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INTELLECTUAL PROPERTY IN A KNOWLEDGE-BASED SOCIETY

CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO), THE KNOWLEDGE-BASED ECONOMY AND ISSUES FACED BY IT AT THREE LEVELS

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1. Before and since China's accession to the WTO, the legislative, judicial and administrative organizations have been quite busy amending and repealing laws, regulations and even judicial interpretations that conflicted with WTO requirements during that period; indeed some of them will still be busy for sometime, while many enterprises have been engaged in devising new strategies. It seems that legal research does not have such a direct bearing on China's accession to the WTO, and yet the impact of China's accession to the WTO on legislation, jurisdiction and legal research (including the necessary legal research in legislation and judicial interpretation) might be deeper and stronger than that on the State organizations and enterprises concerned. After all, legal research cannot confine itself to understanding and interpreting laws, regulations and judicial interpretations amended and repealed in accordance with the requirements of the WTO, which is only the first-level task. Several major Chinese laws on intellectual property had been amended before China acceded to the WTO, the purpose being to solve problems at the first level. The revision of the three major intellectual property laws (and others) was mainly due to obvious gaps between our laws and related WTO regulations (or "inconsistent places") pointed out by other Members during the negotiations or detected by us, so I believe that the legal research that has yet to be carried out relates only to first-level issues.

<u>What are the second-level issues for legislation, jurisdiction and legal research after China's accession to the WTO?</u>

2. If some important theoretical issues remain unsolved, they will influence our legislation and judicial practice. As we know, there are different legal theories, systems and even terms to the laws based on Continental European legal traditions and on Anglo-American legal traditions, and they have persisted and lasted for a long time throughout history. However, since the 1980s, there has been an international trend of economic globalization, which has affected the civil legal system, including the protection of intellectual property. Economic globalization, the intellectual property legal system and other civil and business legal systems incline to the same trend, which has led to a lessening of the differences between the Continental and the Anglo-American legal systems. The WTO Agreements are actually the merging result of a blend between systems. Against such a background, if our research still focuses on the old Continental European system and especially Taiwan and Japan which were based on it, it will fall into the wrong area and even become trapped in pre-1980s research. If we say that China's accession to the WTO has brought a new legal system to our country, as legislators and judicial officers we should update our thoughts accordingly.

3. I will explain this further using trade secrets as an example. The legislation in Continental or Roman-law in countries used to distinguish clearly between jus in re and obligatory right, and yet sometimes they can hardly be clearly distinguished, indeed sometimes they could even be interchangeable. That used to be unacceptable under the old Roman-law legal theory, but now it has been accepted since the TRIPS Agreement brought them together. In the early 1980s a German lawyer defined trade secrets in an article as technological secrets exclusive from intellectual property rights. At that time, some states in the United States held a similar opinion, namely that trade secrets are only regulated by contract law or tort law (or law of obligation in Roman-law parlance). Rights based on those laws are only rights in personam, only effective in relation to certain subject matter, not rights in rem. In other words, rights based on trade secrets are neither jus in re in the Roman-law sense nor property rights in the Anglo-American law sense, but obligatory rights based on contracts or torts. However, the WTO has listed them as one of the seven kinds of intellectual property rights in TRIPS, which indicates that trade secrets have arguably become jus in re based on rights, or intangible property rights in the Anglo-American law sense; in other

words, rights based on trade secrets have become rights in rem, and no longer rights in personam. For countries of both legal persuasions, the nature of trade secrets has gone through the process of transfer from obligatory right to jus in re. The shift was very noticeable from the perspective of the case law of the United States. Before the 1970s, almost all courts in the United States believed that trade secrets were only rights in personam, not property rights (rights in rem). That perception caused a lot of arguments during the case of Du Pont vs Christopher, the ruling on which resulted in the "Restatement of Unfair Competition" amendments and even changed the relevant legislation. The ruling clearly indicated that, if trade secrets could only be protected as rights based on contracts or torts, there were certain situations in which they could not be protected.

4. In fact, many such breakthroughs on matters of legal theory have already been made. In the past I have mentioned that service is sometimes also property. Of course, I was referring not to "property" in the sense of jus in re or obligatory right, but to property in the nature of jus in re, which has the right in rem. I was not making that up: as early as in the 19th century there was such a case in the United Kingdom. A theatre hired a famous actor to a performance and signed a contract under which the actor should not give the same performance at other theatres during that period, so that the theatre might sell tickets at a high price. However, another theatre did attract and also hired the actor with a higher offer, and the actor gave his performance at both theatres during the same period. The first theatre sued in court, as its tickets could not be sold at a high price, and the court gave the theatre two choices: one was to sue the actor under the contract, in which case it would not recover its loss, and the other was to sue the manager of the second theatre but, without any contract between them, how could it? The court explained that the service rendered by the actor to the first theatre in certain situations embodied a right in rem. The case was included in a work on property law written by a British scholar, but some thought it was a case of damaging or violating obligatory right. Dr. Kong Xiangjun, Judge of the Supreme People's Court, gave the clear explanation that service at that time embodied right in rem while the book was being translated. It was the first case to demonstrate the shift from obligatory right to jus in re, and the case of Du Pont in the United States was the second. Of course, when the WTO was established, the process of shift had been completed. Although some still think, in theory, that trade secrets do not have right in rem, at present all practical argument is pointless.

