

Unlike other countries, China has great difficulty in understanding the strict liability of copyright infringement. From the end of 1986 to 1995, strict liability was a hotly debated question among Chinese copyright scholars. Some scholars argued that, even though strict liability was widely accepted in the world, it had no place in the Chinese copyright law. They believed that copyright protection had the characteristics of territoriality, and the liability of copyright infringement must be consistent with the Chinese civil law system.

China is basically a continental law country. The *General Principle of the Civil Law* is the basic law for Chinese civil legislation. Under the *General Principle of the Civil Law*, intellectual property rights are identified as a kind of civil rights, independent of property rights and personal rights.¹ As a result, the relationship of the *General Principle of the Civil Law* and the intellectual property laws are that of the general law and the specific laws. The principles set down by the *General Principle of the Civil Law* may cover the intellectual property laws, and the intellectual property laws could preempt the application of general civil laws in certain circumstances.

In accordance with Article 106 of the *General Principle of the Civil Law*, citizens and legal persons who breach a contract or fail to fulfill other obligations shall bear civil liability. Citizens and legal persons who through their fault encroach upon state or collective property or the property or person of other people shall bear civil liability. Civil liability shall still be borne, even in the absence of fault, if the law so stipulates.

Under such provision, the basic principle of civil liability is the li-

ability with fault, and the liability without fault only applies to the exceptional cases where the law specifically stipulates. Because there is no such specific stipulation concerning the strict liability of copyright infringement under the *General Principle of the Civil Law*, the *Copyright Law* and other relevant laws, the liability with fault should be applied to copyright infringement, i.e., the infringer shall be liable for copyright infringement only when he has fault in respect of the infringing activity.

However, if copyright infringement is determined with regard to the infringer's intent or the state of mind, Chinese copyright protection would be seriously weakened. All the publishers who publish the infringing copies of works, and all the software shops that sell the infringing copies of software, would get away from legal liability on the excuse of unknowing the infringing nature of the copies. Actually, with respect to copyright infringement, it is much easier for the infringer to prove his innocence than for the injured copyright owner to prove the infringer's fault.

Based on the principle of liability with fault, in August 1996, the Chinese National Copyright Administration even issued a Circular to exempt the liability of the publisher who publishes the plagiarizing product. Under the "Circular Concerning the Publisher's Liability of Publishing the Plagiarizing Product," the publisher who publishes the plagiarizing product shall be jointly liable with the plagiarizer for compensating the copyright owner only in the case where the publisher has fault and causes the loss. The Circular does not address the question of whether the copyright owner is entitled to injunctive relief in such case. Indeed, if the Circular even exempts the publisher's liability of cause and effect in such a case, the interests of the copyright owner would lose the minimum protection.

Fortunately, "fault" is a flexible concept that may be construed in many ways. Some courts construed the infringer's fault strictly and made the liability with fault similar to strict liability. That means

that the infringer can never prove his innocence. For example, the publisher is held to bear the absolute obligation of investigation in respect of the copyright ownership of the works it publishes, thus whenever the infringing copies of a work is published, the publisher is held to have the fault and to be liable for the infringement. By construing the liability strictly, the strict liability of copyright infringement is introduced into the Chinese copyright laws indirectly. However, since the liability with fault is still the principle and the strict liability still depends on the judicial construction, the application of the strict liability is largely unstable in China, and the decision of one case may be completely different from that of another case.

Software Seller's Liability — A Case Study

In China, the liability of the person or entity who directly copy and sell another's copyrighted software is clear, because it is easy to find the fault of such infringer.² However, the software seller's liability has not been fully clarified. What is a software seller, who sells infringing copies of other's copyrighted software, neither copied the software itself nor knows the infringing nature of the software copies, should the seller be strictly liable for the infringement?

Beijing Haidian District People's Computer Software Institute (People's Institute) is Beijing Federal Software Industry Development Company and Beijing Haidian District Business Computer Management Department (People's Computer Software Institute) is the most well-known case in China concerning the software seller's liability.³

Facts — People's Institute was the copyright owner of the compilation software "Empire 28." The software was first published in April 1995, and registered at the China National Copyright Administration (CNCA) Software Regis-

¹ In Article 106 of the Copyright Law and Article 107 of the Software Regulations.

