IP COURTS

China's IP Courts, one year on

Paul Ranjard and Zhu Zhigang of Wan Hui Da analyse how China's new IP courts have improved enforcement and highlight some important decisions

After China opened up in the late 1970s and early 1980s, the protection of IP rights moved to the top of the Chinese Government's agenda. The very first laws enacted after the Joint Venture law of 1979 concerned trade marks (1982) and patents (1983). Now, China wants to improve the enforcement of these rights, with a special focus on the protection of patents. First, the idea was to create a unique national appellate court for the adjudication of patent related disputes. Finally, it was decided by the State Council, on August 31 2014, to create, for a trial period of three years, three specialised IP courts in the cities of Beijing, Shanghai and Guangzhou. This reform is part of a more global and continuous effort made by China to modernise its judicial system.

Almost two years after that announcement, now is a good time to assess the judicial reform, look at the details of the exclusive competence of the courts and analyse how practice differs in the IP courts, as well as look at some of the innovative decisions of the Beijing IP Court.

Judicial reform

The creation of the IP Courts was a major element of the judicial reform, but it was not the only part.

As part of the judicial reform, the Supreme Court has set up a research centre, with three specialised branches: the IP Case Guidance Research Center in the Beijing IP Court, which is in charge of studying the use of precedents; the International Exchange Centre for IP Judicial Protection with the Shanghai IP Court, in charge of international relations with foreign judges and academics; and the SPC IP Judicial Protection and Market Value with the Guangzhou IP Court, focusing on the calculation of damages.

Furthermore, China is making attempts to professionalise and qualify judges. The court personnel are classified into three categories: the judges, in charge of hearing the case; the assistant judges, who assist the judge in handling the cases; and the clerks, in charge of administrative work, such as recording the hearings. The number of fully qualified judges has been substantially reduced, which means that a significant number of judges who operated at the intermediate level have been downgraded to the role of assistant judges. As a result, many left the court, preferring to join law firms rather than waiting for a possible promotion.

The Beijing IP Court now has 45 judges (the IP division of the Beijing 1st Intermediate Court used to have more than 100!), Shanghai IP Court has 12 judges, and Guangzhou IP Court has 13 judges.

Exclusive jurisdiction

In October, the Supreme People's Court specified the extent of the IP Courts' exclusive jurisdiction: civil and administrative litigation relating to patent cases, new plant varieties, trade secrets, the layout of integrated circuit and computer software; appeals against administrative decisions relating to copyright, trade mark and unfair competition cases made by ministries and municipalities at and above county level, and civil litigation involving the recognition of well-known trade marks. In other words, all litigation related to the registration of IP rights (patent, trade mark, copyright) is subject to appeal before the Beijing IP Court (such as appeals against decisions of the Patent Reexamination Board and against the Trade Mark Review and Adjudication Board). All civil litigation involving patents that takes place within the geographical area of the three IP Courts should be filed with these courts. A trade mark case that involves the recognition of the well-known status of a trade mark shall also be filed with the IP Courts. But, for other trade mark civil disputes, if they are located inside the area of one of the three IP Courts, they will have to start at the basic court level, whether they are small, big or involve a foreign party.

Paul Ranjard

Paul Ranjard is a French lawyer based in China since 1997. Since that date, he has been representing in China the French association *Union des Fabricants* (Unifab) for the protection of intellectual property, and since the creation of the European Chamber of Commerce, he has co-chaired the IP Working Group. In this capacity, he has been involved in the drafting of all the EUCCC IP Position Papers and all the comments submitted by the Chamber concerning drafts of IP legislation. In addition, Ranjard is of counsel to WAN HUI DA Law Firm & Intellectual Property Agency.

New structural and operational features

The IP Courts have become more professional. The president and the heads of several divisions of the court are not (like in other People's Courts) simple administrators who let lower judges hear cases, they are directly involved in the hearing of cases. Regarding the decision making, while in other People's Courts judges who hear a case need to report the case to the president of the court, who takes the responsibility of indicating in which direction the decision is to be made, the new IP Court judges are fully in charge and make their own judgments, without having to report to a higher level. The only exception is when the case is very complicated and important and is taken over by the Adjudication Committee. The *Huayuan Pharmaceutical* case (see below) is an example of this exception.

Another new feature of the IP Court concerns the role of the Adjudication Committee, which has become less opaque than in other jurisdictions in China. These committees exist at each of the four levels of the judicial system and are unique to China. They are composed of the Court's president, vice presidents and heads of the divisions. They supervise, and make decisions in important

cases. The minutes of their discussions are classified as State secrets and do not constitute part of the trial record. Some have complained about the shortcomings and lack of transparency of such a system, given the fact that the decisions are taken by members of the court who did not attend the hearing. So, as part of the IP Court experiment, in September 2015 the Beijing IP Court's Adjudication Committee held a public hearing, which was viewed as a step forward in the direction of more transparency. When a case is submitted to a panel of several judges, or to the Adjudication Committee, it is even envisaged to publish the dissenting opinion of judges, whenever this occurs.

Cases involving patents are sometimes very technical. The IP Court has a technical investigations department composed of experts who are full members of the court. Drafting judgments is also a field of experimentation. The Beijing IP Court, in order to cope with the large number of cases (because of all the administrative appeals), is trying to modify the way judgements are drafted. Some cases, considered simple, may be drafted in a simpler manner, and a brief summary of the case may be published which facilitates case research and perusal of the decisions. Regarding the reference to, or citation of, precedents, a topic for which the Supreme People's Court has a great interest, it can be foreseen that the IP Courts will make use of this possibility.

