

INTELLECTUAL PROPERTY NEWSLETTER

AMENDMENT TO CHINA'S UNFAIR COMPETITION LAW

On November 4, 2017, the National People's Congress passed amendments to the China's Unfair Competition Law and the amended law was implemented since January 1, 2018. It is the first amendment since the law was promulgated in 1993. Major amendments include the following:

1. The standards for determining infringement have been expanded. Product names, tradenames and trade dress as well as domain names, website names and webpages must now show a "certain degree of influence" rather than the higher standard of "fame in China," and the alleged infringing product must potentially cause consumer confusion.
2. Acts of unfair competition using the Internet have been defined to include:
 - a. Insertion of a link or forcing URL redirection to an online product or service provided by another business without authorization;
 - b. Misleading, defrauding, shutting down, forcing users to alter, or uninstalling an online product or service provided legally by another business;
 - c. Causing conflict with an online product or service legally provided by another business
3. Law enforcement agencies can now seize infringing goods and investigate the infringers' business bank accounts.
4. In addition, the new amendments have increased the administrative penalties the SAIC can impose. The maximum fine for causing consumer confusion is RMB 250,000 where the amount of illegal business is lower than RMB50,000 or 5 times of the amount of illegal business where the amount of illegal business is over RMB50,000. The maximum penalty for other acts of unfair competition acts, is RMB 3,000,000.
5. In addition, the SIAC is authorized to revoke the business license of businesses that violate these provisions.



NATIONAL PEOPLE'S CONGRESS RECOGNIZES NEED FOR SUBSTANTIVE REFORM OF INTELLECTUAL PROPERTY PROTECTION

On the first session of the 13th National People's Congress, the General Office of the Central Committee of the Communist Party and the General Office of the State Council jointly issued a statement on the need for intellectual property system reform in the following areas:

1. Evidence

The evidence preservation system and the use of expert witnesses needs to be improved. Establishment of rules on evidence disclosure, elimination of evidence obstruction, and reasonable allocation of the burden of proof to address IP owners' frequent inability to prove their damages are all needed to further stable economic development.

2. Damages

There is a need to develop the infringement damages allocation system by developing the roles that intellectual property agencies play in intellectual property value assessment. In addition, the punishment and compensation for illegal acts of intellectual property infringement should be enhanced, while the cost for safeguarding intellectual property rights should be reduced.

3. Judicial Review

There is a need to further develop Intellectual Property protection through enhancement of judicial review of administrative acts related to IP rights, unification of standards of judicial adjudication and administrative enforcement, and strengthening research and application of judicial data, improvements to the use of judicial decisions for guidance in order to increase trial resolution efficiency.

智慧財產權保護

IMPORTANCE OF INVALIDATION PROCESS IN PROTECTING DESIGN PATENTS IN CHINA

Foreign designers should bear in mind that China's Patent Office does not conduct any substantive examination of design patent applications. Design Patents are approved after a "formal examination", meaning not that the examination is thorough and formal, but that if all of the application forms fulfill requirements, the design patent will be approved. The formal examination does not review for novelty.

It is very important for designers to remember that if faced with a Chinese design patent, that patent is subject to challenge. If a company finds that its products are being imitated by a Chinese company that holds a fraudulently obtained design patent, the patent can be invalidated. Anyone can raise evidence of prior art to invalidate a Chinese design patent. The ease of obtaining design patents has resulted in large numbers of copy-cat patents on the register. Submission of properly documented prior art will result in invalidation of the patent.

Of course, once the patent is invalidated, anyone is free to use the design. While negotiating an assignment might seem to be a better choice, the patent will always be subject to invalidation on prior art grounds, and thus payment for such a weak patent should not be excessive. The best solution is prevention: a designer should apply to register their design in China before disclosing or making any publication of the design.

THE ROLE OF CASE DECISIONS IN CHINA:

THE LIMITS OF INTERPRETING PATENT LAW VIA PAST CASES

Anglo-American lawyers are trained to seek clarity in case law, to review how a law is applied in past cases, and argue for application of law in current disputes. They may try to do this with Chinese cases. However, China follows the European continental, or civil law system, and does not have a court reporter publication system. In the past few years, Chinese courts increasingly post summaries of selected cases on their websites for public education. The government encourages courts to upgrade their performance and professionalism, and publication of case abstracts is one way to do so. Some courts post full court decisions. These websites are of course posted in the Chinese language.

