

Features of IP rights enforcement in Korea and China

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**Features of IP Rights Enforcement
in Korea and China**

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Abstract

This report examines recent updates to the regulation and enforcement of intellectual property (IP) rights in Korea and China, in particular patent rights including invention, utility, and design rights. This paper also discusses some features and issues of the actual IP enforcement situation in those countries in comparison with Japan.

Keywords: IP enforcement; China; Korea

JEL classification: K33, K41, K42

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Introduction

We mainly focus on features and issues of intellectual property (IP) rights enforcement, particularly patent rights (invention, utility, and design rights), and provide an update of recent changes in IP rights-related regulations and the IP protection situation in Korea and China. In addition, we compare the situation in these two countries with the situation in Japan as necessary.

In the case of the Korean IP protection system, we discuss the powers of the Korean Trade Commission (KTC) to suspend the export or import of goods infringing upon IP rights, including patent, utility, and design rights. This approach is a similar to the systems of customs injunction against infringing goods used in Japan and China.

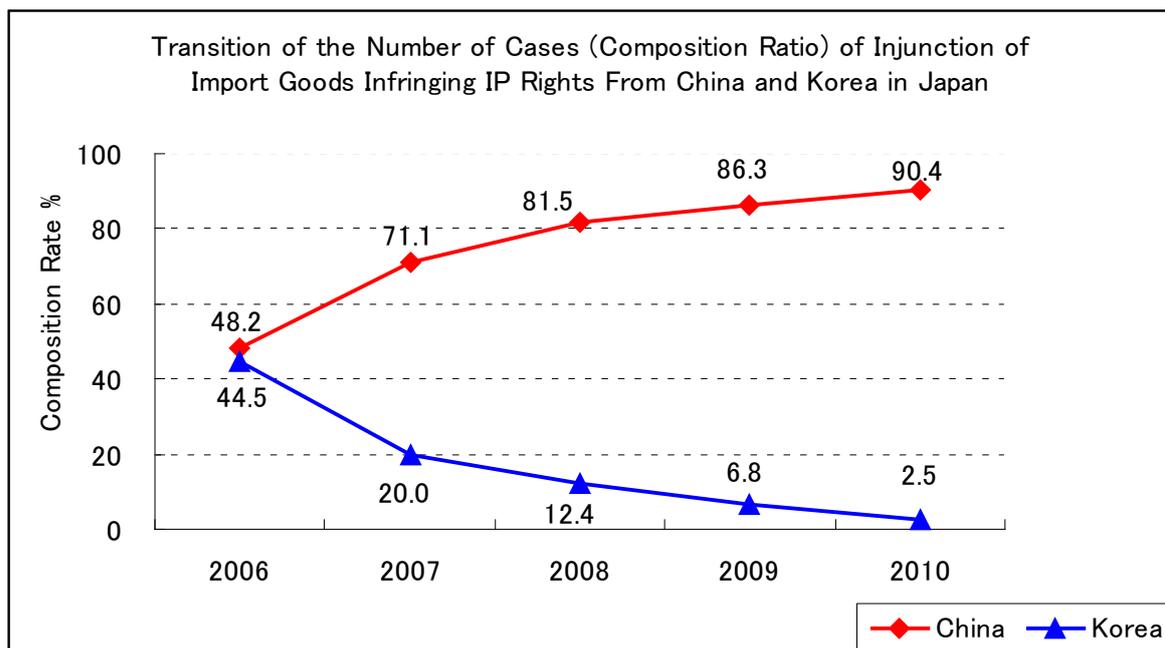
In our discussion of the Chinese IP protection system, we note the recent amendment to the Patent Law and changes in civil litigation, remedial measures by administrative authorities, enforcement by customs authorities, infringement of Internet-related IP, and other issues.

Republic of Korea (Korea)

Overview

The environment for protecting and enforcing IP rights has been improved in Korea recently. This trend is evident in the data on IP-related trade. Specifically, the number of IP infringement-related injunctions in Japan on goods imported from Korea has considerably decreased since 2006, as shown in the charts below.