² A Beijing Institute v. School Co. and International Business Machines Corp. Case (Beijing First Intermediate Court, 1997).

gence. (In Chinese also: *Chubanshecan xue gongnengde Shichanghuai*.) (1996), 30(1) 45.

³ Under the Copyright Act of 1990, if the infringer was not aware and had no reason to believe that he or she has committed an infringement of copyright, the court in its discretion may reduce the awarded damages or exempt the infringer from awarding damages. See Article 49(2)(4) of the P.R.C. Copyright Act of 1990.

⁴ Article 49(2) of the Copyright Act of the Civil Law.

lation and Management Office in November 1996. The market price for each copy of the software was RMB ¥ 1,000.

In June 1999, Federal Co., the Chinese biggest software seller, concluded the "Agreement of Commission Agent of Products" with Huairan Department. Under the Agreement, Huairan Department authorized the Federal Co. to act as its commission agent to sell its software "WordBook II translation series" and "WordBox," guaranteeing the legality of software's copyright and trademark, and promising to indemnify the Federal Co. any legal liability of copyright and trademark infringement and to compensate the Federal Co. losses suffered from any copyright dispute. The Federal Co. stood, with the cooperation of Huairan Department, purchase and sell the software in the whole country.

After the conclusion of the Agreement, Huairan Department began to promote the software in the newspapers. In August 1999, Weibong Institute bought a copy of the decomposition software at the price of RMB ¥ 158 from the Federal Co. central shop. The purchasing act was legalised by notarization by the local Notary Office. Then, Weibong Institute sued the Federal Co. and Huairan Department for infringing its copyright in the decomposition software.

During the First Instance trial, agreed to by the two parties, the Court commissioned the Chinese Software Registration Center to appraise Weibong's *word20* and Huairan's "Wordtable software." The conclusion was that, the source codes of the two programs were the same, and the executive condition, prompting information and executive result of the two programs were similar. Neither of the parties disagreed to the conclusion.

From 1993 to 1996, the Federal Co. bought from Huairan Department 87 pieces of "Wordtable software," in which 28 pieces had been sold out, and the other of which were obtained by the Court. The Federal Co. bought the software from Huairan Department at the price of RMB ¥ 87, and sold

the software at the price of RMB ¥ 158.

The Plaintiff contended that the Federal Co., by selling the decompiled and slightly modified copies of its copyrighted software "word20," infringed its copyright and caused serious economic losses to it. The Plaintiff pleaded the Court to enjoin the Defendants to cease selling and destroy the infringing copies, apologize publicly, and compensate the economic losses ¥ 179,000 and the litigation costs.

The Defendant Federal Co. argued that, under the "Agreement of Commission Agent of Products" between the Federal Co. and Huairan Department, it sold the copies of the software "Wordtable software" legitimately bought from Huairan. Therefore, its act of selling the software was authorized by the other Defendant Huairan Department, and not the infringing acts under the Software Regulations, and did not infringe the Plaintiff's copyright.

The Defendant Huairan Department did not file the defense.

Held—Beijing, Haidian District Court held that, Huairan Department, without authorization, reproducing and selling Weibong's copyrighted software, infringed Weibong's copyright, and should be liable for the infringement. The Federal Co., as the specialized software seller, had the duty of care to guarantee that the copies of the software it sold were original copies, so should be jointly liable for the infringement. Even though there was the indemnity clause in the Agreement between the Federal Co. and Huairan Department, the agreement would not invalidate the copyright enjoyed by Weibong Institute. Since the Defendant Huairan Department refused to appear in court without justified reason, the Court made the judgment by default.¹⁷

The Court ruled that the two Defendants ceased reproducing the selling the software "Wordtable

software," apologize to Weibong Institute at the "China-Computer," compensated the economic losses RMB ¥ 177,833, and the reasonable expenses in litigation RMB ¥ 1,000, and destroyed the 87 pieces of infringing copies distributed by the Court.

