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IP CHINA – UPDATE 2021

New Laws and Enforcement Practice

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New Laws and Enforcement Practice

The People's Republic of China has long been criticized by the international community for massive infringement of intellectual property rights. The country's economic development has made it not only the world's factory, but also the world's largest source of counterfeit goods. In the past, little attention was paid to intellectual property, and the regulatory environment was weak.

That has since changed. China has made significant improvements in the protection of intellectual property in recent years. According to the Outline of National Intellectual Property Strategy, the Asian nation should become a high-level country in the creation, application, protection and management of intellectual property.

This is also reflected in the quality of examination processes and IP applications. According to 2020 statistics published by the *China National Intellectual Property Administration (CNIPA)* in January 2021, examination efficiency for patent and trademark applications has been greatly improved. The examination time for high-value patents has been shortened to 14 months, and the average examination time for trademark applications has been reduced to four months. In addition, the volume of granted patents and registered trademarks has increased. In 2020, 530,000 invention patents were granted, an increase of 17.1% compared to the previous year. In addition, 5,761,000 trademarks were registered and 765 trademarks with geographical indications were approved.

China also performs above average in an international comparison. At the *European Patent Office*, the largest increases in patent applications in 2020 came from Chinese companies, as in the previous year, with an increase of + 9.9 percent. Companies from China filed more patents in Munich in the fields of biotechnology, electrical machines, devices and energy. Innovative climate technologies and digital communications made in China also recorded significant increases here.

The abundance of Chinese patent applications is now leading to international criticism. For example, the U.S. increasingly sees itself at a disadvantage in the innovation race with China. AI patent applications from China significantly outnumber those from the U.S., leading China's patent applications to harm U.S. innovators by creating a huge reservoir of "prior art." This dramatically increases the amount of prior art that must be reviewed when examining a patent application. As a result, the patent examination process at Western patent offices is becoming increasingly burdensome. It is becoming increasingly difficult for inventors in the United States to obtain patents. They must prove that their inventions are not disclosed in prior art publications anywhere in the world - including Chinese-language patent applications filed in China and internationally.

To the extent that Chinese patents dominate prior art searches by patent offices around the world, the current dominance of U.S. patents in these global searches will erode. Most notably, in 2020, China's IP legislation underwent significant changes. The year 2020 saw the enactment of the *Civil Code of the People's Republic of China*, which provides in general terms for punitive damages in the IPR field. In the trademark field, CNIPA introduced *Standards for the Determination of Trademark Infringement* following the 2019 amendment to the *Trademark Law*. Meanwhile, the amendments to the *Patent Law* and *Copyright Law* were also adopted in 2020.

In terms of enforcement, the Chinese state is now cracking down on IPR infringements. As part of the *Blue Sky Project* for the protection of intellectual property, which has been running for two years, 2,950 patent and trademark agencies were inspected and 1,095 agencies were instructed to take corrective measures. In 330 suspected cases, the authorities conducted further investigations into

illegal trademark and patent applications and imposed 182 fines. Infringers can also be listed into the watch list of *Corporate Social Credit System*.

Below the individual amendments to relevant laws and regulations and update to the IPR enforcement practices are presented in more detail.

Invention Patent

The Fourth Amendment of the Patent Law

On October 17, 2020, the fourth amendment of the *Patent Law* was adopted, effective from June 1, 2021. The highlights of this amendment mainly include:

- For malicious infringement, punitive damages of one to five times can be applied, and the lower limit of statutory damages will be increased from 10,000 RMB to 30,000 RMB, and the upper limit from one million to five million RMB.
- The establishment of a drug patent linkage system with parallel judicial and administrative procedures, which enables the patent holder of innovative drugs to prevent infringing generic drugs from entering the market even at the drug approval stage.
- Establishing a system for adjusting the protection period of invention patents when the grant of an invention patent application is delayed due to unreasonable examination and a system for extending the protection period of invention patents for new drugs to compensate for the delay in marketing of patented products due to lengthy administrative approval.
- Introduction of provisions prohibiting abuse of patent rights to curb the phenomenon of malicious litigation in current judicial practice.

