

## Supreme People's Court Sets New IP Standards

Co-authors: Dragon Wang, Yan Zhang, Austin Chang

In April 2016, the Supreme People's Court (SPC) issued its *Annual Report on Intellectual Property Cases (2015)* (Annual Report), a collection of judgments, decisions and reasonings from cases it heard throughout the year that reflect the top Chinese court's approach to both typical and innovative intellectual property (IP) concepts.

The Annual Report includes some key takeaways for trademark, patent, copyright and unfair competition disputes as well as litigation proceedings.

### **PATENT**

China is quickly becoming one of the most important IP markets for patent owners to enforce their rights, and the SPC's Annual Report greatly emphasizes this development.

The Global IP Project, which studied the number of patent litigation filings between 1997 and 2012 in various countries, found that China ranked second at 33,000 cases, marginally below the U.S., which had 42,000, but more than double the third-place figure of 15,000 cases in Germany.

In terms of patent rights protection, the study also showed that the patentee win rate in China is the highest in the world, at around 68%. Germany, at 66%, and the U.S., at 60%, came next. And foreign patent owners receive stronger protection in China. A recent *Wall Street Journal* report found that foreign plaintiff-patentees won "about 81% of their patent infringement suits against Chinese companies" between 2006 and 2014.

### ***Warning letters***

Sending warning or demand letters to alleged infringers is widely considered as a remedy for desisting infringement activities at an early stage. However, warning letters sent under ambiguous or uncertain circumstances may trigger review under the *PRC Anti-unfair Competition Law*.

The SPC held in *Honda Motor Co. Ltd. v. Shijiazhuang Shuanghuan Automobile Co. Ltd.* that sending a warning does not constitute unfair competition even if no infringement is later found by the court. However, the SPC emphasized that the patent owner must pay special attention to the timing and content when preparing and sending the letter, or else risk triggering a review under the Anti-unfair Competition Law.

Specifically, the SPC held that, when issuing the warning to a third party (the vendor of the Shuanghuan vehicles in this case) rather than the alleged infringer, the patent owner must provide sufficient details for the third party to determine whether there is actual infringement taking place. The patent owner must also provide a detailed analysis of the patent, product and infringement and keep the third party updated on the dispute. According to this precedent, sending an unclear or

inadequate warning letter to a third party may be considered as an unfair-competition.

### ***Claim construction***

In a patent infringement lawsuit, the result of the claim construction, which serves to define the protection scope of the claim, generally decisively determines the outcome of the dispute.

In the design-related case of *Zhejiang Jianlong Sanitary Ware Co. Ltd. v. Grohe AG*, the SPC stated that the patent owner is required to show distinguishing features of the subject design patent from the existing designs. The issue then becomes whether the alleged infringing design contains all of the distinctive design features. If it doesn't, it can then generally be determined that there is no infringement. In this case, the SPC held that the alleged infringing design contained only one of the three distinctive features, and there was no infringement (taking into consideration other facts).

Two administrative patent invalidation cases referred to by the SPC in the Annual Report can also provide guidance for interpreting claims in a civil patent infringement case.

In *Li Xiaole v. Patent Reexamination Board of the State Intellectual Property Office*, the SPC stated that the claim must be interpreted to possess the broadest reasonable scope. A restrictive interpretation by reading into claim features contained solely in the original description must be avoided. In this specific case, the SPC held that a disputed feature supported merely by the description was misinterpreted by the Patent Reexamination Board (PRB) as a limitation of an independent claim. The PRB decision was thus overturned by the SPC.

The SPC further held in *Liaoning Banruo Network Technology Co. Ltd. v. Patent Reexamination Board of the State Intellectual Property Office* that claim construction must be in compliance with the object of invention and consistent with the common knowledge in the art. This case involved an ambiguous claim that was interpreted in two different ways to possess two different scopes, but the detailed description, the invention purpose and the common knowledge in the field all suggest only one method of claim construction. The PRB's invalidation was thus reversed.

### ***Determination of infringement***

The claim will then be compared with the alleged infringing product to conclude whether the infringement is literal or under the doctrine of equivalents (DOE). The SPC clarified two key cases with respect to determining the method of patent infringement.