The Federal Co. dissented to the First Instance judgment, and appealed to Beijing First Intermediate Court for the reasons as follows: (1) it had fulfilled the reasonable duty of care, and had neither intention nor negligence with respect to the legality of the software it sold; (2) it had never reproduced the copies of the software, so should not be jointly liable for Huairan's infringing acts of reproduction; (3) it had only bought from Huairan Department 73 pieces, rather than 87 pieces of software in the First Instance judgment. The Federal Co. pleaded to the Second Instance Court to set aside the original judgment in respect of Federal's liability.

Weibong Institute and Huairan Department did not appeal or file the defense during the Second Instance trial.

The Second Instance Court held that, Huairan Department had infringed Weibong's copyright in the software "word20," and should be liable for its infringing acts. As the commission agent, the Federal Co. sold the infringing copies, and contributed to the economic losses suffered by Weibong Institute. Moreover, the Federal Co. neither knew nor participated Huairan's infringing acts of reproduction, so with respect to the authorized acts of reproduction, Federal Co. had no joint liability with Huairan Department, and should not be jointly liable for such acts. The indemnity clause in the Agreement between the Federal Co. and Huairan Department was only valid within the contractual parties, and Federal Co. should not be exempted from the liability based on such clause.

The Second Instance Court ruled that the Federal Co. should return the profits from selling the infringing copies to Weibong Institute. The losses suffered by Weibong Institute should be decided in terms of the quantity of the infringing

¹⁷ "In Article 134 of the Chinese Civil Procedure Law (1) it is determined: 'Having been served with a summons, parties to a lawsuit are to appear without justified reasons at a trial in person, during a court session, without the permission of the court, the court may make a judgment by default.'"

copies and the sales price of the original copies. The Second Instance Court held that, the First Instance judgment was correct in respect of ascertaining the facts, but was improper in respect of ascertaining the liability, calculating the damages and disposing of the infringing copies.

Finally, the Second Instance Court ruled as follows: (i) setting aside the First Instance judgment, (ii) requiring Huiquan Department to cease the infringing acts of copying and sales, and expediting the Federal Co. to cease selling the software "Worthing softwares," (iii) requiring Huiquan Department to apologize to Worthing Institute at the "Chinese Computer" (A Chinese newspaper well-known in the Chinese computer industry) (iv) requiring Huiquan Department to compensate Worthing's economic losses RMB Y 147,833 (that is, RMB 783) and the expense for litigation RMB Y 5,888, (iv) requiring the Federal Co. to return the profit concerned to Worthing Institute.

Besides, the Second Instance Court, in accordance with Article 146(2) of the General Principles of the Civil Law, made the preliminary suit of civil sanction. Under the preliminary writ, the infringing copies reproduced and sold by Huiquan Department were confiscated, and Huiquan Department was fined RMB Y 100,000.

Comments — This case is very interesting in several respects.

1. The software seller's liability: In this case, the First Instance Court held that the software seller was liable for selling the infringing copies of the software, while the Second Instance Court set aside the First Instance judgment with respect to the software seller's liability, and exempted the seller from the liability of infringement for the reason that the seller was innocent.

The Second Instance Court held that, the Federal Co. had never participated in Huiquan's infringing acts of reproduction, so should not be jointly liable for Huiquan's infringing activities, and should only return its illegal profit to Worthing Institute.

In accordance with Article 92 of

the General Principles of the Civil Law, if profits are acquired improperly and without a lawful basis, resulting in another person's loss, the illegal profits shall be returned to the person who suffered the loss. In its relationship of returning illegal profits, the person who suffered the loss is the creditor, and the person who acquired the illegal profit is the debtor. Under the General Principles of the Civil Law, returning illegal profits is a kind of legal statutory obligation, stipulated in the Section of the "Creditor's rights."¹⁰ Therefore, returning the illegal profit is not a method of bearing the civil liability. In terms of the Second Instance judgment, the Federal Co. was only obliged to return the illegal profits, which means it was not liable for infringing Worthing's copyright.

With respect to the joint liability, the Second Instance Court was right. If the Federal Co. was held jointly liable for all the infringing acts as decided by the First Instance Court, it would be liable for Huiquan's acts of reproduction and the losses caused thereby. It was unfair to impose such a heavy liability on Federal Co., who neither knew nor participated in Huiquan's infringing acts of reproduction.

