

## I. MAINLAND CHINA

### A. New Regulations on IP Abuse

China's Administration for Industry and Commerce ("SAIC") has released regulations to explicitly define the relationship between competition law and IPR, and curb the abuse of IPR to engage in unfair competition. The new regulations will take effect on August 15, 2015. They define relevant markets in a general manner to be as narrow as for specific technologies, although the test will be in the actual implementation by officials. They define the abuse of IPR as use of a dominant market position to restrain competition in the exercise of IPR or attaching unreasonably restrictive provisions to IPR agreements.

The regulations were partially implemented in response to a high-profile lawsuit against Johnson and Johnson. A Shanghai company won a \$1,000,000 judgment against J&J for improperly inhibiting competition in the medical supplies market by using its patent licensing agreement to restrict the local market. The plaintiff, Rui Bang Company, had long been a licensed distributor of Johnson & Johnson ("J&J") medical equipment bearing the ETHICON trademark. The terms of the license included a minimum price provision. After Rui Bang won a bid to supply a Chinese hospital, bidding a price lower than its minimum under the distribution contract, J&J terminated the distribution agreement on the grounds that Rui Bang reduced the price without J&J's permission in violation of the distribution agreement. J&J stopped accepting orders for medical supplies from Rui Bang, and later refused to renew the distribution agreement.

Rui Bang filed suit with the Shanghai No. 1 Intermediate Court claiming J&J's minimum price provision established a vertical monopoly agreement, prohibited by the Anti-Monopoly Law of China. Rui Bang requested compensation for economic losses totaling RMB 14 million.

Rui Bang lost the suit and appealed to the Shanghai High Court. The Court determined that the key issue was the definition of the market related to surgical stitching supplies in mainland China. The court found that competition in the market is low and J&J holds strong market power. The Court found the minimum price provision in the distribution agreement exerted a negative effect of excluding and limiting competition and showed no obvious benefit to promoting competition. The Court concluded that the agreement created an impermissible monopoly, not justified by J&J's legitimate trademark monopoly. The acts of cancelling the distributorship and terminating the supply of stitching products constituted acts of monopoly control prohibited by the Anti-Monopoly Law of China. Therefore, the Court ruled that J&J should compensate Rui Bang RMB 530,000 (approximately US\$87,000) for lost profits from 2008.

This case is a milestone in the development of anti-monopoly law in China. It is the first case in which a plaintiff won a final judgment after a trial finding a vertical monopoly agreement.



### B. Current Status of Trademark Use and "Back-sales"

The manufacturing, packaging, and labeling activities of a company in China will not be considered to be "Trademark Use" where the goods are exported. Exclusive rights are granted only after registration with China's trademark authority, however, there is currently an exception to the exclusivity owned by a trademark registrant.

China's Trademark Law states, "use of trademarks refers to the use of trademarks on goods, the packaging or containers of goods and the transaction documents of goods, or the use of trademarks for advertising, exhibition and other commercial activities, for the purpose of identifying the sources of goods." A simple reading would indicate that affixing the mark to goods and packaging, regardless of destination of the goods, would be use.

#### Trademark Use

There is no specific provision excepting trademark use when dealing with exports. Generally, in order to prove proper use of a registered trademark in China in the defense of a non-use cancellation, the trademark registrant should provide a series of items of evidence, such as distribution agreements, a series of related invoices, packaging bearing the trademark, etc. A single piece or type of evidence of use is not sufficient to defend a non-use cancellation.

#### Back Sales

Despite the fact that, "use of trademarks on goods, packaging," etc. is described in the Trademark Law, the current PRC policy is that affixing trademarks to goods when those goods are directly shipped out of the country and never visible to PRC consumers is not considered to be trademark use. The policy is not articulated in any law, regulation, or Supreme People's Court Interpretation. However, a Supreme People's Court Justice published an article stating that if all the goods are shipped out of China, any mark affixed to the goods or packaging does not in fact identify the source of goods for the China market. Since any such mark does not identify the source of goods to Chinese consumers, it does not function as a trademark in China. There is, therefore, no trademark use when goods are produced in China and shipped out of China. Furthermore there can be no trademark infringement, even though the trademark is affixed to products inside the borders of China and would otherwise be a trademark infringement.

This may appear as sophistry designed to ensure that Chinese manufacturing is not impeded by anyone's trademark monopoly. However, it is the current policy in China. As the policy has fluctuated in the past, it might change again in the future.

### **C. Notable Court Decisions**

With an established statutory and regulatory system for protecting intellectual property, attention now turns to how the courts of China handle disputes and enforcement of the laws. Although nominally public, most courtrooms do not allow non-parties to observe trials, and there are no official publications for all proceedings. However, several Provincial High Courts, and significant Intermediate Courts, such as those handling IP cases in Beijing and Shanghai, publish summaries of notable cases so that citizens can better understand the legal system.

#### **1. Remediation for Damage to Reputation Caused by Misleading Trade Name**

Plaintiff Foshan Haitian Seasoning Co. Ltd. ("Haitian Seasoning") owned the trademark registration for WEI JI "威极" for soy sauce since 1994. Defendant Wei Ji Seasoning Co., Ltd. ("WJS") registered a corporate name using the same characters in its corporate name, established 4 years later. WJS also advertised using the name Wei Ji on signs and in print.

In around 2012, it was revealed that WJS had been using industrial salt to make its soy sauce. The news damaged the reputation of soy sauces bearing the trademark WEI JI. Haitian Seasoning suffered lost profits and filed suit against WJS, claiming trademark infringement and unfair competition. Haitian Seasoning requested RMB 10 million in damages, an apology, and an injunction on further infringement.