Design Patent

The Fourth Amendment of the Patent Law

The new *Patent Law* has also made some significant changes to the design patent. Except for the overall changes such as “punitive damages” and “prohibiting abuse of patent rights” that are applicable to design patents, the special reforms to designs also mainly include:

- Inclusion of partial designs in the object of design patent protection.
- Adding the domestic priority for design patents: within six months from the date of the first filing of a design patent application, another patent application is filed for the same subject matter, this patent application may enjoy domestic priority.
- Extending the protection period of design patents to 15 years.

Trademark

Standards for the Determination of Trademark Infringement

On June 15, 2020, CNIPA issued the *Standards for the Determination of Trademark Infringement* (hereinafter referred to as "Standards"), which came into effect from the date of publication. The Standards clarify that the use of a trademark is normally a prerequisite element for determining trademark infringement; further refine the definition of the use of a trademark and list the specific manifestations of the use of a trademark; and clarify the principles for determining the use of a trademark.

Moreover, Standards combine law enforcement practice, the relevant administrative response and judicial interpretations, and summarize the specific cases of trademark infringement. Article 36 of the Standard stipulates that in the process of administrative raids against trademark infringement, the relevant authorities may request the right holder to issue a written identification opinion on whether the goods in question are produced by the right holder or produced under their license, and accordingly stipulates that the trademark right holder shall bear the legal responsibility for the identification opinion issued by him.

Provisions on Administration of Enterprise Name Regulation

On December 14, 2020, the State Council adopted and announced the latest amendment to the *Provisions on Administration of Enterprise Name Regulation* (hereinafter referred to as "Provisions"), effective from March 1, 2021. For the difficult point in the IPR enforcement that enterprise trade names are in the same similarity with the prior registered trademark, Provisions clarify the following three points to strengthen the supervision of enterprise trade names:

- Establishing the enterprise name dispute mechanism (Article 21): In the case that other enterprise names infringe the legitimate rights and interests of its own enterprise name, the enterprise can request the registration authority for correction or file a lawsuit to the court.
- Confirming that the name of the enterprise shall not infringe the legitimate rights and interests of others (Article 23).
- Confirming the legal consequences of trade name infringement (Article 23 paragraph 2): Enterprises that fail to change their registration in accordance with the requirements of the court or the registration authority after the deadline will be listed into the watch list of *Corporate Social Credit System*.

In addition, Provisions establish a system for the independent declaration of enterprise names, in the framework of which the sharing of data between trademark database and enterprise credit information database may play a positive role in the supervision of business registration authorities in protecting the enterprise names that have prior certain influence by improving efficiency and saving costs.

Copyright

The Third Amendment of the Copyright Law

On 11 November 2020, the third amendment of the *Copyright Law* was adopted, effective from 1 June 2021. The newly amended *Copyright Law* keeps pace with the development of the times, expanding the types of works, strengthening the protection of rights holders, and also strengthening the crackdown on copyright infringement, mainly in the following ways:

- Adding the definition of “work” and amending the term "cinematographic works and expressions of telematic works" to "audiovisual works" in order to respond to the need for protection of new types of audiovisual works, such as online game images and short videos, which are created by filming methods different from those of cinematographic works in practice.
- Amending the definition of broadcasting right so that the act of live streaming on the Internet falls under the scope of the broadcasting right, solving the long-standing practical dilemma that neither the broadcasting right nor the right of information network communication can control the act of live streaming on the Internet.
- Improving the rules on attribution of ownership by combining the rule of presumed authorship and the copyright registration system.
- Raising the statutory damages limit for copyright infringement to 5 million RMB and introducing the punitive damages system.

