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China update – US trade agreement

The US-China trade agreement 2020 was signed on 15 January 2020.¹ It will drastically change the IP laws in China, as it adopts the US IP practice in China in an unprecedented manner. There are many positive changes in this Agreement that are long awaited, and can now be introduced without further discussion. On the other hand, this Agreement also introduces some controversial measures from US practice.

Toby Mak (Overseas Member) discusses the changes. Several aspects will be of interest to UK businesses if they are followed through effectively, in particular the reduction in a requirement for notarized evidence (at least for US businesses), and dropping requirements for effectively mandatory technology transfer when investing in China. The discussion is also interesting in the context of the UK negotiating a trade agreement with the US. Many of the changes are already consistent with UK and EU practice, but the Agreement highlights the US concerns about geographical indications and may already result in constraints on what the UK can negotiate and shows that the US push for effective protection for the pharma industry.²



The US-China trade agreement 2020 signed on 15 January 2020 has eight chapters:

1. Intellectual property (articles 1.1 to 1.36)
2. Technology transfer (articles 2.1 to 2.5)
3. Trade in food and agricultural products (article 3.1 plus 17 annexes)
4. Financial services (articles 4.1 to 4.7)
5. Macroeconomic policies and exchange rate matters and transparency (articles 5.1 to 5.4)
6. Expanding trade (articles 6.1 and 6.2, plus 2 annexes)
7. Bilateral evaluation and dispute resolution (articles 7.1 to 7.6, plus 1 annex)
8. Final provisions (articles 8.1 to 8.8), which defines annexes that are part of the Agreement, how amendments can be introduced, the authentic texts, and so on.

Naturally, this article will focus only on Chapters 1 and 2, which are intellectual property related. The articles in Chapters 1 and 2 will drastically change IP law in China, which adopt US IP practice into Chinese law in an unprecedented manner. (My observations are highlighted.)

Chapter 1 – Intellectual Property

Chapter 1 has 11 sections:

- A. General Obligations – articles 1.1 and 1.2
- B. Trade Secrets – articles 1.3 to 1.9
- C. Pharmaceutical-related IP – articles 1.10 and 1.11
- D. Patents – article 1.12
- E. Piracy and Counterfeiting on E-commerce platforms – articles 1.13 and 1.14
- F. Geographical Indications – articles 1.15 to 1.17
- G. Manufacture and Export of Pirated and Counterfeit Goods – articles 1.18 to 1.23
- H. Bad Faith Trade Marks – articles 1.24 to 1.25
- I. Judicial Enforcement and Procedure in Intellectual Property Cases – articles 1.26 to 1.31
- J. Bilateral Cooperation on Intellectual Property Protection – article 1.32 and 1.33
- K. Implementations – articles 1.34 to 1.36

The implementation of this chapter will adapt US IP law and practice in China. Specifically, “The United States affirms that existing US measures afford treatment equivalent to that

Notes

1. Read the full text of the phase-one deal in a 94-page pdf at: <https://int.nyt.com/data/documenthelper/6667-us-china-trade-deal/b8ef0d1826ca2b48f121/optimized/full.pdf>
2. Comments added by the Editor.

provided for in this article” is recited in *every* article with substantive implementation, except the following articles:

- 1.7 – eliminate actual loss requirement to enforce trade secret cases
- 1.19 – China to significantly increase number of enforcement actions in respect of counterfeit goods with health and safety risks
- 1.21 – strengthen border enforcement actions
- 1.27 – impose heavier punishment in IP cases at courts

Of course I will *not* term this US colonisation of its IP law in China.

All of the above will be discussed below, except:

- J. Bilateral Cooperation on Intellectual Property Protection – article 1.32 and 1.33. This section states that bilateral cooperation is to be strengthened.
- Implementations – articles 1.34 to 1.36. This section requires China to produce an action plan within 30 working days after the Agreement comes into force.

General Obligations

These articles lay down the general principles that the importance of IP protection is recognised, and fair, adequate and effective protection and enforcement shall be ensured.

It is interesting to find in this section that China has now committed to these as it believes IP protection is in its own interests when it transforms from a major IP consumer to a major IP producer. Hopefully, this is not just lip service.

Trade Secrets

First, it should be noted that several articles in this section have already been implemented under the Chinese Anti-unfair Competition Law, effective since 1 November 2019. These are:

- Article 1.3 – in addition to business operators, also include natural persons, legal entities, non-legal entities are to be pursued for trade secret infringement.