5. Not only can jus in re and obligatory right be shifted from each other, but also petitions based on jus in re and obligatory right are interchangeable; indeed this is quite a common practice at present. From the perspective of ordinary civil -law experts, two kinds of indictment in civil litigation must be clearly distinguished, one is based on jus in re, and the other on obligatory right. An indictment based on jus in re does not require a defendant to have committed a fault, but an obligatory claim does usually require a fault on the part of the defendant. In fact there have been breakthroughs in our judicial practice, judicial interpretation and administration in the past; for example, the Supreme People's Court made a judicial interpretation of the regulations on technology contracts in the Contract Law drafted by the former State Commission of Science and Technology, ruling that if a third party obtains someone's trade secret in good faith from a contract, that third party is entitled to continue using it, but should pay the owner of the rights. In other words, an injunction was replaced by damages or petitions based on jus in re were replaced by petitions based on obligatory right. No matter what payment is secured, whether improper enrichment or gains through infringement, it must be surrendered as damages. However, an injunction is different, and presupposes an indictment based on jus in re. The protection of property rights first calls for an injunction, no matter whether there is any subjective fault. A third party acting in good faith does not usually have any fault, but is asked to pay damages and is

charged with violating obligatory right instead of jus in re, which seems illogical in civil law. That, is what we do, however, and it seems reasonable, reflecting the shift between indictments based on jus in re and obligatory right.

6. There is an article in the TRIPS Agreement that deserves our attention, namely Article 62(5). No matter whether in WTO countries or elsewhere, not all kinds of intellectual property are natural and automatic rights that arise out of intellectual work. Except in few countries such as the United States (the U.S. Patent Law works on the principle of "first to invent"), at least patents and trademarks must be administratively approved before the rights come into being. Under the TRIPS Agreement, geographical indications also need administrative approval. Such rights, engendered after administrative sanction or registration, are quite special and liable to cause special problems in litigation. Plaintiffs in intellectual property infringement litigation usually are owners of rights, while the defendants are infringers or alleged infringers. Where intellectual property rights are dependent on administrative sanction or registration, as patents, trademarks or geographical indications are (copyright comes into being automatically, so does not present the same problems), defendants charged with infringement do not usually argue non-infringement, but rather allege the invalidity of the rights owned by the plaintiffs in order to achieve recognition of non-infringement. Infringement litigation thus turns into an indictment of asserted rights.

7. There are certain grey areas with some kinds of intellectual property right, especially patents and trademarks. Sometimes mistakes are hard to avoid, whether in administrative or in judicial arbitration, when determining whether there is a right or an infringement. In this sense different authorities, or even different tribunals or judges in the same court, may hand down different judgments. Intellectual property litigation, or at least infringement litigation involving a counterclaim of invalidity of intellectual property rights, is better conducted in the same tribunal, not shifted to another tribunal in the course of the proceedings. Although patents and trademarks are approved or registered by administrative authorities, actual litigation for confirmation of rights is different from ordinary administrative litigation; it is somehow related to the understanding of Article 62(5) of the TRIPS Agreement: litigation for the confirmation of intellectual property rights is different from ordinary administrative litigation, which cannot be simply understood as a lawsuit by civilians against authorities, who need confirmation of their ownership of the rights. Therefore, in order to keep the coherence of litigation on the twin issues of infringement and confirmation of intellectual property rights, especially concerning patents and trademarks and involving arbitration by the original administrative authorities, both issues should be considered in the same tribunal, so as to avoid contradictory rulings by different tribunals within the same court.

8. There is another problem that has to do with the mechanical separation of the functions of the administrative tribunal and the third civil tribunal: Article 57 of the Patent Law as revised in 2000 and Article 53 of the revised Trademark Law provide that administrative authorities can arbitrate on matters of infringement, but can only mediate on the amount of damages for infringement, which has to be determined by a court. Therefore, any party to an intellectual property infringement dispute who is not satisfied with administrative arbitration, must prosecute his case individually in the administrative tribunal and the third civil tribunal within the same court, requesting the administrative tribunal to withdraw the administrative arbitration and applying to the third civil tribunal for damages. However, it is very inconvenient for the parties involved, and also liable to result in contradictory judgements, with one tribunal finding for non-infringement and the other awarding damages, which also detracts from the effectiveness of intellectual property protection. On examining the contents of the WTO rules in greater detail, we have realized that some issue merit further research,

and can be treated as second-level issues. If we conduct further, macroscopic research on the developing trend of the WTO agreements over and above the specific rules, we have a chance to touch on third-level issues.

