The Honorable William L. Busis  
Chair, Section 301 Committee  
Office of the U.S. Trade Representative  
600 17th Street, NW  
Washington, DC 20508

Re: Section 301 Investigation: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

We thank the Office of the U.S. Trade Representative (“USTR”) for the opportunity to comment on the Section 301 investigation that the USTR has recently initiated concerning China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (the “Section 301 Investigation”). These comments are timely filed in accordance with the notice of initiation relating to the Section 301 Investigation that the USTR published in the Federal Register on August 24, 2017 (the “Notice”). See 82 Fed. Reg. 40213 (Aug. 24, 2017). The views expressed in these comments are presented on behalf of the American Bar Association Section of Intellectual Property Law (the “Section”). They have not been approved by the House of Delegates or Board of Governors of the American Bar Association and, accordingly, should not be construed as representing the position of the Association.

The Section is the largest intellectual property organization in the world and the oldest substantive Section of the ABA. Since 1894, we have advanced the development and improvement of intellectual property laws and their fair and just administration. As the forum for rich perspectives and balanced insight on the full spectrum of intellectual property law, the Section of Intellectual Property Law serves within the ABA as a highly respected voice within the intellectual property profession, before policy makers, and with the public.

On August 24, 2017, the USTR published the Notice to announce that it was initiating the Section 301 investigation to determine whether acts, policies, and practices of the Government of China related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and restrict U.S. commerce (collectively, “Chinese Technology Transfer and IP
Policies”). See 82 Fed. Reg. at 40213. In the Notice, the USTR invited comments on Chinese Technology Transfer and IP Policies and stated that it would hold a public hearing in connection with the Section 301 investigation on October 10 at 9:30 a.m. Eastern Time in the main hearing room at the U.S. International Trade Commission (the “October 10 Hearing”). See id. at 40214. The Section is pleased to provide its comments on issues relating to Chinese Technology Transfer and IP Policies in this letter, and with respect to the October 10 Hearing, the Section is concurrently filing a separate submission to provide its notice of intent to participate.

I. EXECUTIVE SUMMARY

While recognizing that the Chinese Government has taken actions in recent years to improve enforcement of IP rights in China, the Section believes that there remain numerous deficiencies with respect to protection of trademarks, copyrights, and patents. In addition, the Section has deep concerns regarding ways in which U.S. companies have been forced to transfer technology and/or had their trade secrets misappropriated by Chinese entities with little recourse available to them in China. Given the challenges that these deficiencies pose to U.S. companies, the Section urges the USTR to work closely and diligently with the Chinese Government to develop solutions to them, and to do so in a way that will avoid any potential for deterioration in U.S.-China trade relations.

II. TECHNOLOGY TRANSFER AND TRADE SECRET ISSUES

A. Forced Technology Transfer Issues

The Section wishes to bring to the attention of the USTR various way in which the Chinese Government forces U.S. companies to transfer technology to Chinese entities in order to operate in China. As discussed below, such forced technology transfers result from the application of various Chinese laws, policies, and practices.

One of the ways in which the Chinese Government mandates technology transfer is through its application of the Regulations on Technology Import and Export Administration (the “Technology Administration Regulations”). As the USTR noted in its 2017 Special 301 Report, the Technology Administration Regulations impose mandatory licensing terms with respect to foreign technology licensed or transferred to China. Given that such mandatory licensing requirements likely hinder innovation and serve as a disincentive for U.S. companies to participate more deeply in the Chinese market, and considering that they may well violate China’s WTO commitments, the USTR should urge the Chinese Government to amend the Technology Administration Regulations to eliminate these controversial requirements.

There are also a number of other laws, policies, and practices that the Chinese Government employs to facilitate the forced transfer of technology. Some require foreign companies (including U.S. companies) to develop certain IP in China or to transfer their IP to Chinese entities as a condition to accessing the Chinese market, while others mandate that Chinese entities be granted ownership of any improvements made from licensed foreign technology and that foreign technology owners indemnify Chinese licensees against infringement. Considering that many of these requirements appear to violate China’s WTO obligations, the USTR should press the Chinese Government to eliminate such requirements.