When cases are published, they are for reference rather than as binding precedent. Cases published on websites are helpful in understanding a court's decision in a particular situation, but it is important to recall that Chinese courts do not follow the principle of *stare decisis*. Courts and government authorities often state that they are responsible to handle matters on a "case by case basis".

Thus the application of law is specifically limited to two government agencies: the Supreme People's Court, and the Supreme People's Prosecutor" (also known as the "Supreme People's Procuratorate"). Therefore, only interpretations published as binding authority by these two authorities may be cited as a basis for argument in current litigation.

CASE DECISION BY SUPREME PEOPLE'S COURT:

Wang Suiyong v. Shenzhen Ellassay Clothing Stock Co., Ltd. and Hangzhou Yin Tai Century Department Store Co., Ltd.

Significance:

Although the case reported below is not binding precedent, it is a useful reference. The Supreme Court found malicious trademark registration where the facts indicate that a trademark registrant should have known of a competitor's longstanding use of a trademark prior to the registrant's filing a registration for that mark. The Trademark Law states a narrower definition of malicious or bad faith registration, requiring that there be a prior business or other relationship. The Supreme Court decision indicates that there may be future changes to the accepted standard for bad faith registrations.

Facts:

Shenzhen Ellassay Clothing Industrial Co., Ltd. ("Ellassay"), established June 8, 1999, obtained assignment of the trademark 歌力思(Ge Li Si in Chinese characters) Reg. No.: 1348583, on December 18, 2008. The registration issued December 1999, for clothing in class 25, and was renewed November 19, 2009 for another 10 years. Shenzhen Ellassay Clothing Industrial Co., Ltd. also owns the trademark "ELLASAY" (Reg. No.: 4225104) for (animal) hides; wallets; luggage; files (of leather); leashes of leather; furs; umbrellas; walking sticks; handbags; shopping bags in class 18. Ellassay did not register its Chinese trademark, 歌力思, in class 18.

The plaintiff, Wang Suiyong, registered "歌力思" (Ge Li Si in Chinese characters) trademark (Reg. No.: 7925873) covering wallets and handbags, etc. in class 18 in June 2011. After registration, Wang Suiyong conducted numerous notarized evidence purchases of leather bags showing the trademarks "歌力思" and ELLASSAY from Ellassay store counters in department stores in Hangzhou, Nanjing, Shanghai, Fuzhou, etc. On March 7, 2012, Wang Suiyong sued Ellassay for infringement by manufacturing and selling leather bags. Wang also sued Hangzhou Yin Tai Century Department Store Co., Ltd. ("Hangzhou Yin Tai") for selling infringing leather bags. No evidence was presented that Wang Suiyong had made any use of the 歌力思 trademark registration on leather bags.

The Court's Opinions:

The Hangzhou Intermediate Court tried the facts and found Wang Suiyong was the first to file the 歌力思 trademark (Reg. No.: 7925873), and therefore Ellassay and Hangzhou Yin Tai had infringed Wang's trademark. The Hangzhou Intermediate People's Court considered that sales of leather bags by Ellassay and Hang Zhou Yin Tai infringed on Wang Suiyong's exclusive right in his registered trademark, since he was the first-to-file in class 18.

On appeal, the Zhejiang High Court upheld the judgment made by the Hangzhou Intermediate Court. The Zhejiang High Court confirmed that Ellassay and Hangzhou Yin Tai must cease making and selling leather bags, and compensate Wang Suiyong for his economic losses of RMB 100,000, plus other reasonable expenses, and must eliminate the negative effects on the market from their infringement of Wang's trademark registration.

However, the Supreme People's Court found that Ellassay enjoyed legitimate prior rights in the tradename 歌力思 because Ellassay had used the Chinese characters as a tradename since 1996. The Court also found that Ellassay had legitimate rights in the 歌力思 trademark in class 25, since it owned the trademark registration in that class, even though it did not register in class 18. However, through long-time use and extensive publicity as a tradename and registered trademark, 歌力思 has enjoyed a relatively high degree of market recognition designating Ellassay to consumers for leather bags. Wang Suiyong failed to prove that his 歌力思 trademark enjoyed the same degree of market recognition as Ellassay's products.

