Enforcing IP Rights In China: A Road Map For US Companies

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The United States loses between $225 and $600 billion each year due to misappropriation of intellectual property — an estimated 50-80 percent of which has been attributed to China. While Chinese officials have taken steps to better protect IP owners, many American companies remain vulnerable. It is imperative that U.S. IP owners know what rights do exist and how to enforce them.

When determining how best to protect and enforce IP, American businesses should know the powers, limits, and potential remedies available in both Chinese and U.S. forums. This article reviews the relevant legal landscape in both China and the U.S.

Actions Enforcing IP Rights in China

Businesses can enforce their IP rights in China by filing an administrative action, a civil action or both. Each has its strengths and weaknesses; deciding the most effective approach requires balancing the available evidence, desired relief, financial resources, and timeline for decision. While an IP owner may also seek criminal enforcement in severe cases, such actions are rarely brought and are generally ineffective because claimants face a high burden of proof and prosecutorial authorities may be reluctant to act.

Administrative Actions

Chinese administrative procedures are currently handled by the State Intellectual Property Office and its local counterparts (collectively, "SIPO") for patent-related cases, the State Administration for Industry and Commerce and its local counterparts (collectively, "SAIC") for trademark-related cases, and the National Copyright Administration of China and its local counterparts (collectively, "NCAC") for copyright-related cases. China recently approved a government reorganization, wherein SIPO will assume responsibility for trademark cases in addition to patent cases and will be subordinate to the new National Market Supervision Administration.

Administrative actions offer a relatively quick, low-cost means of obtaining an injunction and gathering evidence for civil actions, which provide little formal discovery. Generally, the administrative agency decides whether to institute an investigation within one to three weeks, and completes an instituted action within four to five months.

To request an administrative investigation, IP owners submit a petition describing the intellectual property right and basic evidence of alleged infringement. The administrative enforcement agency considers the evidence and determines whether

to open an investigation. Investigations can involve questioning the parties, raids of the premises where allegedly infringing activities take place, and seizures of goods to determine infringement. Upon an infringement determination, the agency will issue an injunction, and may destroy infringing products or equipment, impose administrative penalties upon the infringer, and/or confiscate illegal profits. While the dissatisfied party may appeal a decision to the local court or a specialized IP court, an injunction is enforced immediately — even while under subsequent review.

Despite their speed and efficiency, however, administrative institutions have limited experience with complex cases and offer limited remedies. Though administrative courts are not limited to such actions, most disputes they consider are not especially technical and are between small companies. Furthermore, the agency only has authority to issue injunctions, and cannot require an infringer to monetarily compensate a successful complainant. But given the relatively low damages awarded in Chinese civil suits and the agency's swift intervention, the lack of damages should not deter IP owners interested in promptly enjoining infringers; they can subsequently seek monetary relief through civil actions.

Civil Actions

Some Chinese people's courts have set up specialist IP tribunals to deal with IP cases. Further, in 2014, the Supreme People's Court set up three specialized courts located in Beijing, Guangzhou and Shanghai to hear IP cases originating in their respective jurisdictions. These courts are overseen by China's most experienced IP judges and are equivalent to the Intermediate People's Court. They may act as a first instance court, including hearing appeals from the above-mentioned administrative proceedings or civil lawsuits relating to patents, or act as an appellate court hearing appeals of civil judgments or rulings made by a lower court of first instance relating to copyright or trademarks. In addition, dozens of major cities have established specialized IP tribunals within intermediate level courts to hear IP cases in their respective jurisdictions. This number is expected to grow as China continues its push toward greater IP protection.

Actions in Chinese civil courts resemble such actions in U.S. courts, but with a few significant differences. Article 149 of the Civil Procedure Law of the People's Republic of China states that a court "shall conclude [a] case within six months after docketing the case. ... [U]nder special circumstances, a six-month extension may be allowed subject to the approval of the president of the court. Further extension, if needed, shall be reported to the people's court at a higher level for approval." While numerous cases are concluded within this six- to 12-month period, there is no time limit by which the court must render a judgment if the case involves foreign parties. In practice, these proceedings may last much longer.

Discovery, as U.S. litigants understand it, does not exist in Chinese courts. Each party provides its own evidence in support of its claims. Technically, the court can investigate and collect evidence if a party is objectively unable to do so, but such action has been historically rare. Given the recent increase in highly technical IP cases, however, Chinese courts seem to be moving toward a more proactive role in evidence collection. Nevertheless, it remains important that a potential claimant have enough documentary evidence at the outset to support its claim.

Further, unlike U.S. litigation, documentary evidence in China must be presented in its original form and authenticated by a notary. Evidence that is not in Chinese must be translated into Chinese, and evidence produced outside China must also

be apostilled. Litigants should consider filing actions under 28 U.S.C. § 1782 in U.S. district court to obtain discovery for use in these foreign proceedings.