B. Trade Secret Issues

Trade Secret protection in China, or lack thereof, has long been a source of concern for U.S. companies. During the past few years, the list of U.S. companies that have brought trade secret-related cases in Chinese courts include, among others, American Superconductor, Corning, E.I. du Pont, Eli Lilly, and General Motors. In addition, in recent years, several other U.S. companies, including SI Group, Fellowes, Manitowoc Company, and U.S. Steel, have brought trade secret-related actions at the U.S. International Trade Commission (“ITC”) relating to allegations of trade secret misappropriation that occurred in China and resulted in the importation of unfairly traded merchandise into the United States, and in all of these cases except for the one involving U.S. Steel, the ITC issued orders excluding the importation of the subject merchandise into the United States for periods ranging from five years to ten years.

In a positive development, in March 2017, the Chinese Government amended its General Provisions of the Civil Law to make clear that trade secrets are a subject of civil IP protection. Furthermore, draft amendments to the 1993 Anti-Unfair Competition Law that were promulgated in early 2017 would improve trade secret protections to some degree.

However, much more can, and should, be done to enhance trade secret protection. In its 2017 Special 301 Report, the USTR stated that the Chinese Government should take the following actions, among others:

(1) develop stand-alone legislation specifically related to trade secret protection;

(2) issue guiding court decisions to improve consistency in judicial decisions in trade secret cases;

(3) enact legal reforms to promote the availability of preliminary injunctions and asset and evidence preservation orders;

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2 See id. at 35.
(4) take actions to ensure that groundless claims of trade secret misappropriation are resolved efficiently and not wielded as leverage in unrelated disputes; and

(5) develop and implement reforms to address obstacles to criminal enforcement and prevent the disclosure of trade secrets and other confidential information submitted to government regulators, courts, and other authorities.³

The Section fully supports these objectives and urges the USTR to continue to press the Chinese Government to undertake them.

III. IP ISSUES

In addition to the Technology Transfer and Trade Secret issues discussed above, the Section has concerns with the following IP acts and practices of the Chinese Government.

A. Trademark Issues

In the Section’s view, trademark enforcement in China is flawed in the following ways.

- New and existing enforcement measures may not offer adequate trademark protections.⁴

- China’s weak penalties for exploiting, fraudulently using, and copying well-known trademarks are not strong or effective deterrents.⁵

- Bad faith trademark registrations and use of well-known marks have led to massive and systemic counterfeiting and piracy industries.⁶

- Widespread online piracy in China’s e-commerce market has caused massive global losses for a variety of trademarked products. Reports for 2016 estimated that 40% of China’s $752 billion in online sales may have been in counterfeit or pirated goods.⁷

³ Id at 30.
⁷ Id.
• DHS recently reported that 88% of counterfeit products seized in the U.S. during Fiscal Year 2016 originated from China (52%) and Hong Kong (36%). The amount of counterfeit goods seized from China and Hong Kong combined has fluctuated between 80-90% over the past decade, with a 5% increase from FY 2015 to 2016.\(^8\)

![Pie charts showing counterfeit seizures by country for FY 2015 and FY 2016.](image)

• China’s growing stake in online real estate through new generic top-level domain (gTLD) registration ownership allows greater opportunities for trademark infringers, cybersquatters and counterfeiters to prosper.\(^9\)

• The China Trademark Office may not have adequate resources and training programs while handling massive and increasing trademark dockets, leading to unpredictable decisions.\(^10\)

• China’s trademark registration system has given priority to Chinese applicants over U.S. entities holding similar marks, even in cases where a U.S. applicant’s stolen or squatted mark is well known internationally and in China.

• Chinese corporations are using gaps in China’s trademark registration system by filing identical marks to those owned by U.S. companies operating in

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\(^9\) Jack Ellis, With nine of 10 top new gTLD registrants, China's online dominance will worry many brand owners, WORLD TRADEMARK REVIEW (Apr. 18, 2017), available at [http://www.worldtrademarkreview.com/blog/detail.aspx?g=848458c6-a79d-459d-990b-ac6a1b82764e](http://www.worldtrademarkreview.com/blog/detail.aspx?g=848458c6-a79d-459d-990b-ac6a1b82764e).