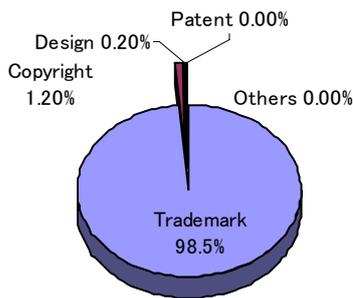
Fig. 1. Change in the composition rate of IP-related injunctions in Japan on imported goods from China and Korea



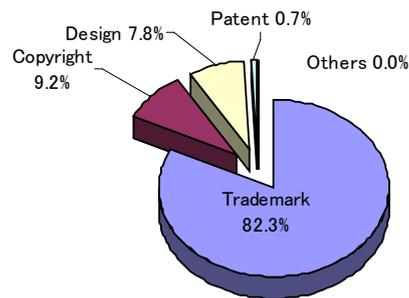
(Source: Japanese Ministry of Finance)

Fig. 2. Results of IP-related injunctions on imported goods by type of IP right

Composition Rate of Injunction by IP Right in 2010
(Case-based)



Composition Rate of Injunction by IP Right in 2010
(Item-based)



(Source: Japanese Ministry of Finance)

In addition, Korea has been taking measures to build free trade agreement (FTA) networks and has already reached agreements with some countries, such as the recent FTAs with the United States and with the European Union. In such FTAs, Korea is committing to high levels of protection and enforcement of IP rights and will be required to make changes in its related domestic laws as necessary.

However, many counterfeit goods remain on the market and in retail stores in Korea. Therefore, the enforcement system against the infringement of patent, utility, and design rights should further be improved and expanded. In Korea, we can identify several systemic characteristics and issues requiring improvement, as discussed below.

Suspension of Customs Clearance

In Korea, trademark and copyright holders can apply for the suspension of customs clearance against the import or export of goods infringing upon those rights. However, no such system exists for patent, utility, and design right holders. In Japan and China, systems have been enacted by which customs agencies can bring an injunction against the export or import of goods found to infringe upon IP rights, including patent, utility, and design rights. In Korea, a similar system exists whereby

the KTC can order a suspension of the export or import of goods infringing upon IP rights, including patent, utility, and design rights; however, only a small number of cases have been brought through this avenue of enforcement. The KTC is a quasi-judicial agency responsible for resolving trade disputes; the investigation of cases of suspected IP rights infringement is one of its activities.

Act on the Investigation of Unfair International Trade Practices and Remedy against Injury to Industry

As stated above, there is a legal system by which the KTC can order the suspension of the export or import of goods infringing upon IP rights, including patent, utility and design rights, similar to Section 337 of the U.S. Tariff Act of 1930.

In 2002, the “Act on the Investigation of Unfair International Trade Practices and Remedy against Injury to Industry” (the “Act on Unfair Trade Practices”) was enacted. According to Article 4, Section 1 of the Act on Unfair Trade Practices, no one shall engage in acts relating to goods that violate patent rights, utility rights, design rights, business secrets, and other IP protections under Korean law and treaties signed by Korea. This prohibition includes the importation of goods violating IP rights and the sale of such goods domestically, as well as the export of goods violating IP rights and the manufacture of such goods for export.

Any person may apply to the KTC for an investigation, and if the KTC determines that unfair international trade practices such as provided for in Article 4, Section 1 have occurred, the KTC may order the suspension of imports, exports, sales, manufacturing, and so forth. Furthermore, the KTC may impose a penalty against the offender.

However, only 7 patent rights cases were determined to require investigation by the KTC from 2007 to 2009.¹ Certainly, the determination of whether suspicious goods infringe patent rights requires careful judgment and sufficient expertise, and a prompt and accessible system should also be provided to do so. Because Korean customs law does not allow patent, utility, and design right holders to apply to customs authorities for an injunction, it would be desirable to make this system more active and easier to use as an alternative to applying to customs authorities for an injunction.

China

Overview

After China joined the WTO in 2001, further protection of IP rights was enhanced to the level required under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS

¹ Additionally, the number of import or export injunctions on patent rights (invention, utility, design) by Japanese customs in 2009 was 103 (15 for invention; 88 for design).

agreement). In addition, substantive laws and regulations in China have been rapidly issued and amended, such as the Amendment to the Patent Law of 2009 and the Copyright Law of 2010, as well as the draft amendment of the Trademark Law and the Anti-Unfair Competition Law. However, many problems remain concerning the enforcement of IP rights-related laws and regulations.

