criminal cases based on pirate profits and business volume at pirate prices; these criteria should be eliminated.

agreement. China is the only country in the world that calculates a threshold for bringing criminal cases based on pirate profits and business volume at pirate prices; these criteria should be eliminated.

Allow Investigations by Foreign Right Holders

Foreign right holders cannot reasonably be expected to fully avail themselves of the Chinese legal system unless they are permitted to investigate suspected infringements. Regulations limiting the activities (and number of employees) of the trade associations representing U.S. and other foreign copyright owners should be, and can be, easily amended to permit them to fully cooperate with the government in fighting piracy. Additionally, evidence rules (including for establishing subsistence and ownership of copyright) for administrative and criminal actions must be reformed and made more transparent, logical, and less burdensome.

The NCAC and local copyright bureaus need to fully share information with right holders on administrative copyright cases; at present such requests are normally refused. The SPC now regularly reports the results of civil cases on their website; that reporting should be extended to criminal cases as well.

Provide Effective Market Access for All Copyright Materials

In addition to fully implementing China's minimum WTO commitments to market access (particularly in the area of trading and distribution rights), the Chinese gov-

If the Chinese government wishes to address rampant piracy in the country and foster the growth of creative industries, it must significantly liberalize market access for all copyright industries.

ernment, if it wishes to address rampant piracy throughout the country and foster the growth of creative industries, must significantly liberalize market access for all copyright industries, looking beyond the bare minima of WTO toward a fairer and more open market for all. Such reforms would include significantly increasing transparency, eliminating the film quota, permitting full publishing, production, and distribution activities by foreign enterprises within China, and eliminating delays in reviewing content under its censorship regime to ensure that legitimate products get to the market before pirate products. Censorship processes that merely slow the ability of legitimate enterprises to distribute products, whether in the physical market or through digital transmissions, but which are simply ignored by pirates, do not advance China's social or cultural concerns and greatly prejudice the interests of U.S. right holders by providing further market advantages to pirate operations.

Eric Smith (not pictured) is the president and co-founder of the IIPA and a managing partner at the law firm Smith, Strong & Schlesinger LLP in Washington, DC. He holds a doctorate in jurisprudence from the University of California at Berkeley.

China, IPR, and Trade

Continued from page 1

ers, and equal protection, access, and treatment for holders of copyrights, trademarks, and patents, whether the holders of those copyrights are foreign or Chinese. In 2001, when China began the process of acceding to the WTO, it needed to make major improvements in all these areas.

In 2005, the International Intellectual Property Alliance (IIPA) reported that more than 86 percent of the business software in use in China, as well as 92 percent of entertainment software, 85 percent of all music, 93 percent of all movies, and 52 percent of all books, were pirated. In surveying the U.S. copyright-based industries (software, publishing, music, and film) that it represents, the IIPA discovered that China was responsible for an estimated $2.6 billion in lost trade revenue in 2005.

Visitors to China, including U.S. officials, talk about how easy it is to get pirated CDs and DVDs off the streets of Shanghai right behind the U.S. consulate, and representa-

In 2005, the International Intellectual Property Alliance (IIPA) reported that more than 86 percent of the business software in use in China was pirated.

tives from U.S. companies talk about finding imitations of their products in the factories and markets they visit in China. Several high-profile companies have taken action against IPR infringement. One is Starbucks Corporation, which was successful in 2005 in getting two coffee shops to give up the name "Xingbake" (a Chinese phonetic approximation of "Starbucks"; the character *xīng* [星] also means "star") and to stop using a near duplicate of the famous green Starbucks logo as their own.

Despite Starbucks Corporation's success, IPR infringement remains rampant in China, with everything from the most popular and noticeable brands to the most minute parts and components of everyday products being copied. The rapid rise of the Internet and the

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burgeoning numbers of Internet users has made piracy even easier and less costly for the infringer—though it should be added that this problem is by no means unique to China.