China, but in different classes. For example, in 2010, Starbucks took legal action against the Chinese company Shanghai Mingbang, a manufacturer of condoms, medical needles, and dentist equipment, for their registration of “frappuccino.” Starbucks ultimately lost on appeal when the Beijing Higher Peoples Court ruled in favor of Shanghai Mingbang, stating that they had registered their frappuccino mark in a different class than what Starbucks had filed in. The court said the use of the mark on products by the two companies would not lead to public confusion.

Given that the above problems significantly disadvantage U.S. companies and adversely affect trade between the United States and China, the USTR should urge the Chinese Government to develop effective solutions to them as quickly as possible.

B. Copyright Issues

For U.S. creators and producers of copyrightable works, the marketplace in China has been growing in recent years in some important sectors, even as key legal reforms and enforcement actions are still needed to further improve the marketplace for all sectors.

For some in the motion picture industry, revenues from legitimate content distribution in China, in recent years has been larger than ever, and continues to grow rapidly. For example, some major film producers now rely on Chinese revenues to be the difference between financial failure and success. As the chart below shows, Chinese box office sales for U.S.-produced movies including a number of U.S. blockbusters released in the summer of 2017, now routinely equal or even exceed sales in the U.S. (chart courtesy of Bloomberg).

**China Windfall**

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<tr>
<th>Movie</th>
<th>China box office sales</th>
<th>U.S. box office sales</th>
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<td>Warcraft</td>
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<td>Transformers: Age of Extinction</td>
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<td>Transformers: The Last Knight</td>
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<td>Pirates of the Caribbean: Dead Men Tell No Tales</td>
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Source: BoxOfficeMojo, Maoyan
Note: "The Last Knight" numbers are as of June 25, 2017

Bloomberg
Chinese investment has also been a much-needed source of production capital for U.S. entertainment companies, in recent years, although there have been some recent signs of increased Chinese government scrutiny signaling retrenchment of production monies.

In addition, copyright protection and enforcement has improved in some areas, although there are still many needed legal reforms and enforcement action improvements. The introduction of a comprehensive, state-of-the-art content protection technology and related enforcement regime called China DRM is something that many U.S. rights holders look forward to using and benefiting from.


The National Copyright Administration of China (NCAC) has also increased its administrative enforcement efforts. See, e.g., http://copy21.com/2017/01/china-ip-diary-2/ and http://chinafilminsider.com/chinese-authorities-crack-largest-ever-online-piracy-case/). In addition, China’s recent amendment of its criminal law statute to add a crime for secondary copyright liability is also a welcome legal reform for rights holders.

Even with these positive trends, however, there are many remaining areas of concerns for U.S. creators and producers of copyrightable works. Many of these concerns are detailed in the USTR’s 2017 Special 301 Report, April 2017 (see 28-37); in short, deficiencies remain in all areas of IP law, and copyright law and enforcement are no exception.

Piracy remains unacceptably high and has not been adequately addressed (see, e.g., this description of the problem at: https://chinaipr.com/page/7/). Particular forms of piracy, especially in the digital marketplace, have been growing without adequate attention and resources to address these problems. These include, but are not limited to, Illicit Streaming Device (ISD) piracy, piracy of scientific, technical and medical (STM) journal articles, unfettered distribution of circumvention devices, as well as hard goods piracy.

China’s copyright law remains short of international norms and is in need of major reform (which has been pending for many years). One example (of many) of a long overdue amendment would ensure copyright protection for sports broadcasts.
Criminal law amendments are also needed to address specific enforcement concerns. Many of these needed reforms are jurisdictional and procedural. For example, the current criminal liability thresholds are either too high ("illegal income") or unclear (copy threshold). In addition, the "for the purpose of making profits" standard is too difficult for prosecutors to prove, thus making these cases difficult to win. Also, repeat infringers are not properly addressed. Finally, criminal enforcement is hampered by a lack of dedicated, trained investigators. Certain substantive provisions are also lacking. For example, circumvention of technological protection measures ("TPMs") and the distribution of circumvention devices are not separately defined as crimes. Last, the new law authorizing cinema personnel to take action against camcording is a good start, but lacks proper sanctions for such camcording; to be effective, the law needs to make these unauthorized activities a crime.

