

# World Trademark Review™

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## The pressure of rising demand

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operations and efficiency**

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# Administrative enforcement:

## an important remedy for design disputes

Administrative enforcement is a useful tool for resolving design disputes, but it remains underused by international design owners

**Product design plays** an increasingly important role in commercial competition, given that a well-designed product is more likely to impress consumers with its appearance. In China, a design can be protected either as a design patent or as packaging or decoration for well-known goods. The former is protected by the Patent Law, while the latter is protected by the Anti-unfair Competition Law. Sometimes the design can also be protected as a three-dimensional (3D) trademark and a copyrightable work.

When it comes to infringement, the most common remedy is to resort to judicial protection. There are few other choices for rights holders – especially if the design is not protected by a patent registration. Under the Anti-unfair Competition Law, a rights holder must prove that the goods have become famous and that the design can be used to distinguish their source (ie, that it functions as a trademark). Under the Trademark Law, a few lawsuits involving 3D trademarks have been supported by the courts – in such cases, the judges have often asked plaintiffs why they did not register the design as a patent.

However, rights holders (especially foreign rights holders) are also concerned about other disadvantages associated with lawsuits, including low efficiency, low compensation, high costs and the likelihood of an infringer challenging the design patent's validity. This situation has arisen as a result of several factors.

### Lawsuits and design infringement

A civil lawsuit is a highly aggressive approach and often results in both parties trying their best to protect their rights through legal procedures. For example, the defendant often applies to the Patent Re-examination and Adjudication Board (PRAB) to request invalidation of the design as claimed by the plaintiff. This in turn usually prompts the civil court to suspend the case and await PRAB's decision to see whether the design patent is still valid. Even once PRAB has issued its decision, the disappointed party can bring an administrative lawsuit to

request that the court cancel PRAB's decision at both first and second (appeal) instance. The situation is even worse where a foreign party is involved, because there is no time limit for a court to conclude the lawsuit in China. This can result in a lengthy administrative litigation which will affect the progress of the civil lawsuit.

It is possible that a design patent infringement case may take a decade or more to conclude if the defendant files a validity challenge with PRAB, prompting the court to suspend the civil lawsuit proceeding until PRAB delivers its verdict – which usually takes between three and five years. Assuming that the design patent is found to be valid and the civil court resumes the hearing, it could still take a further three to five years for a verdict to be delivered. At this point, the design's protection period may have expired.

In addition to these procedural issues, punitive damages are not recognised in patent infringement cases before the Chinese courts – rights holders may thus find it difficult to obtain full compensation for their losses. Previously, it was proposed that the Shanghai courts order compensation of between Rmb10,000 and Rmb60,000 (approximately \$1,500 to \$9,000) for an infringed design patent, between Rmb50,000 and Rmb200,000 (approximately \$8,000 to \$30,000) for an infringed utility model and up to Rmb300,000 (approximately \$45,000) for an infringed invention patent. Combined with the administrative and civil procedures mentioned above, any compensation would thus be unlikely to cover the plaintiff's attorneys' fees and other related costs (eg, investigation fees, evidence preservation fees and litigation fees). In addition, the patented technology may have been superseded during the lengthy litigation progress, leaving the plaintiff with nothing.

### Administrative enforcement – precision instruments

However, there is a more professional and effective way to handle patent infringement cases – especially when it comes to design patents. The State IP Office (SIPO) promulgated the Measures for Patent Administrative Enforcement in 2001 – the start of a national administrative law enforcement system for patent infringement. The measures granted local IP offices – administrative bureaux which are similar to administrations for industry and commerce (AICs),

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but with less power – the authority to handle patent infringement cases. This means that local IP offices can decide whether an infringement has taken place and oversee mediation between the parties. This decision, along with the mediation agreement, can then be executed by the local court. However, the local IP office cannot decide on compensation or impose a penalty on the infringer, similar to the type of action that AICs can take against trademark infringers.

For various reasons, SIPO handled few cases before 2011. However, the system has matured over the last four years. Table 1 shows that since the 2011 revisions to the measures, the number of rights holders – especially owners of design patents – seeking an administrative remedy has increased, while foreign owners of design patents have begun to pay more attention to the advantages of this remedy. Law enforcement officers have been well trained and their capabilities have improved as they have become more experienced. These developments – along with factors such as convenience, efficiency, low costs and the fact that there are usually fewer challenges from infringers – have made administrative remedies increasingly popular among owners of design patents.

Since 2012, the number of administrative complaints filed by owners of design patents with their local IP

office has risen sharply. In 2015, over 14,000 cases were handled by local IP offices. According to statistics from the Supreme People's Court, only 6,654 patent infringement litigations were filed in 2014 and 6,517 in 2013, meaning that since 2014 fewer lawsuits were filed than administrative remedies sought.