However, it is improper for the Second Instance Court to exempt the Federal Co. from any liability. In accordance with Article 507 of the Software Regulations and Article 46(2) of the Copyright Law, distributing copies of the software for commercial purposes without the consent of the copyright owner is obviously the act of infringement, and should be liable for the infringement.¹¹ In the case, the Federal Co. had sold the infringing copies of the software for commercial purposes, i.e. distributed the infringing copies,¹² so such acts of sales con-

stituted the independent acts of infringement. So, even though the Federal Co. had not participated in Huiquan's acts of reproduction, and had no conspiracy with Huiquan Department with respect to such acts of reproduction, it still should be held liable for its own infringing acts of distribution.

Indeed, the key reason for the Second Instance Court to exempt the Federal's liability was the principle of liability with fault.¹³ The Federal Co. had put forward several reasons to show its innocence under the "Agreement of Commission Agent of Product" between the Federal Co. and Huiquan Department. Huiquan Department guaranteed the legality of the software's copyrights and trademarks, and promised to indemnify any liability of infringement for the Federal Co. At the time the Agreement was concluded, Huiquan Department has presented to the Federal Co. the relevant documents concerning applying to the Software Registration Center for software registration; software was a kind of special product, so the Federal Co. could not ascertain whether the copies of the software were the infringing copies from the appearance of such copies; the Federal Co., as the specialized software seller, mastered hundreds of software varieties, and could not investigate the sources of various kinds of software one by one. Finally, the Second Instance Court was convinced by these reasons, and concluded that the Federal Co. had fulfilled its duty of care and should be exempted from any liability because of its innocence.

¹⁰ Article 92 should bear civil liability. The Civil Law stipulated "returning and distributing" should be commercial, or distributed for commercial purposes. If it is for the common purposes, the person merely offers the article reproduced at the act of distribution shall bear the liability.

¹¹ Under Article 507 of the Implementing Regulations of the Copyright Law, merely distributing is a commercial purpose.

¹² In Article 46 of the Copyright Law of the Civil Law, "distribute and legal person who bears a contract as authorized sales also means that bear civil liability. Copies and legal person who bears a contract as authorized sales or authorized person of the property as person authorized shall bear civil liability." Civil liability shall bear from every other alternative kind, there has no appearance.

¹³ Article 92 is in Section 2 "Creditor's Right" of Chapter 10 "Obligation" of the General Principles of the Civil Law.

¹⁴ In Article 507 of the Software Regulations, "distribute" means to distribute to the public a copy of software's program or data items, or if the program or data items are in the form of articles, the infringer should bear the civil liability. In Article 46(2) of the Copyright Law, "distribute" means to distribute copies, for commercial purposes without the consent of the copyright

However, according to the Second Instance judgment, the Federal Co., on one hand, had no liability of copyright infringement and on the other hand it still had the obligation of cessation of selling the infringing copies of the software. In accordance with the General Principles of the Civil Law, cessation of infringement, just as compensation for losses, is one of the methods of bearing civil liability.¹⁴ Thus, such obligation of cessation under the Second Instance judgment became the parallel — the Federal Co. was not liable, but had to bear the liability in the way of cessation of infringement.

If we compare the judgment of *Wisheng Institute v. Amdel Co. and Phoenix Department* and that of *Walt Disney Productions v. Beijing Publisher & Co.*,¹⁵ it would be more interesting.

In the case of *Walt Disney Productions v. Beijing Publisher & Co.*, the Plaintiff had the copyright owner of the figures such as "Mickey Mouse," "Snow White," "Cinderella," etc. as well as relevant works such as "The New Home of the Snow Princess," etc. In August 1982, the Plaintiff concluded an agreement with the Maxwell Company, which was a company registered in Hong Kong, and granted a non-exclusive license to the latter to publish the Chinese versions of the Plaintiff's works, and to distribute such Chinese versions/books in China. The agreement did not allow Maxwell to transfer this license or grant sub-licensed in any form. The duration of the agreement was from August 1982 to September 1986.

In March 1991, Beijing Publisher contacted with Maxwell through the Big World Company, and concluded an agreement. Under the agreement, Maxwell "granted" a license to Beijing Publisher to do all the affairs that Walt Disney had permitted Maxwell to do, i.e. to reproduce and distribute the Chinese versions of Disney's books. On the same day, Beijing Publisher con-

cluded with the Big World Company. Under its agreement, the Big World Company had the obligation to get the certificate concerning the ownership of Walt Disney's copyright so as to make Beijing Publisher's acts of reproduction and distribution legal.