In addition to wanting to reduce China's piracy levels—something U.S. officials and trade groups say can be done by increasing enforcement, shutting down major piracy operations, and getting pirated products off the streets—U.S. interests especially want to see China bring more cases of infringement of foreign-owned copyrights, patents, and trademarks to court. The IIPA noted that in 2005, of all the cases of IPR infringement prosecuted in China's courts, only approximately 2 percent involved protecting foreign-owned IP.

The United States primarily uses three methods to target IPR infringement: bilateral negotiations, the option (and sometimes threat) of a WTO dispute case, and a provision of the U.S. Trade Act of 1974 called "Special 301."

What Is a Trademark?

The United States Patent and Trademark Office defines the term "trademark" in the following manner:

> A trademark is a word, name, symbol or device which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. A [service mark] is the same as a trademark except it identifies and distinguishes the source of a service rather than a product.
>
> Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a clearly different mark. Trademarks which are used in interstate or foreign commerce may be registered with the United States Patent and Trademark Office.

China's trademark law was first adopted in 1982 and then revised in 1993 and 2001. The most recent revision was passed to fulfill China's obligation under the 2000 WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which requires registration of collective marks, certification marks, and three-dimensional symbols. Along with the United States, China is a member of the Madrid Protocol, which requires reciprocal trademark registration for member countries. China's trademark system, like its patent system, is a "first-to-file" system as opposed to a "first-to-create" system, which means that no proof of previous use or ownership is required. This means that third parties may register popular foreign marks or logos, and if they do so before the originator of the mark or logo, the trademark is theirs. Foreign companies should register their trademarks with the China Trademark Office.

Sources: United States Patent and Trademark Office, "What Are Patents, Trademarks, Servicemarks, and Copyrights?" 12 May 2004, http://www.uspto.gov/web/offices/pac/doc/general/whatis.htm, and Embassy of the United States (Beijing, China), "IPR Toolkit," December 2005, http://beijing.usembassy-china.org.cn/protecting_ipr.html.

Bilateral Negotiations

The United States and China have two major mechanisms for addressing bilateral trade issues in general, and these mechanisms have been moderately useful for discussing issues related to IPR. The first is the U.S.-China Joint Commission on Commerce and Trade (JCCT), which was established in 1983, and the second is the U.S. China Strategic Economic Dialogue (SED), which was launched in 2005. The JCCT meets twice annually (once in Beijing and once in Washington) for discussions of market access, subsidies, IPR, and other trade issues, and the SED has become a forum for high-level talks between officials, including cabinet-level officials from the United States and their equivalents among the Chinese leadership.

The JCCT

The JCCT has allowed China and the United States to discuss disagreements, solve trade flow issues, and address pending regulations before they are implemented—thereby averting future problems. For example, officials from Washington and Beijing were able to reach an agreement regarding a proposed software law in China that would have limited foreign companies' ability to get legitimate software into Chinese government offices. If that law had been enacted, not only would it have hurt foreign companies' ability to do business in China, it also would have undermined efforts to curb IPR infringement, because without easy access to legitimate software, government offices would naturally have turned to pirated software. Fortunately, the July 2005 JCCT talks were productive. Following the talks, China agreed to "delay issuing draft regulations on software procurement, as it further considers public comments and makes revisions in light of WTO rules," according to a statement from the Office of the United States Trade Representative (USTR) at the time.

The United States is now using the JCCT talks and the Special 301 provision (discussed below) to pressure Chinese leaders on the local level to crack down on IPR infringement in their jurisdictions. On 15 February 2007, Karan Bhatia, the deputy U.S. trade representative for Asia, told the House Ways and Means subcommittee on trade,

"We have launched a new and unprecedented provincial-level review of China's IPR enforcement … The rampant infringement of intellectual property rights that persists in China, in spite of efforts by central government officials to move against illegal practices, not only robs U.S. businesses of billions of dollars a year in legitimate sales, it also weakens China's development of its own knowledge-based industries."