The first is *Huawei Technologies Co. Ltd. v. ZTE Corporation*, in which Huawei asserted that ZTE's product implemented Huawei's method patent as the product was applied in a special environment and configured specifically, and therefore ZTE infringed. But the SPC held that the special environment proposed by Huawei was not a reasonable, common and universal environment in which the ZTE product was intended to be used, and that it was not common for the user to configure the product in the method proposed by Huawei. It ruled that there was no infringement.

The second is the *Sun Junyi v. Renqiu Bocheng Water Heating Equipment Co. Ltd.* utility model

patent case, in which the SPC called for the DOE to be applied prudently, demanding proper drafting during patent filing. The SPC held that, at the time of applying for the patent, it was obvious to a person skilled in the art that both “conical surface” and “flat surface” were applicable to the patent invention to achieve substantially the same function and result. However, the applicant used the “conical surface” for both the claim and the description without mentioning the “flat surface,” which indicated that the technical feature with the “flat surface” was excluded intentionally by the applicant and therefore could not be included in the scope of protection, even under the DOE.

## TRADEMARK

Foreigners IP owners in China must understand the country’s first-to-file trademark system and keep abreast of the SPC’s annual intellectual property case reports and judicial interpretations related to the *PRC Trademark Law* in order to better protect their brands, marks and rights.

### *Prior use defense*

The 2013 Trademark Law included a provision for prior use right defense of an unregistered trademark, aimed at balancing the interests of a prior user of an unregistered trademark and a registered trademark owner, as well as recognizing the value of trademark use and curbing trademark squatting. This is an important provision for a brand owner to keep in mind when it has been using its trademark in good faith but registered after the squatter, and was a particularly significant development for multinational brands that had found their marks already locally registered by the time they entered the China market.

In *Ningbo SKS Hydraulic Technology Co. Ltd. v. Shao Wenjun* the SPC held in favor of the plaintiff due to its prior rights based on its trade name and domain name, and because its prior and continued use of the trademark in combination with other registered marks and trade names were distinguishable from the respondent’s. Also, due to the plaintiff’s long history and high reputation prior to the respondent’s filing, the respondent had no right to prohibit the plaintiff from continuing to use the trademark within the original scope of use. The respondent failed to provide any use of its registered trademark, and its reputation was determined to have never been achieved through non-use, meaning the plaintiff’s use of the mark would not cause confusion. Lastly, the respondent, as a prior local Administration of Industry and Commerce employee, registered the trademark in question without the intention to use it—a violation of the good faith principle—and was not afforded any protection under relevant laws and regulations for the lawsuit.

### *Definition of trademark “use”*

The Trademark Law clarifies the definition of use, as “identifying the sources of goods and services.” The notion of confusion has also been included in the new law, which defines confusion as the basis for determining infringement of similar marks and signs on identical goods and services or *vice versa*. Although the definition of use has been provided in the new law and confusion has been pinned as the basis for determining infringement, in practice, the use of a trademark on original

equipment manufacturer (OEM) products continued to straddle the borderline of trademark infringement.

The SPC, in *Pujiang Asia, Central Lock Co. Ltd. v. respondent, Focker Security Products International Limited*, attempted to tackle, for the first time, the fiercely debated issue of OEM trademark use. It pointed out that a sign attached onto OEM products for export only was a crucial technical function of physically affixing a sign or label for use of the products in the destination country or region. Merely doing so in China does not serve to distinguish or identify the origins of goods, and will not be deemed as “use” under the Trademark Law.

Although correct usage is a key function of trademark, non-use of a registered trademark is equally important because any third party may cancel a registered trademark that has not been used for three consecutive years. In an effort to clarify “use” under the non-use cancellation policy in the Trademark Law, the SPC explained in *Cheng Chao, v. General Mills Foods Asia Limited and Trademark Review and Adjudication Board of the State Administration for Industry and Commerce* that the purpose of canceling a non-used trademark was to urge actual use and avoid wasting resources. However, as mere assignment, license or ownership of a registered trademark are not actual use, the SPC ruled that such token usage for the purpose of maintaining a registered trademark could not constitute use under the Trademark Law.

In the *Ningbo Qinghua Paint Co. Ltd. v. Trademark Review and Adjudication Board of the State Administration for Industry and Commerce* case, the SPC further explained that the purpose of the non-use cancellation system is to encourage use of the approved trademark by the owner. Therefore, in a non-use cancellation action, the evidence of use must be limited to the specific goods for which it is designated, and any use on similar goods will not be deemed as use.