This illustrates the fact that before the 2019 Anti-Unfair Competition Law, non-business operators like a government department could not be sued for trade secret infringement in China... Anyway, good luck suing a Chinese government organisation for trade secret infringement in a Chinese court.

- Article 1.4 – specifying that the following additional actions that would also amount to an infringement of trade secrets:

- Electronic intrusion.
- Violating confidentiality obligations.
- Instigating, helping others to violate confidentiality obligations or violating the right owner’s requirements for protecting trade secrets, obtaining, disclosing, using or allowing others to use the right owner’s trade secrets.

This means that before this 2019 Anti-Unfair Competition Law, violating confidentiality obligation or assisting to do so could not be sued for trade secret infringement in China...

- Article 1.5 – ease of proof of trade secret infringement. This shifts the burden of proof to the alleged infringer (to show that the trade secret asserted by the trade secret owner is in fact not a trade secret, or the information used is different from that of the trade secret owner). *If the trade secret right owner could provide preliminary evidence showing that measures have been taken to maintain the trade secret, and reasonably showing that the trade secret has been infringed by providing the following:*
 - evidence showing that the alleged infringer has access to or has opportunity to access to the trade secret;
 - evidence showing that the information used by the alleged infringer is essentially the same as the trade secret;
 - evidence showing that the trade secret has been disclosed or used or is at risk of being disclosed or used by the alleged infringer; and
 - any other evidence showing that the trade secret is infringed by the alleged infringer.

Although the shift of burden of proof could make suing for trade secret infringement in China easier than before, it should be noted that the above preliminary evidence is required to initiate the shift. Readers familiar with my previous articles on how China imposes strict requirements on authentication of evidence by an unrelated third party, usually a Chinese notary, may consider that this is still mission impossible. However, the Agreement has a specific article directed to this, which may help to resolve some present difficulties. These are discussed later.

- Article 1.27 (enforcement related article) – increase compensation for trade secret infringement as below:
 - For a business operator infringing a trade secret in bad faith and being a case of gross violation, multiplying the compensation determined according to the loss of the right owner or profit made by the infringer from one to five times the value. [This is new.]
 - Increasing the cap of statutory damage (i.e., when loss or damage is not proved) to RMB 5 million. [About £550,000. Cap increased from RMB 3 million.]

- Article 1.27 (enforcement related article) – this enhances administrative punishment in respect of trade secret infringement as below:
 - Punishment can be applied additionally against a natural person, legal entity, and non-legal entity. [This parallels the change in article 1.3 above.]
 - Confiscation of illegal income. [This is new.]
 - Increasing fines to RMB 100,000 to 1 million [About £110,000. Cap increased from RMB 0.5 million], and for case of gross violation, increasing fines to RMB 0.5 to 5 million. [About £550,000. Cap increased from RMB 3 million.]

The following articles in the Agreement are to be implemented:

- Article 1.6 – Easier grant of preliminary injunctions with courts identifying trade secret cases as “urgent situation”.

This does not mean that preliminary injunctions will be granted automatically in trade secret cases. Other conditions, notably that irreparable damage would be inflicted, are still required.

- Article 1.7 – Lowering the threshold for initiating criminal enforcement by eliminating the requirement on showing actual losses.
- Article 1.8 – Application of criminal procedures and penalties against willful trade secret misappropriation through theft, fraud, and unlawful physical and electronic intrusion.

Willful is the key here. The problem is, how to show this?

- Article 1.9 – Protection against unauthorised disclosure by government authorities by the following measures:
 - Limiting requests for information on a need-to-know basis.
 - Limiting access to submitted information on a need-to-know basis.
 - No access to be given to competing third-party experts or advisors.
 - Establishing mechanisms to challenge requests for exemption of a disclosure to a third party.
 - Provide penalties as below:
 - monetary fines;
 - suspension or termination of employment;
 - amendment of relevant laws; and
 - imprisonment

Article 1.9 above may mean that these issues had happened before, or at least are serious concerns from the US side.

Pharmaceutical-related IP

Article 1.10 requires China to “permit pharmaceutical patent applicants to rely on supplemental data to satisfy relevant requirements for patentability, including sufficiency of disclosure and inventive step” at all stages of prosecution. This has already been implemented by the 2017 revision of the Chinese Patent Examination Guidelines.

Please refer to my article published in the August 2017 issue of the *CIPA Journal*. However, it should be noted that only such post-filing data proving technical effect available to a person skilled in the art from the specification would be considered by the CNIPA, according to the current Chinese Patent Examination Guidelines. It is not clear whether this will be changed further to bring the Chinese practice to be more in line with that in the US.