The SED

The SED talks have been used mainly as a catalyst, to invigorate areas of bilateral negotiations by raising them up to the senior levels of government. Because the SED involves senior-level officials, it can be used to increase the focus on getting results from other forums—such as the JCCT—and to make political commitments to support to such things as IPR enforcement. In 2006, according to U.S. Treasury secretary Henry Paulson, the SED talks allowed the U.S. and China to lay out commitments on IPR (for example, a province-by-province review of China's IPR enforcement) that would be further discussed through the JCCT.

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A WTO Case on IPR?

The United States has primarily sought improvements in China's IPR regime through bilateral dialogue as opposed to taking action through the WTO because bilateral dialogue generally produces faster results than a drawn-out WTO case would. Additionally, until just this month, there has never been a WTO case against China on IPR, which means that bringing such a case involves navigating an uncharted area of WTO dispute settlement. Nevertheless, the U.S. industries most affected by IPR infringement have been outspoken in Washington about pushing for better IPR protection in China, and there has been a lot of talk about pursuing a WTO case against China on IPR. With Russia, China consistently tops lists of IPR infringers, and the word among insiders is that China is a prime target for a WTO case.

In April 2005, the United States, Japan, and Switzerland did use Article 63.3 of the WTO Agreement on Trade-related Aspects of Intellectual Property (TRIPS) to request that China spell out the specific details of its IPR regime. Article 63.3 of the WTO TRIPS agreement is considered a transparency provision, and action under that article is considered a precursor to a dispute settlement case and would likely be used in building a case. However, the April 2005 request for information does not have to lead to a case, and since that time the United States has held back on pursuing a full-blown WTO case against China on IPR.

In his 15 February 2007 testimony, Karan Bhatia noted, "Over the past year, [U.S. officials] have been working to prepare a WTO case that challenges China's compliance with its WTO obligations in the area of intellectual property rights enforcement. Last October, we informed China that we would be filing such a case, but then agreed to hold off, with the support of U.S. industry, when China asked for further bilateral discussion." He went on to say, "We have been holding those discussions, including [in January] in Beijing … Thus far, no settlement has been reached. We are consulting with Congress and with industry on next steps. If we believe that negotiations offer a reasonable chance of success, we will continue to pursue them … But if it becomes clear that negotiations will not be successful, then we will proceed with WTO dispute settlement."

The biggest challenge in a WTO case is proving that China's system doesn't work. As is the case with most countries, China is only obligated to protect trademarks, copyrights, and patents registered in China, and it is not required to enforce the IP laws of any other country or to protect patents, trademarks, or copyrights that are registered in other countries but not in China. Therefore, in order to prove that China is failing to meet WTO-mandated IPR commitments, companies need to try to prosecute cases in China's courts. That in turn means that they have to have registered their trademarks, patents, or copyrights in China; they then must file a suit there and see the suit through to some conclusion.

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Because registering a copyright and then proving infringement is a tedious and oftentimes frustrating process, negotiators and trade officials feel that mounting and proving a WTO case could be difficult to do quickly, though U.S. officials have amassed considerable data and information and are well prepared to pursue such a case. A WTO dispute case will be difficult because the United States will have to show that U.S. companies went through the Chinese court system and that the system failed them in order to prove that China's system does not provide the level of protection agreed to under the WTO. In the meantime, industry groups, including the IIPA, have asked their members to register their copyrights and to attempt to bring IPR cases to China's courts so that the deficiencies of China's systems will be evident when proof is needed.

Special 301

The United States also uses Special 301, an annual review process provided for in the Trade Act of 1974, to identify countries that are especially egregious violators of IPR rules and standards. China has long been listed on the Priority Watch List, a designation that dictates extra attention and bilateral dialogue aimed at improving IPR enforcement. According to the USTR, which publishes the Special 301 reports, "placement of a trading partner on the Priority Watch List or Watch List indicates that particular problems exist in that country with respect to IPR protection, enforcement, or market access for persons relying on intellectual property."