The Supreme People's Court overturned the Hangzhou Court and the Zhejiang High Court decisions, instead finding that there was little justification for Wang Suiyong's obtaining and exercising rights to the 歌力思 trademark registration, when it was identical to the long prior used trademark of Ellassay's tradename and trademark. The Supreme Court found that Wang deliberately imitated Ellassay's tradename and trademark, since Wang's trademark was for the same products as Ellassay's trademark. Therefore Wang, as the junior registrant, must have been aware of Ellassay and its trademark, and that such deliberate imitation was a malicious effort to obtain payment from Ellassay. The Court found Wang's registration of the trademark for the purpose of suing Ellassay constituted an abuse of trademark rights.

The Supreme People's Court overturned the lower court decisions and ruled that Wang Suiyong's acquisition and execution of trademark registration was dishonest, as it was made in bad faith, with constructive knowledge of the long-standing, earlier use of Ellassay.

This case demonstrates a willingness to protect a senior user of an unregistered trademark even in the absence of the criteria listed in the Trademark Law. The Law requires proof of a business or other relationship, or “fame in China.” This case is very unusual as the Court found the plaintiff so malicious as to be deprived of trademark rights due to a first-to-file registrant. The case indicates that lower courts may eventually be instructed to find bad faith registration even in the absence of evidence of “fame in China” of the unregistered trademark. However, such instruction is unlikely until the Trademark Law itself is revised.

GROWING USE OF CHINA’S SOCIAL CREDIT SYSTEM

Starting May 1, 2018, purchasers of airplane and plane tickets will be screen according to their social credit histories. Those with records of serious dishonesty or interference with safety of civil aviation will be prohibited from such purchase. Serious violations of tax laws, securities laws, other laws will be taken into account. The Civil Aviation Administration will publicly issue a list of prohibited individuals on its website on the first working day of each month. Individuals who contest their listing may file a formal opposition within 7 days of appearing on the list. The prohibition term will generally last for one year, with renewal permitted. The notice was issued jointly by the National Development and Reform Commission, Civil Aviation Administration, Central Civilization Office, Supreme People’s Court, Ministry of Finance, Ministry of Human Resources and Social Security, State Administration of Taxation, and Securities Regulation Commission.

In addition, there is a parallel notice jointly issued by the National Development and Reform Commission, Central Civilization Office, Supreme People’s Court, Ministry of Finance, Ministry of HR and Social Security, State Administration of Taxation, China Securities Regulatory Commission and Railway Corporation that will also take effect on May 1, 2018. This notice will prohibit listed dishonest persons from purchasing high-speed rail, first-class, or soft-sleeper railway tickets. In accordance with the notice, those who have interfered with the safety of railway operations or conducted serious acts of dishonesty, including tax evasion, debtors listed by courts, principals of companies that are in arrears of social insurance payments or penalties imposed by relevant authorities, will be prohibited from such luxury purchases. The limitation will generally last for one year, and can be removed if a person can remove themselves from the list of dishonest individuals.

A list of individuals deemed dishonest will be published monthly on the China Railway Customers’ Service Center website, and on the website of www.CreditChina.gov.cn. Individuals who are listed can file an opposition within seven working days upon publication of the list. Those who perform their legal obligations may apply to be removed from the list. There is no indication of how long it will take to be removed from the list.

This system builds on the 2010 social credit system that allows the relevant court to issue an order to limit the ability of defaulting defendants to buy luxury goods, engage in luxury travel and recreation, purchase premium insurance or financial investments, or pay for private school tuition, etc. Where the defaulting defendant is a corporation or other legal entity rather than a natural person, the restrictions apply to the legal representative, or person with actual control of the entity. The restrictions should be lifted upon acceptance of proof by the relevant court that

the debt has been fully discharged. The court receiving the proof of discharge of debt should review the evidence within 15 days of receipt of the application.

An increasing number of social infractions are being recorded and may in the future be used to calculate social privileges and restrictions. For example, the Shanghai Municipal Government has announced that it has traffic cameras trained on some pedestrian crossings and will issue fines to pedestrians who cross against a red light. Facial recognition software may be used to identify the violators and impose fines on them. Shanghai is running a test by posting videos of jay-walkers at over 1,500 public bus stops to discourage such violations. In addition, those who do not pay their fines or make court-ordered payments will find their names and addresses published online.