Article 1.11 requires China to introduce the US “patent linkage” system to notify patent holder of another person seeking marketing approval.

It had been hinted that China was going to introduce this in early 2019. Please see my article published in the February 2019 issue of the *CIPA Journal*. This will drastically change the Chinese patent system. It is not clear if this would be included in the next revision of the Chinese Patent Law, or would be implemented via a different law or regulation.

Patents

Article 1.12 requires China to introduce patent term extension as below:

- Extend the term of a patent due to unreasonable delays that are not due to the applicant.

That is, the US-style patent term extension that could be triggered, for example, due to the issuance of an office action later than a certain date. Personally, I do not understand the rationale behind this – in that the public has to be exposed to longer patent protection term due to delays of the patent office. I can only say, we are living in a fair world.

- Extend the term of a patent “covering a new pharmaceutical product” for no more than five years and no more than 14 years from the date of marketing approval in China.

There were hints that China was going to introduce this in early 2019 when the Chinese National People’s Congress issued proposed 4th revisions to the Chinese Patent Law to solicit public opinion.

Piracy and counterfeiting on e-commerce platforms

Article 1.13 requires China to do the following:

- Provide expeditious takedowns.
- Eliminate liability for erroneous takedown notices submitted in good faith.
- Extend the deadline for right holders to file a judicial or administrative complaint after receipt of a counter notification to 20 working days.
- Require information to verify takedown notices and counter-notifications, and penalise those submitted in bad faith.

Article 1.14 requires China to revoke operating licences of e-commerce platforms for “repeated failures to curb the sale of counterfeit or pirated goods.”

On 12 February 2020, China's Ministry of Commerce published draft measures regarding public disclosure of e-commerce information in line with the above. The draft measures require publication of a takedown notice from the right holder within 48 hours from receipt by the e-commerce platform operator. If the alleged infringer replies with a counter notice and the right holder does not file a formal complaint with the authority (a court or administration) within the above mentioned 20 days, the operator is required to publish the operator’s decision within 48 hours. However, if a right holder did not sue, would an operator be inclined to do nothing?

There are also articles in the draft measures to impose liability on the operator to ensure timely and correct publication of the takedown notices, the counter notices and the operator’s decision. It is not clear how article 1.14 is to be implemented by these draft measures.

Geographical indications

Articles 1.15 to 1.17 require China to take measure to provide that pending and future requests for recognition of GI do not undermine market access for US exports to China of goods and services using trade marks and generic terms, particularly for multi-component terms.

Manufacture and export of pirated and counterfeit goods

Article 1.18 – Counterfeit medicines

This article requires China to do the following:

- Expedite enforcement.
- Share registration information of pharmaceutical raw material sites with the US.

This could help the US to identify counterfeit goods manufacturing sites.

- From six months after the Agreement comes into force, publish enforcement data online, including seizures, revocation of business licences and fines annually.

This means the US could ask China to explain whenever the US is not happy with the enforcement data?

Article 1.19 – Counterfeit goods with health and safety risks

This article merely requires China to do the following:

- “Significantly increase the number of enforcement actions” within three months from the Agreement coming into force.
- From four months after the Agreement comes into force, publish enforcement data on online on the measurable impact of enforcement every quarter.

This is more stringent than that in article 1.18. It is not clear why the differences exist.

Article 1.20 – Destruction of counterfeit goods

This article requires destruction of counterfeit goods to be the default for border, civil and criminal enforcement. For civil enforcement, China is specifically required to order “materials and implements that have been predominantly used in the manufacture or creation of such pirated or counterfeit goods” be destroyed without compensation.

China has long been criticised for not destroying counterfeit goods. In fact, the Chinese Trade Mark Law used to allow counterfeit trade mark goods to be released back into commerce channels after any counterfeit trade marks were removed. This will no longer be allowed. In fact, moulds specific for making the counterfeiting goods will also have to be destroyed.

Article 1.21 – Border enforcement actions

This article requires China to do the following:

- Significantly increase training of customs personnel from nine months after the Agreement comes into force.
- Significantly increases the number of enforcement actions within three months after the Agreement comes into force, and publish such actions online quarterly.

Article 1.22 – Enforcement at physical markets

This article requires China to significantly increase the number of enforcement actions within four months after the Agreement comes into force, and publish such actions online quarterly.

Article 1.23 – Unlicensed software

This article requires China to do the following:

- Ensure all government agencies use only licensed software.
- Perform annual audit by non-government-related qualified third party, and publish audit results online within seven months after the Agreement comes into force.