Amendment of the Patent Law

The Amendment to the Patent Law of China was enacted on October 1, 2009. While joint R&D projects between Chinese and foreign organizations, including Japanese and Korean companies or universities, have been conducted, one must consider the provision in the amended Patent Law concerning parties conducting joint R&D in China. Article 15.1 of the Patent Law provides that joint owners of the patent right must follow any agreement in which they have agreed to the execution of a patent right; if such an agreement has not been reached, each joint owner may grant a non-exclusive license to the others regarding its patent right. According to this provision, each patent owner can even grant a license to the other patent owner's competitors if it has not reached such an agreement whereby each party shall obtain written consent from the other parties when such party grants a license to others. Therefore, such agreement should be made between the joint R&D parties.²

Regarding patent rights (invention, utility, and design rights) in China, the number of registrations has been increasing for all types of patent rights as shown in Figure 3. Among them, utility and design rights by far make up the largest share.

According to statistics published by the State Intellectual Property Office, the total number of registrations of patent rights in 2010 was 814,825 (an increase of 40% on the previous year). Among all types of patent rights, utility and design rights accounted for 83.4% of the total number of registrations.

Table 1. Number of registrations of patent rights in 2010

	Total	Invention	Utility	Design
Number of registrations	814,825	135,110	344,472	335,243
Composition rate	100%	16.6%	42.3%	41.1%
Year-on-year growth (2009 to 2010)	40.0%	5.2%	69.0%	34.3%

A substantive examination must be performed for patent registrations applications in Japan and

² Some manufacturers do not want to provide such an agreement; in such cases, this provision may discourage the establishment of the R&D venture.

Korea, in particular for design rights (however, some categories are subject to a lighter examination). Yet, in China, a design right can be registered after completing a pro forma examination. As a result, a large number of registered design rights issued in China do not satisfy the legal requirements. Furthermore, this lack of rigor causes design rights to be unstable in China.

Table 2. Total number of design rights registrations in China, Korea, and Japan from 2007 to 2010

	China	Korea	Japan
Number of registrations	860,343	146,391	113,921

Regulation on Technology Import and Export Administration

China amended the Regulation on Administration of Technology Introduction Contracts, which was very restrictive for foreign licensors, and enacted a new Regulation on Technology Import and Export Administration in time for China to join the WTO in 2001. However, provisions still remain that are favorable for Chinese licensees and that could possibly interfere with active technology trade between the three countries. For example, the provision that the renovated technology patent right shall belong to the party conducting the renovation (mostly, the licensee) could act to limit technology trade.

Amount of Damages (Civil Litigation)

According to Article 65, Paragraph 2 of the Patent Law, the Chinese courts may arbitrarily determine the amount of damages for patent infringement, from 10 thousand RMB to 1 million RMB, in cases where it is difficult to determine the loss incurred by the right holder, the benefit obtained by the offender, and the license fee for the relevant patent rights. In patent infringement lawsuits in China, the process for establishing proof of the amount of damage incurred by the plaintiff is much more costly and time-consuming than that in the same lawsuits in Japan or Korea. This is because of the strict requirements for providing evidence, such as the need to notarize evidence submitted to the courts. As a result, in some cases, the plaintiff abandons trying to prove the precise amount of damage, and instead the court determines the amount arbitrarily. Considering the fact that one of the merits of pursuing civil litigation is that the plaintiff make claims for damages, it would be desirable to increase the amount of damage determined by the courts.

Production of Evidence (Civil Litigation)

In civil litigation, in principle, evidence to be submitted to the courts generally must be notarized, and non-notarized evidence is most likely not accepted. This practice entails a heavy burden of proof and is one of the reasons for the high cost of pursuing civil litigation in China.

Administrative Remedy

One of the characteristic aspects in China regarding the enforcement of IP rights is remedial measures by administrative authorities. In China, patent owners may file with regional administrative authorities for a suspension of infringement against the offender of patent rights. Such administrative remedial measures are said to be prompt, less expensive, and have less stringent requirements for submitting evidence. In particular, the procedural requirements are rather more flexible compared with judicial remedial measures by the courts. Although administrative authorities do not have the authority to issue a compensation order and require compulsory action, they can issue a suspension order, confiscate illegal income, and mediate for compensation, among other remedies. Therefore, patent right owners can effectively seek administrative remedial measures selectively or in combination with judicial remedial measures. However, it depends on the region as to whether regional authorities actively identify offenders, as authorities in rural areas usually tend to protect local businesses. In addition, there is scarce manpower with expertise regarding patent rights to sufficiently crack down on patent right offenders.³ Expansion of specialized expertise and manpower is necessary. Moreover, effective cooperation in streamlining the execution of IP rights between local administrative authorities is desirable.