According to the Rules issued by the CNCA, Chinese publishers must first register their publishing contract concluded with foreign copyright owner, for the purpose of avoiding copyright infringement. When Beijing Publisher applied to Beijing Copyright Office for registration, the application was rejected by Beijing Copyright Office because Beijing Publisher could not present the certificate of authority of Walt Disney. Later, Beijing Publisher began publishing the works without the registration.

In February 1991, Beijing Publisher concluded an agreement with the Beijing Distributor of Kinshu General Book Store. Under the agreement, the two parties agreed that the Publisher would only publish the foreign works, after concluding the publishing contract with the foreign copyright owner, registering the contract at the copyright administration, and acquiring the registration number, otherwise, the Publisher would be responsible for any foreign-related copyright disputes in respect of publication, distribution and sales.

In June 1994, Walt Disney sued Beijing Publisher and the Beijing Distributor of Kinshu General Book Store for copyright infringement by reproducing and distributing its copyrighted works without authorization.

The Beijing Distributor of Kinshu General Book Store argued that, it had no obligation to investigate the legality of the books' copyright, no laws and international copyright treaties imposed the liability of infringement on distributors, and in terms of the agreement between Beijing Publisher and the Beijing Distributor of Kinshu General Book Store, Beijing Publisher had indemnified all its liability of infringement.

Finally, with respect to the Pub-

lisher and the Distributor's liability, the First Instance Court ruled that, the Publisher and the Distributor ceased publishing and distributing Disney's copyrighted works, and the Publisher compensated Walt Disney for its losses. The Second Instance Court affirmed the First Instance judgment in respect of the liabilities of the Publisher and the Distributor.

In *Walt Disney Productions v. Beijing Publisher & Co.*, the Court held that the Distributor had the fault, for the reason that the Distributor did not note the absence of the registration number of the publishing contract of the foreign works. The Court ruled that the Distributor was liable for the acts of distribution, but the method of bearing the liability was limited to cessation of infringement, rather than compensation for losses.

Comparing *Walt Disney and Phoenix Institute*, the status of the Distributor in *Walt Disney* was very similar to that of the software seller in *Phoenix Institute*, but the status of most of the acts undertaken by the respective Courts were different. In *Phoenix Institute*, the software seller was found innocent and not liable for selling the software, in *Walt Disney*, the book distributor with fault was held liable for selling the books. Nonetheless, synthesizing the two judgments, we can find that the differences between the two judgments are minimal. Both of the distributors were not liable for the copyright owner's losses, but both were obliged to cease selling the infringing copies. In *Walt Disney*, the Distributor bore the liability of infringement by ceasing selling the infringing books. In *Wisheng Institute*, however, the software seller also had the obligation of ceasing selling the infringing copies of the software. Despite the fact that it had not been held liable for the infringement.

In fact, the paradox of cessation of infringement in *Wisheng Institute* lies in the paradox of the liability with fault. Even though the liability with fault is the principle of civil liability, it may not be applicable in any copyright infringement action. In fact, the actor's fault is only evis-

¹⁴ The Civil Law of the General Principles of the Civil Law.

¹⁵ *Walt Disney Productions v. Beijing Publisher & Co.*, Beijing Intellectual Property Court, 1994 Beijing High Court, 1995.

vant to the liability of compensation for losses, but is irrelevant to the liability of cessation of infringement. In spite of the innocence of the infringer, injured copyright owner should never be deprived of the injunctive relief. The law should never tolerate the continuity of the infringing acts, regardless of the state of mind of the actor. For example, under the Copyright Act of Germany, where there is no fault, there can be no damages, but the injunctive relief is still available to the injured copyright owner.¹⁴ In Germany, in case of a book seller who sells the pirate books, if he can prove his innocence, he may not be made responsible for the pirate copies he had already sold to the public, but still he can no longer sell the remaining stock of the infringing copies; otherwise, a cease and desist order would stop him. The cease and desist order may be issued even before the book seller is aware of the unlawfulness of the situation.¹⁵

In *Wolfgang Institute*, the Second Instance Court, on one hand, insisted on exempting the software seller's liability based on the principle of liability with fault and on the other hand it intended to stop the continuity of the infringing acts. As a result, the cessation of infringement in the Second Instance judgment became the paradox. In *Hall Dixon*, the Court found the book distributor had fault, and the cessation of infringement was based on its liability, so the problem of the liability with fault was less controversial than in *Wolfgang Institute*.