OK, I am going to buy shares in the major software giants.

Bad faith trade marks

Articles 1.24 to 1.25 only mention that “the Parties shall ensure adequate and effective protection and enforcement of trade mark rights, particularly against bad faith trade mark registrations”.

Those suffered from bad faith trade mark issues in China may be disappointed by this article. However, the Chinese Trade Mark Law, revised last year, already has measures against bad faith trade marks.

Judicial enforcement and procedure in intellectual property cases

Article 1.26 – Transfer from administrative enforcement to criminal enforcement

This article requires China to transfer administrative enforcement to criminal enforcement if there is “reasonable suspicion” based on “articulable facts”.

This would make IP criminal enforcement in China easier.

Article 1.27 – Deterrent-level penalties

In addition to raising the cap for compensation and fines [Please see above, regarding trade secrets. The next revision of the Patent Law will also do so.], this article requires China to impose “heavier punishment at or near the statutory maximum permitted”.

As reported in many of my previous articles, low damages awarded in IP cases is among the top complaints (if not the number one complaint) against China’s IP system, in particular in patent infringement cases, in which most of the cases awards are less than half of the statutory maximum. The requirement in this article should be welcomed by IP owners particularly patentees.

Article 1.28 – Enforcement of judgments

China is required to publish work guidelines for execution of judgments and implementation plans to ensure expeditious enforcement of judgments.

China has already established the bad faith entity list mechanism for IP cases as reported in my article published in the July 2019 issue of the *CIPA Journal*.

On 24 March 2020, the China Supreme People's Court (SPC) published a draft implementation plan and guidelines for enforcing IP decisions to solicit public opinion. The implementation plan contains a lot of goodwill in line with the Agreement. One interesting point is Point 8 in the Implementation Plan which mentions that The Civil Procedure Law of the People's Republic of China (article 252) and its related Judicial Interpretations (article 505) stipulate that the obligations the subject of enforcement in an intellectual property case could be carried out by a third party appointed by the court, while the subject of enforcement bears the costs of execution. It is not clear how or what the boundary of this is, it could be extremely long arm. I plan to submit opinion asking for identification and/or explanation of the following:

- Qualifications on the third party to be appointed by the court.
- Limitations on the obligations to be carried out by the third party.
- Measures to be taken if the costs of execution could not be recovered.

The draft guidelines are a summary of various laws, regulations, judicial interpretations, and the SPC's

opinions, and so on. Each article recites the relevant articles therein that form the basis. There appears little to argue unless the relevant laws, regulations, judicial interpretations, and the SPC's opinions, and so on are changed.

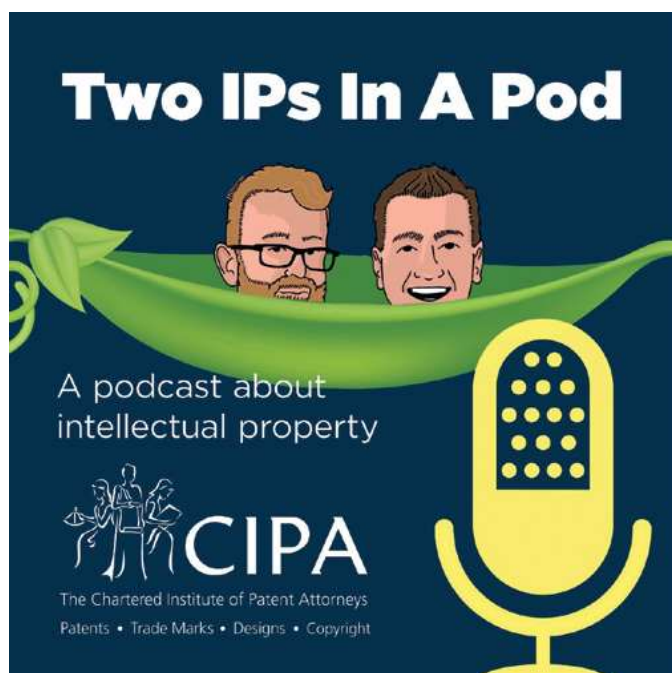
It is typical in China that the law/regulation is there, but one finds actually carrying out the relevant action to be impossible due to technical details required therein. Specifically, Point 7 of the draft guidelines requires identification of the applicant for compulsory enforcement of an IP decision. If the current requirement at the court for foreigner is required (Certificate of Business Registration (or Extract of the Company's Business Register); Certificate of Identity of the Legal Representative (CILR), the Written Resolution, Memorandum of Association, and the Articles of Association authorising the legal representative, all have to be legalised and notarised), welcome to hell on earth, notwithstanding that it is not a norm for many foreign companies to appoint an individual as a legal representative (this is typical in China, South Korea and Japan). For documents of an heir, this is even a deeper level of hell (I did it once. I will pay from my own pocket for not doing this again). All these could make the entire process not workable for foreigners. As these draft guidelines are for IP decisions, for which the identity of the applicant should have been verified when filing the complaint, I plan to submit an opinion asking for waiver if the applicant of compulsory enforcement is the plaintiff in the decision.