Local Protectionism

Local protectionism is one of the biggest issues that must be addressed in China, but it is not easy to undertake. Local governments depend upon tax revenue from local companies. The more local administrative authorities crack down on local companies that manufacture infringing goods, the less those authorities will gain in tax revenue. As a result, local administrative authorities tend to be passive regarding the enforcement of IP rights and even tolerate infringing activities.

Enforcement by Customs Authorities

Registration of IP rights with the Customs General Administration is necessary in order to have customs authorities identify infringing goods, and the number of registrations has been increasing in recent years.⁴ In addition, active enforcement is prevalent across the country, and the number of imported and exported goods detained for infringement of IP rights was 65,810 batches of cargo in

³ In 2010, the number of patent disputes that intellectual property offices accepted was only 1,113; on the other hand, the number of illegal trademark cases that the administrations for industry and commerce accepted in the same year was 56,034. Furthermore, the total number of IP rights-related civil lawsuits filed in local courts in 2010 was 42,931; among them, civil litigation regarding patents was 5,785, and those regarding trademark was 8,460.

⁴ In 2010, the number of registrations with the Customs General Administration to protect IP rights was 3,035. The total number of registrations with the Customs General Administration from 1995 is 20,194.

2009. However, most cases identified by customs involve trademark and copyright-related infringement, while design-related cases are few. Furthermore, cases involving patents for invention or utility are very rare. This is because customs officers usually do not have the requisite expertise to determine whether imported and exported goods infringe upon such rights. Furthermore, customs officers do not have sufficient capacity to conduct a customs clearance examination because of the massive volume of goods passing through customs.

Injunction on the import and export of goods infringing on patent and utility rights is also not active in Japan. Therefore, establishing and actively utilizing a referral system to the patent office from the customs authority (Articles 69-7 and 69-17 of the Japanese Customs Act) would be desirable.

Discrepancy in IP Protections in China

As all laws in China, including those related to IP, are enacted by the central government and apply throughout China, we can say that the same IP laws apply to cases wherever they may arise. Therefore, the difference in IP protection between areas arises from how each area enforces IP laws and regulations, rather than in differences in the laws and regulations themselves. According to an investigation of the enforcement level of IP laws and regulations in each area of China, as of 2004, Beijing, Tianjin, Shanghai, and other developed cities in coastal areas had above-average enforcement, whereas those areas in the mid-west were below average. Through this investigation, which investigated such elements as GDP per person, adult literacy rate and the number of lawyers, we can see that China's IP protection level is "high in the east, and low in the west."

Internet-related IP infringement

With the rapid development of e-commerce in China, infringement of IP rights on the Internet, such as the extensive trading of pirated items on e-commerce sites, is becoming a serious issue. For example, one case was reported in China in which a seller sold pirated items on an e-commerce site, pretending that it had a solid relationship with the right-holding company by using a company name similar to the brand name of the right holding company's registered trademark.

According to an investigation of Japanese companies by the Japanese Ministry of Economy, Trade, and Industry regarding IP rights infringements on the Internet in China during 2009, infringement against design rights and trademark rights and cases of violation of the Anti-Unfair Competition Law of China are reported to occur frequently. The percent of Japanese companies reporting infringement in China are as follows: violations of the Anti-Unfair Competition Law (97.9%), infringement of design rights (95.2%), and infringement of copyright (51.6%).

The legal regulations and systems regarding Internet business activities are developing significantly, and not only the responsibilities of the party who infringes the IP rights but also the

responsibilities of e-commerce site operators are clearly provided. In addition, these e-commerce site operators are taking steps to prevent the IP rights of related parties, in accordance with their own rules.

Conclusion

The Chinese government has placed a high value on the protection and enforcement of IP rights. This was clearly expressed in the Outline of National IP Strategy promulgated in 2008. Since then, many substantive laws and regulations and judicial interpretations have been promulgated and amended. The next step is to develop an effective and workable legal system for enforcement nationwide. This will promote development and the importation of more patented technologies required to produce safe, high-quality goods. Creating such an environment is necessary for China to shift from a manufacturing market to a consumer market.