Most of these cases involve design patents. This may be because it is so straightforward to compare the technological features of a design patent to those of an infringing design. Moreover, cases involving invention patents and utility models are sometimes too difficult and complex to be handled by officials from local IP offices.

The 2015 data shows that most such cases are located in Zhejiang, Guangdong and Jiangsu Provinces – the most developed areas in China, with millions of factories. There is little doubt that most infringements take place in these provinces.

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**6,654 patent infringement litigations were filed in 2014 and 6,517 in 2013, meaning that since 2014 fewer lawsuits were filed than administrative remedies sought**

Agreement



**TABLE 1:** Take-up of administrative remedies

Year	Number of cases	Domestic patent owners	Foreign patent owners
2008	1,092	1,042	50
2009	937	895	42
2011	1,286	-	-
2012	2,232 <ul style="list-style-type: none"> <li>• Invention patent: 12%</li> <li>• Utility model: 31.5%</li> <li>• Design patent: 56.5%</li> </ul>	2,142	90
2013	4,684 <ul style="list-style-type: none"> <li>• Invention patent: 11.1%</li> <li>• Utility model: 32.9%</li> <li>• Design patent: 56%</li> </ul>	4,322	362
2014	7,671 <ul style="list-style-type: none"> <li>• Invention patent: 15.1%</li> <li>• Utility model: 43.8%</li> <li>• Design patent: 41.9%</li> </ul>	7,150	521
2015	14,202 <ul style="list-style-type: none"> <li>• Zhejiang Province: 7,981</li> <li>• Guangdong Province: 2,490</li> <li>• Jiangsu Province: 700</li> </ul>	-	-

Although no data is available to back this up, we believe that most cases (approximately 80%) are concluded by mediation overseen by the IP office, with both parties signing a settlement agreement. The IP office also issues an official mediation verdict, which can be executed compulsorily by the local court.

Unfortunately, and despite the rise in the number of administrative remedies sought, foreign owners of design patents still have scant knowledge of the system: cases involving foreign rights holders account for less than 10% of all cases in China. This is why it is so important to emphasise the advantages of the procedure, including that it is straightforward, quick, extremely efficient, cheap and carries less risk of the patent's validity being challenged.

### Advantages

#### Simple procedure

Administrative enforcement generally involves acceptance of the complaint, trial and oral hearing, mediation and decision. The procedure is similar to that of a lawsuit, except that the measures stipulate that cases should conclude within four to five months – which is much faster than a lawsuit, especially when a foreign party is involved.

#### Lower costs

The measures require no official fees for administrative remedies and most local IP offices do not charge fees – except in Guangdong Province. Considering that the procedure is much less complex and much faster than a lawsuit, it is highly likely that attorneys' fees will also be much lower than those in a lawsuit.

#### Lower risk of challenge

Since administrative remedies are overseen by local IP offices and the procedure is not as aggressive as a lawsuit, infringers seldom initiate administrative invalidation procedures with PRAB to challenge the validity of the patent as claimed. This is extremely important for patent owners and means that a case can

be quickly closed, infringers deterred and reasonable compensation obtained. It is even possible to ask infringers to agree to a punitive compensation clause to avoid future infringements.

### Enforceability

Decisions of local IP offices have executive force. Under the Patent Law and related measures, if either party is dissatisfied with the decision, it may appeal to the local court within 15 days of receipt of notification. However, the execution of an administrative decision will not be stayed during an appeal. If, within this timeframe, such proceedings are not instituted and the order is not complied with, the local IP office may approach the local court for compulsory execution.

Further, based on the IP office's decision, the rights holder can ask the local court to decide on an amount of compensation for the infringement.

### Conclusion

Most administrative cases are resolved through mediation rather than a simple decision that a mark is either infringing or non-infringing. In administrative enforcement procedures the IP office does not have the power to award compensation for an infringement. However, during mediation it will do its best to persuade both parties to agree on an amount of compensation where appropriate. Most mediation agreements include the following clauses:

- admission and immediate cessation of infringement;
- reasonable compensation (which may be more than would have been issued by a court);
- punitive terms, to ensure that no further infringement takes place; and
- destruction of infringing products and moulds.

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**Most administrative cases are resolved through mediation rather than a simple decision that a mark is either infringing or non-infringing**

If the mediation fails, the IP office will issue a decision in due course. If it finds that the action is infringing, the infringer must cease these activities while the rights holder files a civil lawsuit for compensation based on the IP office's decision.

Administrative enforcement and mediation procedures are thus a quick way to resolve design patent infringement disputes and are becoming increasingly popular. SIPO looks set to continue its efforts to train officials and perfect this system – it is even possible that its enforcement powers could be expanded in the near future. **WTR**



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