Fact witness testimony is generally given little weight, but experts are often appointed by the court and their testimony is more influential. Although a party can retain its own expert witness and submit a witness report, unilateral reports can be challenged by the opposing party and may not be admitted into evidence. Specialized IP courts are equipped with technical investigators who assist the adjudication of cases involving technical issues in their areas of expertise.

Civil actions offer successful IP owners both injunctive and monetary relief, unlike their administrative counterparts. Most commonly, civil courts issue a permanent injunction to prevent ongoing infringement. This injunction is published and, like administratively imposed injunctions, remains enforceable pending appeal.

Judges may also order monetary remedies, which are typically based on the claimant's actual loss or the infringer's illegal profits, depending on what information is available. If such information is unavailable, courts will consider reasonable royalty rates or discretionary statutory damages to compensate the IP owner.

Damages awards in China are generally much lower than those in the U.S. For example, the average compensation for patent infringement cases in the Beijing IP court was $223,000 (¥1.41 million) in 2016-2017. Comparatively, the average U.S. patent infringement award during that time was $6.1 million. Lower damages awards are at least in part attributable to the limited discovery procedures available in Chinese courts: without robust discovery procedures to help the court assess the actual losses or gains of the respective parties, the court must fall back on a statutory award of no more than $158,000 (¥1 million) for patent infringement and no more than $80,000 (¥500,000) for trademark infringement. However, an increase in damages awards in the past two years — particularly a 2016 IP court award of $7.1 million (¥49 million) — has suggested that these figures may rise.

Criminal Actions

While an IP owner may also bring a criminal action in certain circumstances, Chinese law and procedure render such actions largely ineffective. At the outset, criminal liability attaches to only certain types of patent infringement that are considered especially serious and egregious. For example, criminal liability attaches to the unlawful act of counterfeiting another person's patent, such as misrepresenting patent ownership on products or in contracts. Criminal claims based on trademark or copyright infringement are similarly difficult to maintain because in criminal actions claimants bear the burden of proof beyond a reasonable doubt, and have no compulsory power to obtain evidence.

Because the most common acts of IP infringement do not give rise to criminal liability, and because a claimant's burden of collecting and producing evidence is particularly onerous, criminal proceedings generally do not provide an effective means of enforcing IP. However, an American company faced with particularly egregious IP theft should consider such an action, if warranted based on the facts of the case.

Evaluating Whether to File an Action in China

In determining whether to file an administrative or civil action, the threshold question is: What is the desired remedy? Administrative proceedings are advantageously quick and inexpensive, but not the right forum if the goal is monetary damages or where a case is complex. Civil actions take more time, but allow for submission of additional evidence and monetary damages in addition to injunctive relief.

Because administrative and civil actions each have different strengths, utilizing both proceedings may be effective. First, pursuing both proceedings may award a successful IP owner both monetary and equitable remedies. The initial administrative proceeding offers near-immediate protection in the form of an enforceable injunction, while a later civil action provides the possibility of monetary damages to help compensate the IP owner.

Second, pursuing an administrative proceeding before a civil proceeding may allow a claimant to gather admissible evidence. Given the heightened evidentiary requirements and limited discovery procedures, a party wishing to bring a Chinese civil action may not at the outset have access to the evidence that it needs to bring a strong case. Upon petition supported by preliminary evidence, however, an administrative enforcement agency may open an investigation into an alleged infringer, and thereby uncover evidence that will be admissible in a subsequent civil action.

Although monetary damages are not as high as in U.S. litigation, IP owners should weigh the strategic impact of filing and prevailing in an infringement suit in China. Since judgments in civil proceedings are published, successful litigants may show strength in the marketplace: Their IP is not an easy target and potential infringers should beware that these IP owners will enforce their rights. On balance, filing infringement actions — whether before an agency, in court, or both — may help protect IP rights in China. It will be important to consider, however, whether the new government reorganization affects enforcement of IP rights in the future.

In evaluating these options, parties may develop relationships with the local U.S. Patent and Trademark Office IP Attaché Offices in Beijing, Guangzhou and Shanghai to better understand current laws and procedures relevant to proactively protecting intellectual property in China. IP Attachés have several roles, including helping American businesses navigate and better understand the IP landscape and providing general information regarding how to protect their U.S. IP in foreign markets. Note that although the IP Attachés have an abundance of knowledge regarding Chinese policies and procedures for protecting IP as well as U.S.-China diplomatic relations, they cannot provide legal or strategic business information. Nor are any such discussions privileged.