In the cases of altered infringements, it is obvious that the infringers have committed something "wrong."¹⁶ By making and selling the infringing copies, their faults are self-evident, and such liabilities with fault are not significantly dif-

ferent from strict liability. However, in the cases of the acts of the distributors, the faults have become the kernel of the disputes and the crucial basis of the legal judgment, but the applicable scope of the liability with fault has not been fully clarified, and caused many problems in the legal practices. *Parkway Institute* was an example.

Some local copyright administrative bodies have taken measures to regulate the business activities of software sellers. For example, in 1998, the Copyright Administration of Guangdong Province published a Circular, under which software sellers must ensure that the copies of software they sell come from legal channels, they must acquire the authorization document from the copyright owner when selling the software, and they must establish an effective recording system to record the sources, types, number and storage of the copies of software sold by them. If the software sellers have fulfilled the obligations mentioned above, and infringing copies of software are found, such sellers should be exempted from liability of infringement, but the providers of the infringing copies of software should bear the liability. Under such Circular, the software sellers are more difficult to prove their innocence with respect to selling infringing copies of software, and their liability with fault has become tightened and more similar to strict liability.

China is prepared to modify its Copyright Law of 1990, and a draft was submitted early this year. The National People's Congress is scheduled to review the draft later this year. The Pending Modified Copyright Law of 1990, drafted by the CNCA, makes some effort to clarify the seller's fault. Under Article 46 of the Pending Modified Copyright Law of 1990, persons who make, sell or rent infringing copies, shall be so responsible in the cases of copyright administration, give out the source of authorizing the reproduction or the source of the infringing copies; otherwise, the person shall be presumed to have fault, and bear corresponding liability. Such provision derives from "right of information" under

Article 47 of the TRIPS Agreement.¹⁷ Under such provision, the software seller who sold the infringing copies of others' software are less likely to get away from the liability on the excuse of his innocence. Such provision would be especially useful to crack down the software black market and underground software place.

3. The indemnity clause in the Agreement between the Federal Co. and Human Department. In most cases, indemnity clauses frequently appear in the distributing contract. The distributors usually required the publisher to promise to indemnify any liability of copyright infringement.

In *Parkway Institute*, under the "Agreement of Commission Agent of Product" between the Human Department and the Federal, Human Department promised to indemnify the Federal Co. any legal liability of copyright and trademark infringement, and would compensate the Federal's losses suffered from copyright disputes. During the proceeding, the Federal Co. argued that it should be indemnified because of such indemnity clause.¹⁸ The Court rejected such argument, because the Agreement was only binding within the contractual parties, but as the third party, *Wolfgang Institute* was not bound by the clause of the Agreement. However, the indemnity clause could still be used to allocate the liability between the Federal Co. and Human Department.

China is raising the protection level of copyright, though without taking of substance and limitation. It is not groundless to believe that the so-called "liability with fault" would be substituted by the strict liability in the field of copyright protection. At that time, the Chinese software seller would never get away from legal liability on the excuse of innocence.

14. "Copyright Administration of Guangdong Province," *Copyright Law of China*, 1998, Article 47. It is against any person who infringes a copyright or any other right protected by the Copyright law, the injured party may bring an action for injunctive relief requiring the infringer to cease and desist if there is a danger of repetition of the acts of infringement, as well as an action for damages with or without any contractual or tortious basis of the act.

15. W. J. Xiao, "Answers to Questions" Submitted by the CNCA, "Copyright Journal," No. 4, 1998.

16. In accordance with Article 47 of the TRIPS Agreement, members may provide that the national authorities shall have the authority, unless this would be of no protection to the maintenance of the administration, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution.

17. In *Parkway* China the Distributor also proposed similar arguments with respect to the indemnity clause in the agreement between the Publisher and the Distributor.