Trade Secret

Progress in Criminal Legislation Regarding Trade Secret Protection

The *Supreme People's Court* and the *Supreme People's Procuratorate* issued the *Interpretation on Several Issues Concerning the Concrete Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (III)* (hereinafter referred to as “Judicial Interpretation (III)”) on 12 September 2020. Subsequently, the *Amendment to the Criminal Law (XI)* (hereinafter referred to as the “Amendment (XI)”) was adopted by the *Standing Committee of the National People's Congress* on 26 December 2020 and came into effect on 1 March 2021. The highlights of Judicial Interpretation (III) and Amendment (XI) are as follows:

- Adding types of criminal offences of trade secrets, such as clarification of the criminal illegality of the mere improper acquisition of trade secrets.
- Lowering the standard of prosecution for filing a criminal case from 500,000 to 300,000 RMB.
- Clarifying the specific criteria for determining the amount of loss and the amount of illegal proceeds, for example, in the case of trade secrets obtained by improper means but not yet disclosed, used or allowed to be used by others, the amount of loss is determined on the basis of a reasonable license fee for the trade secret.
- Increasing the severity of sentencing penalties of crimes against trade secrets.

Punitive Damages in Civil IP Cases

Interpretation on the Application of Punitive Damages in Civil Cases of Infringement of Intellectual Property Rights

On 3 March 2021, the *Interpretation on the Application of Punitive Damages in Civil Cases of Infringement of Intellectual Property Rights of the Supreme People's Court* came into effect. The Interpretation applies to civil cases in the areas of patents, trademarks, copyrights and trade secrets as described above. Highlights of the Interpretation are as follows:

- Clarifying the conditions for the application of punitive damages, i.e. the defendant intentionally infringes intellectual property rights in aggravating circumstances.
- Clarifying the contents and timing of requests for punitive damages. In terms of timing, the plaintiff should file the claim "at the time of filing". In terms of content, the plaintiff should specify the amount of damages, the manner of calculation, and the facts and reasons on which the claim is based.
- Clarifying the determination of "intentional", i.e. the determination of "intent" should take into account the type of IPR infringed, the status of the right and the popularity of the product in question, and the relationship between the defendant and the plaintiff or interested party.
- Clarifying the determination of "aggravating circumstances". The determination of "aggravating circumstances" should take into account the means and number of infringements, the duration, geographical scope, scale and consequences of the infringement, and the conduct of the infringer in the proceedings.
- Clarifying the calculation of the number of punitive damages.

Enforcement Practice

In enforcing the law, China now also relies on digital technologies and the Internet. Digital solutions are a newer way to resolve traditional intellectual property disputes, improve the efficiency of litigation procedures, and ensure the timely realization of parties' rights. In addition, digital solutions are increasingly used in litigation management in China. Moreover, out-of-court settlements are also playing a greater role in IPR enforcement practices.

Electronic Data Evidence

In 2020, there were 32,067 cases in which evidence was secured and fixed by time-stamp authentication. In addition, the validity of blockchain evidence preservation platforms, including *Preservation.com*, *Easy Preservation*, and *IP360*, has been recognized by court decisions. The main online notary platform currently available is *Notary Cloud*, which has access to many notary offices in different regions. These new technologies facilitate evidence preservation in IP litigation and help IP

rights holders gain broader protection. In IP cases, time-stamp notarizations for critical and perishable evidence, such as evidence of infringement on e-commerce platforms or video platforms, have been the cheapest, easiest, most effective, and safest way to preserve evidence.

Digital Hearing in Online-Courts

Internet courts have been operating in China since 2017, with Covid-19 accelerating the use of such courts. In the crisis year of 2020, hearings in infringement cases were held almost exclusively online. The online hearings were conducted smoothly, although there was no face-to-face contact during the hearings. A side benefit for the client is that travel costs for the lawyer and other expenses are saved.

Out-of-Court Settlements

As Chinese courts demand peaceful settlements between disputing parties, the number in out-of-court negotiations is increasing. For example, the number of successful pre-trial mediated civil cases increased from 568,000 to 4,240,000 in 2018 - 2020, resulting in a 16.6% decrease in case growth at the courts since 2019. This leads to the fact that - depending on the initial situation and the subject matter of the dispute - in-court or even out-of-court comparisons can be a cost-effective way to achieve the goal.

Further Information

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