### ***Prior registration right***

Under the principle of prior registration right, a later-filed mark that has been used for a relatively long time and has enjoyed a higher market reputation can be granted the opportunity to register. If a later-filed mark has gained great public recognition, the courts must fully respect market order stability and that people can objectively distinguish the relevant marks. However, before granting this, courts should consider—as the SPC explained in the *Turtlewax Inc. v. Beijing Guiboshi Car Wash Chain Co. Ltd.* case—whether there were any special historical circumstances in the two trademarks’ co-existence, the prior rights holder’s willingness to sign the agreement, and whether, in fact, there were distinguishable markets for each trademark. The SPC explained that if these factors were not satisfied by the challenging party, and the opposed trademark was filed later, the court must refuse the application under Article 30 of the Trademark Law.

The opposed party’s intentions and rationality for filing the opposed trademark’s application must be considered as well. In the *Beijing Fuliansheng Shoes Co. Ltd. v. Beijing Neiliansheng Shoes Co. Ltd.* case, the SPC recognized the prior rights of the trademark owner, reasoned that the respondent’s evidence of strong business growth and various marketing materials should not be recognized as

obtaining reputation, because the use of the mark was based on its bad-faith intention to imitate the cited trademark, free-ride that trademark's established fame and confuse the public. The SPC further explained that a trademark with higher fame and greater distinguishability should enjoy a broader scope of protection, and competitors in the same field should avoid filing conflicting applications.

### ***Preemptive registration***

Article 32 of the Trademark Law is designed to crack down on preemptive registration. Courts must carefully examine the trademark filing records of both parties when judging on “preemptive registration by unfair means,” and the facts indicating that the trademark was registered in good faith.

The SPC applied Article 32 of the Trademark Law in *Guizhou Laishijia Wine Industry Co. Ltd. v. Trademark Review and Adjudication Board of the State Administration for Industry and Commerce and Kweichow Moutai Distillery (Group) Co Ltd.*, and showed the importance of background checks. First, the plaintiff's alleged prior use before the Chinese “Lai Mao” trademark was canceled had infringed upon the respondent's trademark rights. Second, the plaintiff's use after the respondent's trademark was canceled and before it was reapplied was insufficient to obtain certain influence. Third, the respondent's history of using the opposed trademark since the 1950s, and its legitimate right until the trademark was canceled due to non-use proved that the respondent had no bad faith in seeking unfair interests by exploiting the goodwill of the petitioner's unregistered trademark.

## **COPYRIGHT**

### ***Definition of works***

In copyright disputes, courts must first examine whether the party's asserted subject for protection constitutes as work under the *PRC Copyright Law*. In the *Ma Qi, v. Leshan Municipal Administration of Culture, Radio, Film, Television, Press and Publishing* case, the SPC explained that the originality of a work must be expressly displayed rather than simply conveyed by ideas and viewpoints. An original work must be both independently completed and different from other previous works in the public domain. Only if it meets both requirements will it be deemed copyrighted. In this case, the SPC ruled that a piece of work that was independently completed using a pre-prepared survey form, but was not different from other prior public works cannot be considered original under the Copyright Law.

In an attempt to clarify the rights and interests between joint authors or creators, the SPC explained in the *Beijing Jinse Licheng Media Co. Ltd. v. Shanghai Jinxin Film and Television Development Co. Ltd.* case that joint rights holders must obtain an agreement from their co-authors before an assignment, pledge or transfer of the copyright can be made.

## **LITIGATION PROCEDURES**

### ***Public interests***

The SPC showed that, in *Guangzhou Star River Industrial Development Co. Ltd. v. Jiangsu Weifu*



*Group Construction Development Co. Ltd.*, when determining an infringer's IP and other liabilities, courts must take into account the good faith protection principle as well as public interests. As in this case, the respondent's property name has been approved by the local government, ceasing to use the disputed trademark would not be in the best interests of the community's residents. That said, the SPC did order the respondent to stop using the disputed trademark in the future.

The SPC further pointed out that, generally, acts that have been covered by other IP-related laws, such as the Trademark Law, courts should not support the petitioner's request for protection under other intellectual property related laws, such as the requested overlap protection under the Anti-Unfair Competition Law in this case.