Each year, the USTR solicits the input of the copyright industries to create its list of priority countries (worst offenders) and develop its Watch List and (more serious) Priority Watch List under Special 301. A country must lack any evidence of good-faith negotiation to improve or implement an IPR enforcement regime before it can be tagged as a "priority country." A country will not be so tagged if it is making significant progress in negotiations to improve its overall IPR enforcement.

In 2006, China was listed on the Priority Watch List; among the other countries to receive that dubious distinction were Russia, Brazil, India, Israel, and Venezuela. U.S. officials use the Watch List and Priority Watch List designations to increase the amount of resources devoted to targeting IPR protection in a country. Additionally, if a country is on the Priority Watch List, it is subject to special investigation. The United States also uses the Special 301 designations as a trigger for increasing its negotiations with countries that have failed to meet their IPR commitments. In his testimony to the Ways and Means subcommittee on trade, Bhatia pointed to a special review that the USTR is conducting of China's enforcement of IPR requirements at the provincial and municipal levels of government.

In 2006, China was listed on the Priority Watch List; among the other countries to receive that dubious distinction were Russia, Brazil, India, Israel, and Venezuela.

"It bears noting that at the highest levels of the Chinese government there is a clearly stated commitment to tackle this problem … China's leadership appears to recognize that the development of a more vigorous and effective IPR enforcement system is critical not only to trade relations with the United States, but also to China's own economic development," Bhatia said. "The challenge confronting China is turning those stated commitments into real results." *Note: On 10 April, the United States filed two complaints against China at the World Trade Organization to address piracy of movies, music, software, and books.*

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The Viagra Case: A Look at China's Patent System

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The Current Status of the Chinese Patent System

In light of SIPO's Viagra decision, many wondered if China's patent system is sufficient to protect innovation. The answer is a qualified yes; the problem is not the laws but the enforcement. Unlike the United States, which has over 200 years of patent law, China has a patent history that barely exceeds 20 years. China's first patent law was enacted in 1984, became effective in 1985, and was amended in 1992 and 2000. Before the 1992 amendment, pharmaceutical formulas were not patentable subject matter. Under the current patent law, methods of diagnosis, methods of treating diseases, and transgenic animals and plants are not patentable. The 2000 amendments further harmonized China's patent law with that of the rest of the world.

The Chinese government has also made significant efforts to educate the public regarding the importance of IPR and to promote public awareness of IPR protection. Many provincial and municipal governments have enacted programs to reimburse individuals and companies part of the cost of obtaining domestic and foreign patent protection. In December 2004, China's Supreme Court announced increased penalties for IPR violations and increased judicial availability for the initiation of infringement suits.

The recent focus on patent protection in China has resulted in additional patent applications and patents issued. From 1999 through 2005, a total of 1,899,683 patent applications were filed with SIPO, and a total of 1,038,618 patents were granted. In 2005 alone, SIPO granted 214,003 patents, up from 190,238 in 2004. Concurrently, IPR enforcement has increased. From 1985 to 2004, 69,636 first-trial civil cases relating to IPR disputes were adjudicated in courts around China. In 2004 alone, 9,329 first-trial civil IPR disputes were adjudicated, a 33.51 percent increase from 2003.

Implications of the Viagra Decision for the Chinese Patent System

The rapid increase in patent applications and civil IPR disputes reflects a growing reliance on China's legal system for IPR protection and enforcement. The very fact that 12 pharmaceutical manufacturers challenged the validity of Pfizer's patent through SIPO, rather than ignoring the Pfizer patent and selling infringing products, is a positive development for the pharmaceutical industry in China. However, although many domestic Chinese companies are now turning to the courts to resolve patent disputes rather than simply ignoring the patents and infringing them, others continue to ignore patents, and counterfeiting still runs rampant in China.