Zhu Zhigang

Zhu Zhigang is a lawyer and a senior partner of WAN HUI DA Law Firm & Intellectual Property Agency. Zhigang's practice concentrates on litigating IP disputes, managing IPR portfolio, advising and executing IP-related protection, defence and enforcement strategy, as well as franchising and licensing. Zhigang also does opinion work pertaining to trade mark, copyright, design and domain name registration and protection matters.

Zhigang has taken a keen interest in researching and analysing the frontier IP matters such as parallel import, fair use of trade mark, trade mark co-existence, infringement liability of online trading platforms, super well-known trade mark status as well as conflicts of rights. He has served as lead counsel in quite a few landmark IP cases by putting his theoretical research into practice.

Innovative decisions

Two of the Beijing IP Court's decisions are worth mentioning. The first one, known as the *SPTL* case, concerns the full reproduction and publication of an expert's opinion. In this case, a patent and trade mark agent, Shanghai Patent and Trademark Law Office, filed a trade mark for its initials – SPTL –in class 41 (training service, etc.). The trade mark was rejected by the CTMO on the ground of article 19.4: "Trade mark agencies are forbidden to file in their own name an application for the registration of trade marks on anything else other than their services rendered". The CTMO considered that training services are not part of the services rendered by a patent and trade mark agent.

In order to clarify the interpretation of this article, the Beijing IP Court consulted five experts and obtained two different types of opinions: one literal interpretation of article 19.4, and one more open interpretation that admitted that training services could be part of a trade mark and patent agent's services.

Finally, the Beijing IP Court followed the literal opinion and refused the registration of the trade mark. The innovative step here was that the court fully reproduced and published the expert's opinion in its judgment.

In the *Huayuan Pharmaceutical* case, a regulation issued by the Trade Mark Office (CTMO) was declared illegal. On December 24 2012, the CTMO issued a Notice on several issues concerning trade mark registrations on new retail or wholesale service (the Notice), creating in class 35 a new service called "retail or wholesale service for medicinal, veterinary and sanitary preparations, and medical devices". The Notice provided (article 4) for a transitional period covering the month of January 2013, during which "trade mark applications on identical or similar new services would be deemed to be made on the same date, the prior used trade mark having priority. In case of same-date use or in case of non-use, the parties concerned shall negotiate among themselves. If the negotiation fails within the time limit, the CTMO will decide by casting lots". This was inspired by article 19 of the Implementing Regulations of the Trade Mark Law of 2014, which address the situation where two or more applicants file identical or similar trade marks on the same day.

In January 2013, three applicants filed the name Huayuan in class 35. The first was Huayuan Company (who filed Huayuan Pharmaceutical) on January 4, followed on January 11 2013 by Jianyiwang Company, who filed the name Huayuan, and on January 28 2013 by a Yixintang

Predictability very much depends on the level of transparency

Company who also applied for the same name. None of the trade marks was in use.

On October 23 2014, in accordance with its Notice, the CTMO ordered the three applicants to negotiate, indicating that if the negotiation fails, the CTMO would decide by casting lots. Huayuan Company, the first applicant, appealed to the Beijing IP Court against the CTMO's order, asking the Court to examine the legality of the Notice. This was the case where the Adjudication Committee of the IP Court held a public hearing.

The Court declared that article 4 of the Notice was illegal. In a long and detailed argument, the Court basically explained that the CTMO, although it had the right to issue a regulation creating a new type of service, had no right to create such a transitional period during which all applications are deemed to have been made on the same date. Therefore, the first-to-file legal principle had to apply. Revoking an administrative regulation (such as the CTMO's Notice) for lack of legality, a possibility provided in the Administrative Procedure Code, is rare. Yet, the Beijing IP Court did not hesitate.

Improving transparency

One year after the beginning of this project, it is worth examining what the Courts have achieved.

The Beijing IP Court is particularly busy: 8,758 cases were accepted during the year 2015 and 4,128 judgments were made. The Guangzhou IP Court is the most efficient: 4,862 cases accepted and 3,238 cases were concluded. The Shanghai IP Court has a comparatively lower workload: 1,642 cases accepted and 1,048 cases concluded.

The IP Courts, in particular the Court of Beijing, are faced with the challenging task of coping with the ever increasing number of IP cases, while delivering, in a transparent way, judgments that are clear and well-reasoned. One of the most frequently cited quality criteria of judicial practice is predictability. Predictability very much depends on the level of transparency, and transparency not only applies to the publication of the judgments but also applies to the manner in which the procedure is conducted during the trial period.

Improving transparency during the trial period is an objective that the IP Courts might want to take up, as an additional experiment. For example, they could decide that all arguments submitted by the litigating parties should be made in written form, should be filed within a defined time before the hearing and should be communicated, at the same time, to the other party. The other party could be given a reasonable time to reply, in the same written way, before the hearing. This would allow the court to have, at the start of the hearing, a complete view of the case. Hearings would take less time. The drafting of the judgment could be facilitated. This would mean that the courts could respond to the number of cases in due time while improving the quality of their work.