Civil law amendments are also needed to address enforcement concerns that cannot be adequately addressed by criminal law or other penalties. Damage awards remain too low for meaningful deterrence even though such awards have, in recent years, increased from abysmally low levels. The recent case involving Xunlei is an example of the current situation. Last, the absence of meaningful injunctive relief enables pirate operators to treat relatively small damage awards for past infringements as a mere cost of doing business. This too is an area in need of legal reform.

Given that the above problems significantly disadvantage U.S. companies and adversely affect trade between the United States and China, the USTR should urge the Chinese Government to develop effective solutions to them as quickly as possible.

C. Patent Issues

In recent years, the Chinese Government has sought to enhance or increase patent protection by promulgating several important laws and regulations, including ones that have increased the maximum statutory damages available for patent infringement. Statistics show that steadily increasing damage awards for patent infringement have been awarded by Chinese courts in favor of all types of plaintiffs, including to U.S. corporations that own patent rights in China. In addition, the Chinese government is currently considering establishing punitive damage awards for willful patent infringement.

Although China has made progress in the enforcement of patents, further improvements are needed to effectively protect the legitimate rights of patent holders. Examples of such needed improvements are provided below.

To begin with, damages for patent infringement need to be further increased. In spite of China’s increased damages awards in favor of patent right holders, the average damages awards are still relatively low, particularly compared with those awarded in Western countries.
Another problem is that China’s legal system does not currently provide, in its civil procedure laws, mechanisms for obtaining discovery. Due to this deficiency, patent right holders are unable to directly force or compel infringers to produce evidence relevant to infringement.

A third problem is that Chinese courts rarely grant motions for preliminary injunction or for evidence preservation in patent litigation in favor of patent right holders, which may prevent them from effectively making their case and exercising their rights against infringers. While this phenomenon may be partially attributable to a shortage of manpower within the courts and a lack of precedent providing guidance for the application of preliminary injunctions and evidence preservation tests, reforms to certain Chinese patent laws and regulations would do much to address this problem.

Another problem stems from the fact that patent disputes with the same or similar facts can often be decided differently depending on the province in which the case is brought. One reason for this phenomenon is that judges in different provinces have different experiences and backgrounds and can interpret things in very different ways. Another reason is that local protectionism still exists in patent lawsuits in China, especially in cases where the defendant is a locally important or a large corporation or where the court of jurisdiction is in a remote or a less developed region. To reduce or eliminate such unjustified discrepancies in patent rulings, it would be advantageous for China to establish a nation-wide appellate court that could apply unified standards for adjudicating patent disputes. Such a court, which is being considered by the Chinese Government, could be much like the U.S. Court of Appeals for the Federal Circuit.

The Section also has concerns with the way in which China’s State Administration for Industry and Commerce (“SAIC”) can grant compulsory licenses to competitors pursuant to the SAIC’s Rules on Prohibition of Abusing Intellectual Property Rights to Eliminate or Restrict Competition (“IP Abuse Rules”). Article 7 of SAIC’s IP Abuse Rules states in relevant part:

Companies with dominant market position shall not, without justification, refuse other companies to license their IPR under reasonable terms. Such licensing constitutes an essential activity for business operation, allowing businesses to legitimately eliminate or restrict competition. Determination of the aforesaid conduct shall take into account the following factors:

(i) whether the concerned IPR cannot be reasonably substituted in the relevant market, which is necessary for other undertakings to compete in the relevant market;

(ii) whether a refusal to license the IPR will adversely affect the competition or innovation of the relevant market, to the detriment of consumers’ interest or public interests;
(iii) whether the licensing of the IPR will not cause unreasonable damage to the licensing undertaking.

Application of this provision seriously undermines the fundamental right of the patent holder to exclude others from using their IP, and thus, in the long term seriously impact incentives to innovate. U.S. companies with operations in China are particularly vulnerable given the significant discretion vested in the SAIC in balancing the foregoing factors to determine if a compulsory license should issue. Accordingly, the Section urges the USTR to bring this matter to the attention of the Chinese Government and to urge that necessary amendments be made to the SAIC’s IP Abuse Rules.

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Once again, the Section appreciates the opportunity to provide these comments to you. If you have any questions regarding the above comments, please feel free to contact us.

Very truly yours,

Scott F. Partridge
Chair, ABA Section of Intellectual Property Law