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SIPO's Viagra decision, although it was unfavorable for Pfizer, was based on an interpretation of China's patent law, and in that respect can be viewed positively as a sign that a patent procurement and review system based on the interpretation of patent laws or rules is emerging. China is a civil-law country, not a common-law country, which means that a decision in a given case, such as the Viagra case, does not become a precedent that must be followed in subsequent cases, the way it would in the United States. In that sense, it may not have the same consequences for other cases that it might in the United States.

Pfizer's Successful Appeal

On 2 June 2006, the Beijing First Intermediate People's Court overturned SIPO's deci-

What Is a Patent?

The United States Patent and Trademark Office defines the term "patent" in the following manner:

> A patent for an invention is the grant of a property right to the inventor, issued by the United States Patent and Trademark Office. The term of a new patent is 20 years from the date on which the application for the patent was filed in the United States or, in special cases, from the date an earlier related application was filed, subject to the payment of maintenance fees. US patent grants are effective only within the US, US territories, and US possessions.
>
> The right conferred by the patent grant is, in the language of the statute and of the grant itself, "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States or "importing" the invention into the United States. What is granted is not the right to make, use, offer for sale, sell or import, but the right to exclude others from making, using, offering for sale, selling or importing the invention.

Patent holders who wish to assert their intellectual property rights in China must apply for Chinese patents for their inventions. China enacted its first patent law in 1984; that law required registration of consumer products and licensing contracts. Amendments in 1992 and 2000 expanded patent protection to food, beverages, flavorings, and chemical and pharmaceutical products. The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which took effect in 2000, requires that China extend the duration of patent protection to 20 years from the application date. Like the European Union, China has a '"first-to-file" patent system. Patents are granted to the applicants that file first, regardless of whether or not they are the original inventors. This is in contrast to the United States' "first-to-invent" system. A foreign patent applicant without a business office in China must use an authorized patent agent to file an application. Patents are filed with China's State Intellectual Property Office (SIPO) in Beijing.

Sources: United States Patent and Trademark Office, "What Are Patents, Trademarks, Servicemarks, and Copyrights?" 12 May 2004, http://www.uspto.gov/web/offices/pac/doc/general/whatis.htm, and Embassy of the United States (Beijing, China), "IPR Toolkit," December 2005, http://beijing.usembassy-china.org.cn/protecting_ipr.html.

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sion and remanded the case to the Patent Reexamination Board for reconsideration. Ten of the Chinese companies that filed the patent invalidation request have appealed the decision to the Beijing High People's Court.

The Intermediate Court's decision added to the controversy already surrounding the case. Whereas some U.S. commentators had seen the Board's invalidation decision as evidence of China's lack of commitment to protecting intellectual property, some Chinese commentators have seen the reversal as a case of China's succumbing to political pressure from the West.

Implications of the Intermediate Court's Decision

The Board's decision and the Intermediate Court's reversal of that decision reflect a healthy development in China's IPR system. Specifically, the Pfizer case showed that both SIPO and the Chinese courts are capable of making independent judgments regarding a legal issue, based on legal principles and legal analysis.

Another sign of progress is that Chinese courts have begun to make their decisions available to the public. Courts in economically advanced regions, such as Beijing, Shanghai, Jiangsu, and Zhejiang, routinely publish their decisions on their websites, and courts in other regions of China are following suit. Ultimately, this course of action means that the courts' decisions can be held up to public scrutiny.

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Legal Proceedings as Offensive and Defensive Weapons

As the legal system has made advancements, Chinese companies have begun using legal proceedings as offensive and defensive weapons. The case of Eli Lilly and Company's patent disputes in China regarding its insulin drug Humalog shows the increasing sophistication of Chinese companies in using the court system.