On 21 April 2020, the SPC published opinions on comprehensively strengthening IP judicial protection, which again contains a lot of goodwill in line with the Agreement.

Article 1.29 – Enforcement of copyright and related rights
This article requires China to do to following:

- In the absence of contrary proof, presume that the author is the correct author, and copyright subsists in the work claimed.
- Waive requirements to present assignments or other documents to establish ownership.
- The alleged infringer has the burden of proof to demonstrate that the use of the copyright work is authorised.

The above reverses the current practice, which makes copyright registration valuable in China. Although this may make copyright registration in China less valuable, this does not mean that copyright records could be handled with less care.



Article 1.30 – Document authentication

China shall not require formalities to authenticate evidence that can be introduced or authenticated through stipulation, or witness testimony under penalty of perjury. Otherwise, China shall streamline notarisation and authentication procedures.

The suffering from notarisation and legalisation would be gone! One major obstacle to foreigners enforcing IP rights in China is to obtain proper evidence for submission to a Chinese authority, such as a court. Notarisation and legalisation are required for foreign evidence, making submission of much evidence used in a parallel foreign cases not admissible in China. This article would avoid notarization and legalisation of evidence that could be proven with proper explanation, for example witness evidence and foreign customs seizure records.

Further, this article requires China to introduce the concept of perjury, which does not exist in the Chinese legal system. Just this article will bring a lot of interesting changes, not only to the IP or legal system, but to the entire culture in China – no more casual lies, at least in a court!

Article 1.31 – Witness testimony

With article 1.30 above, this would be expected. It will be possible to present witness evidence in IP cases in China. However, there have already been test cases for high-profile cases tried in the Beijing and Guangzhou IP courts.

Chapter 2 – Technology transfer (TT)

This chapter has five articles:

1. General obligations – shall not support outbound foreign direct investments acquiring foreign technology targeted by its industrial plan.
2. Market access – shall not pressure TT in relation to acquisitions, joint ventures, or other investment transactions.
3. Administrative and licensing requirements and processes – shall not require TT to obtain market authorisation.
4. Due process and transparency.
5. Scientific and technological cooperation.

It has long been a criticism that for certain areas of business, foreign companies are only allowed to enter China by forming a joint venture with a local

Chinese company, most of the time a state-owned company, with the Chinese company being the major shareholder. One example is car industry. Otherwise, the relevant business operating licence would not be granted for doing business in China. In such a way, Chinese companies obtain control of not only intellectual property but a lot of business information, which used to be only available to foreign companies. This may be what the US termed “forced technology transfer”. However, I would term this “forced business marriage”. Now all of these would stop. But we all know how messy a divorce can be.

Regarding article 2.1, although the wordings seem to specifically target China (targeted by its industrial plan), I am concerned that this may be used to prevent US direct investors acquiring Chinese technologies.]

Further observations

While some people may call this a major US victory, at least with respect to IP, the above changes could bring many positive changes to China. For example, the introduction of the concept of perjury would be revolutionary to the Chinese legal system, in a positive way. Many of the changes are long overdue but, thanks to the Agreement, can now be introduced without further discussion in China.

In fact, with as measures have already been implemented (particularly those related to trade secrets) or foreshadowed (like patent linkage, and patent term extension for pharmaceutical patents), it appears that China was already prepared to accept at least some terms in this Agreement with respect to IP.

On the other hand, the Agreement introduces some controversial measures from US practice. (Personally, I am against the idea of patent term extension for pharmaceutical patents, as I do not agree that delays on drug approval should be compensated by the patent system. There is a mechanism called data exclusivity allowing the drug approval authority to deal with complaints against delays.) This may allow further adoption of US IP practice in China.

In any event, there are various monitoring mechanisms in place in this Agreement through online publication of data (whether the data is “correct” is another issue), which means that it would be difficult for China to get away with not implementing the requirements set forth in this Agreement. This means that many changes to the laws and regulations will be published in the coming two to three years. □

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