Seeking Relief in the U.S. When Chinese Law Fails to Offer Adequate Protection

Notwithstanding that China is becoming an increasingly popular venue for IP cases, some U.S. IP owners may find such legal actions inadequate to achieve their business goals, and instead pursue relief in the U.S.

Section 301 Investigations

In addition to seeking relief through actions in the U.S. International Trade Commission or district courts — discussed below — IP owners are starting to develop creative litigation and administrative strategies to protect IP at home and abroad. One approach involves working with the United States Trade Representative to investigate and respond to trade practices that encourage expropriating U.S. intellectual property.

In August of 2017, the USTR announced an investigation into Chinese trade practices pursuant to Section 301 of the Trade Act of 1974. As a result of this investigation, on March 23, 2018, President Donald Trump directed the USTR to level tariffs on about $50 billion worth of Chinese imports as punishment for IP theft. Section 301 gives the USTR the authority to investigate and take measures to stop any foreign government from violating international trade agreements or from unduly burdening U.S. commerce.

While the USTR may unilaterally decide to initiate such proceedings, they may also be initiated upon petition by an "interested person." If a U.S. IP owner's rights are stolen or infringed by a foreign government, that IP owner may petition the USTR to review the offending practices. Should the USTR decide to institute an investigation and should the investigation reveal unfair trade practices, the USTR may impose tariffs, challenge the unfair practices at the World Trade Organization, or impose other trade-related restrictions. Prior to instituting such retaliatory trade action, the USTR will likely try to negotiate with the subject country to come to a mutually agreeable resolution.

While relatively uncommon, Section 301 petitions have resulted in significant victories. In 2010, the United Steel Workers Union filed a Section 301 petition requesting that the USTR investigate potential Chinese violations regarding its policies and practices relating to its clean energy industry. The USTR accepted the petition, initiated an investigation and WTO dispute proceedings, and ultimately uncovered programs that did, indeed, impose an unfair burden on American companies. After formal consultations with the Chinese government, the USTR reached an agreement to end the unfair programs.

This nontraditional approach, however, may not be ideal in all situations. Often, companies are hesitant to publicly file 301 petitions, fearing retaliation from the named country. Instead, companies may opt to work behind the scenes to request that the U.S. government initiate WTO settlement proceedings, which do not require public action on behalf of the company. With either of these approaches, the resulting government action seeks to change the unfair practices, but does not compensate the injured parties.

Section 301 investigations provide both individual companies and entire industries with the opportunity to shed light on unfair practices causing irreparable harm. This process allows American businesses to go beyond targeting individual infringers (particularly those that are state-sponsored), and instead allows them to target the policies and laws that facilitate infringement. As the Trump administration has utilized Section 301 investigations to address concerns with China's trade practices, IP owners may find success through this unconventional tool.

Section 337 Investigations

Under Section 337 of the Tariff Act of 1930, as amended, the ITC may issue an order excluding from entry into the U.S. articles that have been found to infringe U.S.-based IP rights or benefit from other unfair methods of competition. To prevail, a complainant must show (1) an unfair act or method of competition, e.g., IP infringement; (2) an importation, sale for importation, or sale after importation of the accused product; (3) a domestic industry (which involves an economic and a technical prong); and (4) injury resulting from the unfair act, if the investigation does not involve a registered IP right.

Although it does not have the authority to award monetary damages, the ITC can issue exclusion orders barring the importation of infringing items, and cease and desist orders against domestic distributors of the goods. In TianRui Group Co. Ltd. v. ITC, 661 F.3d 1322 (Fed. Cir. 2011), the U.S. Court of Appeals for the Federal Circuit recognized the ITC's jurisdiction to ban products made using processes protected by trade secrets — even where the misappropriation took place entirely in China. As a result, the ITC may provide an avenue for IP owners to exclude importation of articles embodying their intellectual property, even if the infringing products are made outside of the U.S.

ITC investigations may be favored over district court litigation because of their speed. Unlike litigation that can last for several years, ITC investigations tend to last about 16 months from the time of institution to a final determination. However, operating on an accelerated basis with broad discovery, such investigations can be expensive.

District Court Litigation

Filing suit in U.S. district court may provide yet another avenue to seek relief from improper importation of infringing goods, even where the involved conduct occurs in part outside of the U.S. For example, in Litecubes LLC v. Northern Light Products Inc., 523 F.3d 1353 (Fed. Cir. 2008), the Federal Circuit held that district courts have subject matter jurisdiction to hear allegations of infringement of products made and sold overseas where the relevant offers for sale were made in the United States. U.S. IP owners may thus seek relief from foreign infringement in district court if they can establish such a nexus to the United States.

Conclusion

American businesses must ensure that their intellectual property is protected at home and abroad, including in China. American companies should take steps to learn all they can about how to develop multifaceted approaches in China and the U.S. to protect their IP.

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