Humalog is an analog of human insulin that acts faster and has a shorter life than native human insulin. In 2004, Gan & Li Pharmaceuticals filed applications with China's State Food and Drug administration (SFDA) to conduct clinical trials and produce a recombinant human insulin analog having the same amino acid substitution as Humalog. In 2005, Lilly sued Gan & Li in Beijing Second Intermediate People's Court, asserting that Gan & Li's recombinant insulin product infringed five of Lilly's Chinese patents, including two product patents and three method patents. Lilly demanded that Gan & Li cease infringement and withdraw its SFDA applications. Gan & Li countered by filing a request with the Board for the invalidation of all five of Lilly's patents. The Board accepted Gan & Li's request. Meanwhile Tonghua Antaike Biotechnology Engineering, which is an affiliate of Gan & Li, filed suit against Lilly for patent infringement in the Beijing First Intermediate People's Court, alleging that Lilly violated its Chinese patent ZL98813941.3, granted 20 April 2005. The case is still pending.

Signs of the Times

The Pfizer and Lilly cases show that the patent system in China is continuing to develop. Chinese courts have become more sophisticated, rendering decisions based on legal principles and reasoning and making their decisions accessible to the public. Chinese companies are paying greater attention to patents and have refined their patent litigation strategy. These are healthy signs of an increasingly robust and maturing patent protection system in China.

Michael Wise is a partner at Perkins Coie, a leading law firm, and chairs its China intellectual property practice. His practice focuses on patent litigation, interferences, prosecution, and due diligence matters in the life sciences industry. He frequently speaks and writes on China-related IP matters.

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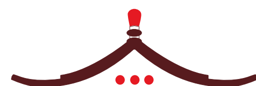

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The Viagra Case: A Look at China's Patent System

Michael WISE, Zoe WANG, and James ZHU

Adapted from "Zoom in on IPR: Peeking into the Chinese Patent System through the Viagra Case," Burrill Greater China Life Sciences Newsletter, *September 2005 and January 2007.*

In 2004, the Patent Reexamination Board of China's State Intellectual Property Office (SIPO) invalidated Pfizer's Chinese patent claiming the use of Viagra for male erectile dysfunction, a decision that was cited as yet another example of China's continuing disregard for intellectual property rights (IPR).

The Viagra decision addressed Pfizer's Chinese patent CN1124926, which claimed the use of sildenafil citrate, the active ingredient of Viagra, for treatment of male erectile dysfunction. Pfizer's Chinese patent CN1124926 was granted on 19 September 2001. On the same day that SIPO granted the patent, a Chinese citizen initiated an invalidation proceeding, which was subsequently joined by 12 domestic Chinese pharmaceutical companies. After almost three years of proceedings, SIPO revoked the patent in July 2004. Pfizer then appealed SIPO's decision under China's patent law in the Beijing First Intermediate Court, which overturned the decision on 2 June 2006. The case is now being appealed to the Beijing High People's Court.

The basis for SIPO's initial decision was insufficiency of disclosure under Article 26, Paragraph 3, of the Patent Law of China 2000, which requires that the patent description "shall set forth the invention or utility model in a manner sufficiently clear and complete so as to enable a person skilled in the relevant art of technology to carry [it] out." Pfizer's Chinese patent CN1124926 listed nine "especially preferred individual compounds" including sildenafil citrate. The specification of CN1124926 further stated that the compounds are useful in the treatment of erectile dysfunction and that one of the especially preferred compounds induces penile erection in an impotent male. SIPO, however, was of the view that, because the specification lacked specific experimental data for sildenafil citrate, one skilled in the art could not be convinced of sildenafil citrate's effectiveness.

Predictably, the adverse ruling provoked strong reactions, particularly in the United States. James Zimmerman, vice chairman of the American Chamber of Commerce People's Republic of China (ACCPRC), said that the State Patent Office was on thin legal ground and that its decision represented a step backwards, and Pfizer was disheartened.

> After almost three years of proceedings, China's State Intellectual Property Office revoked Pfizer's Chinese patent for Viagra in July 2004. That decision was reversed in June 2006, and a final appeal is now pending.

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