9. The third-level issue is the way in which we can keep up the development in our legislation, jurisdiction and research.

10. Before and since China's accession to the WTO, questions such as how to change governmental functions, revise domestic laws to align them on the requirements of the WTO and make all administrative arbitrations under judicial review, are the most cared about by the public, mentioned in the press and discussed by legislative and administrative authorities so that the right measures may be adopted. We should admit that it is right and necessary for China's market to take part in the operation of international markets in the legal framework of the WTO.

11. Unfortunately the legislative authorities, or experts engaged in legislative research for them, cannot focus only on first-level or even on first and second-level issues.

12. The most obvious change in the transformation of GATT, concerned mainly with trade in tangible goods, into the WTO is the addition of services and intellectual property protection as the other of the WTO's two important supporting pillars. What, though, is the essence of that change? How is it to be reflected in legislation? More important questions like these are not considered by those who should be thinking about them.

13. Almost as part of the process of China's accession to the WTO, "knowledge-based economy," "information network" and other such issues are being more and more often mentioned and cared about by the general public. What internal relationship should there be between those new developments and the trends of the above-mentioned international trade activities and regulations is not, however, being considered by those who should be doing so.

14. Consequently there is a risk of the gap between the laws and regulations evolving within WTO and ours becoming ever wider because we are failing to devote enough thought and research to essentials, even though we have been aware of the phenomenon and have adopted measures accordingly.

15. If we make a thorough analysis, we will see:

a) first, if the WTO era is compared with the GATT era, that the importance of intangible property has greatly increased, making the international provisions on the intangibles, services and intellectual property very important;

b) secondly, when seen from the two angles described below, intellectual property protection can now be said to play the most important role as one of the three supporting pillars of the WTO.

16. On the one hand there is the commodity trade and the service industry, which also involve intellectual property protection issues.

17. As far as the commodity trade is concerned, all commodities from legal sources involve trademark protection issues. Packages, poster designs and advertisements for commodity promotion (including advertising pictures, terms, videos and so on) involve copyright

protection issues. New saleable commodities from legal sources are usually backed up by patents or trade secrets, while those from illegal sources usually involve counterfeited trademarks and piracy. The service trade also involves service marks and copyright protection issues in connection with the advertising of service business, as in the commodity trade. The difference is that in multinational services, especially computer network services, an enterprise advertises in its own country, which may infringe trademark rights owned by foreign enterprises in foreign countries, because the network is beyond borders, whereas trademarks are only regionally valid. Comparable disputes appear in the copyright and patent fields, but special infringement disputes cannot appear in the business of tangible commodities.

18. On the other hand, with the world developing towards a knowledge-based economy, intellectual property protection should play the most important role.

19. Developed countries in last century or two before the 20th century focused on jus rerum (tangible property law) and contract law on commodity business in their traditional civil laws, because machines, land, properties and other intangible assets played a key role in the industrial economy. Since the 1980s, with the emergence of the knowledge-based economy, developed countries and some developing countries (such as Singapore, Philippines and India) shifted their focus to intellectual property law and electronic commercial law in the field of civil legislation. That does not mean that the traditional jus rerum and contract law are no longer needed, just that the focus has shifted. The reason is that in a knowledge-based economy patented inventions, trade secrets, computer program upgrades and other intangible properties play a key role. With any change in production methods, the focus of the relevant legislation must change accordingly. Some developing countries still in the process of industrialization have realized that at the present time, if they continue to depend on labor and focus on the accumulation of tangible assets, they will never catch up with developed countries; they must also work on the accumulation of intangible property (mainly referring to the exercise of "self-owned intellectual property rights") in order to promote the accumulation of tangible assets and thereby have a chance of catching up with developed countries. This does not mean that mankind is no longer dependent on tangible assets for survival, but rather that nowadays the accumulation of tangible assets and the development of tangible markets both require intangible property to be accumulated and intangible markets developed.

20. Since 1996 the export volume of products of the core industries of the U.S. copyright industry (the software industry, the film and drama industry, etc.) has exceeded that of agriculture and engineering (aircraft production, auto production, etc.). The American Intellectual Property Association took it as an important indication that the United States had entered the era of "knowledge-based economy." Since 2000, the information industry has become the first major industry in China.

21. China has proposed to "promote the industrialization-through-information industry" in its development of productivity. However, with the development of the socialist market economy, our legislation, case law and the corresponding legal research have up to now always focused on regulating tangible assets and markets, which was unsuited to the policy of "promoting the industrialization-through-information industry" in the field of productivity, and have undoubtedly lagged behind post-WTO trends.

22. I believe that this is the real challenge faced by the owners of intellectual property rights, industry and legislation in China, and that it deserves serious consideration and research following China's accession to the WTO.

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