After trial of the evidence, the Foshan Intermediate Court agreed that WJS infringed on Haitian's trademark and that such use was unfair competition. The Court also found that the shareholders of WJS had experience working in the same industry as Haitian before founding WJS and concluded they had deliberately infringed on Haitian's trademark in order to mislead consumers. Such action constituted malice and merited a heavier penalty. The Court ordered an injunction for WJS to change its company name, cease infringement, and awarded damages of RMB6.55 million (roughly US\$1 million), including lost profits and the cost of corrective advertising to repair the reputation of Haitian's mark. WJS filed, but then later withdrew, an appeal.

The case shows that government authorities can impose effective penalties if they believe a case is serious. Selection of the case in a government report also shows that consumer harm will cause authorities to take a case more seriously. Food safety has been a major political issue in China in recent years.

## **2. Retailer of Legitimate Product Found Liable for Service Mark Infringement and Unfair Competition**

The Shanghai Intermediate People's Court issued an order that the defendant retailer, Shanghai Mai Si Investment Management Company, Ltd. ("Mai Si"), may continue to sell legitimate VICTORIA'S SECRET brand clothing, but must cease using signs, business cards, name badges, VIP Customer cards, displays, and advertising. Mai Si's actions deliberately misled consumers into believing that the stores are operated by the trademark owner Limited Brands Inc. of the US. In addition, the Court found that Mai Si had held itself out to be a franchise of the US Company and solicited investments from others. The Court rejected the defense that the use of legitimate products, and the company's prior good history, excused the unfair competition and infringement of the service mark. Notably, the Court found that the defendant's prices were higher than plaintiff's prices, and that the higher prices would exert a negative effect on the brand in China. The Court ordered publication of an admission of infringement, destruction of infringing advertising materials, and payment of compensation of RMB 500,000, and the Court fees.

## **3. US ITC Action for Infringement Leads to Chinese Court Decision on Abuse of Market Power**

The Guangdong People's High Court found InterDigital Communications, Inc. ("IDC") liable for abuse of monopoly, confirmed the judgment of the lower court, and ordered IDC to pay Hua Wei Telecommunications Company, Ltd. (Hua Wei) RMB 20,000,000 in a case that began with a US

International Trade Commission ("ITC") action. In the initial Section 337 action before the ITC, IDC accused Hua Wei of infringing 7 US patents related to 3G and 4G wireless technology. Hua Wei then filed suit in China, accusing IDC of abusing its market power and role in formulating international 3G and 4G standards. Hua Wei alleged that IDC demanded a 2% royalty, much higher than the royalty charged to Apple and Samsung for the same technology.

The Shenzhen Intermediate Court tried the evidence and ruled that the relevant market territory should be defined as China, and that each technology, 2G, 3G, and 4G, constituted separate markets. The Court found that IDC's licensing actions in the US affected Hua Wei's ability to manufacture in China, and that it had the right to review IDC's actions in the US for their foreseeable effect in China. The Court also found that IDC had a 100% market share of all essential patents related to 3G standards in the US and China, and that IDC abused its monopoly and should compensate Hua Wei RMB 20,000,000.

The Guangdong People's High Court found that IDC's four licensing offers were unjustly higher than the offers made to other licensees. The Court found that IDC's ITC action was an abusive tactic to force Hua Wei to license its patents to IDC. The Court upheld the verdict from the first trial, ordering IDC to pay damages of RMB 20,000,000.

***World Intellectual Property Review  
interviewed Wang & Wang attorneys  
on Chinese trademark squatting in  
the 2015 April/May Issue.***

## D. Administrative Matters

### 1. China Again Leads World in Most Patent and Trademark Applications

Worldwide, the number of trademark and patent applications grew steadily in past decades, with the greatest growth in China. China has become the largest processor of patent and trademark applications. 2013 saw a total of 2.377 million patent applications filed and 1.88 million trademark applications filed. There was a 16% increase in patent applications and a 14% increase in trademark applications over the prior year.

That compares with the USPTO's total of 433,654 trademark applications and 601,317 patent applications filed in 2013. An even greater difference appears for any European national patent and trademark office. Processing the EU community wide, the European Patent Office received 265,690 patent applications in 2013, and OHIM received only 109,343 trademark applications in 2012.

## II. TAIWAN

### 1. Customs to Increase Seizures of Patent Infringements

On March 24, 2014, Taiwan started enforcement of amendments added to border protection provisions, pursuant to Article 97 of the Patent Law. Patent holders may now apply to Taiwan's Customs to seize imported goods that could possibly infringe on patent rights. The amendments also provide for circumstances under which Customs shall revoke the seizure. If a court decides that the detained goods do not infringe on Taiwan patent rights, the applicant's bond shall be used to compensate the owner of the detained goods for injury from wrongful detention. The applicant's bond is normally set at the taxable value of the goods assessed by Customs.

### 2. Copyright Law Updated to Increase Disabled Access

Taiwan's Legislative Yuan approved amendments to its Copyright Law to increase access by handicapped people to copyrighted works. The amendments were made to provisions that state a published work may be reproduced exclusively for use of the visually impaired, learning disabled, hearing impaired, or other consciousness impaired persons. It also provides for the distribution and public broadcast of these reproductions. The amendments added exceptions to the prohibitions on copyright, plate right, and anti-circumvention of technological protection measures.

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智慧財產權保護

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