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## Leading the way: Supreme Court sets the IP rules

The Supreme People's Court is enforcing IP in China, paving the way toward greater clarity on a range of IP issues and providing reassurance that this world superpower is a safe place for IP owners everywhere

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This past year was another important year in the development of intellectual property law and practice in China. The recent efforts of the Supreme People's Court of China (SPC) to guide the interpretation of certain laws and legal principles by lower Chinese courts in IP-related cases has been exemplary of China's move toward creating a more robust and efficient legal system for IP.

### Part One

In response to a sharp rise of administrative cases involving trademarks, the SPC issued the *Opinion on Several Issues Concerning the Trial of Administrative Cases Involving the Granting and Confirmation of Trademarks* (最高人民法院关于审理商标授权确权行政案件若干问题的意见) (the Opinions) on April 20 2010 to provide much needed guidance for lower courts on some persistent and emerging issues. The Opinions provide guidance pertinent to administrative lawsuits brought by interested parties against the Trademark Review and Adjudication Board (Trab) in cases involving rejected trademark applications, oppositions and cancellations.

#### I. Introduction to the Opinions

##### A. Distinctiveness

In general, the *PRC Trademark Law* (中华人民共和国商标法) prohibits the registration of names of administrative divisions at or above the county level or foreign places known to the Chinese public. The Opinions state that if a mark contains other elements in addition to the name, a People's Court may allow such a mark to be registered so long as the mark itself is distinctive or the name is no longer the primary element in the mark.

With respect to a mark in a foreign language, in determining the distinctiveness of the mark, courts should base their decision on the relevant public's knowledge. The mark should be considered distinctive as long as the relevant public in China can rely on the mark to identify the origin of the goods, notwithstanding the mark's inherent meaning in the foreign language.

##### B. Well-known marks

In administrative litigation cases, courts may refer to the Supreme People's Court's *Interpretation on Several Issues Concerning the Application of the Law to Trials of Civil Disputes Involving the Protection of Well-known Trademarks* (最高人民法院关于审理涉及驰名商标保护的民事纠纷案件应用法律若干问题的解释). In addition, courts should afford an appropriate level of protection to well-known marks registered in China with respect to goods that are dissimilar to those covered by the registration. In regard to cross-class protection for registered well-known marks widely known in China, courts should provide broad protection corresponding with the marks' degree of reputation.

##### C. Pre-emptive registration by agents

Courts can view the following as proscribed pre-emptive registration by agents of a principal: (1) a trademark agent or sales representative's unauthorised registration of the principal's trademark; (2) an agent or a representative's unauthorised registration of the principal's trademark before the formation of the agency relationship; (3) registration by third party cohorts of an agent or representative. An agent or representative shall not register a mark that is identical or similar to that of the principal. Further, an agent or representative shall not register the mark of its principal for classes of goods or services that are identical or similar to those of the principal.

##### D. Similarity between marks and similarity between goods or services

According to the SPC, these factors play an important role in determining the similarity of goods or services in question regarding a disputed mark: (1) whether the function, use, production sector, sales channels, consumer groups of the goods are identical or closely related; (2) whether the purpose, content, method, and target of the services in question are identical or closely related; (3) whether the goods and services in question are closely related; (4) whether the relevant public believes that the goods or services come from the same source; or (5) whether a special relationship exists between the providers of the goods or services.

In determining the similarity between marks, courts must consider these elements: (1) the individual elements of each mark and the overall degree of similarity of the marks; (2) the distinctiveness and reputation of each mark in question; (3) how the designated goods of each mark are related; and (4) whether the disputed or opposed mark can easily lead to consumer confusion.

##### E. Prior rights

The registrant of a mark must not interfere with prior rights of another. Where the registrant interferes with prior rights of another, courts may protect those rights enumerated under the Trademark Law. Where the prior rights do not originate from the Trademark Law, courts may protect them pursuant to the *PRC Civil Law General Principles* (中华人民共和国民法通则) and other laws.

The Trademark Law bans the pre-emptive registration, through improper means, of a mark with a certain influence and in use by another. If an applicant knew or should have known that a trademark has already been used by others or has a certain influence, the registration is considered as having been obtained through improper means. A mark should be regarded as somewhat influential and in use if it has been used inside China and is known by the relevant public to a certain extent. If supported by evidence of continued use in a certain geographic area, sales volume, and promotion, such marks should be considered as having a certain influence.

Unregistered marks in use and somewhat influential do not enjoy protection for dissimilar goods or services. In terms of protecting prior rights, courts shall decide whether those rights existed as of the date when the application was filed for the mark in question.

##### F. Non-use & cancellation

Continuous non-use of a registered mark for more than three years constitutes a ground for cancellation under the Trademark Law. Use by the registrant or authorised use by a licensee is trademark use. Moreover, where the mark in actual use differs slightly from the registered mark, the use still constitutes trademark use if the slight difference does not alter the distinctiveness of the registered mark. The assignment or licensing of the mark by itself does not constitute trademark use. Publication of information about the registered mark or a declaration regarding the exclusive rights of a registered mark does not constitute trademark use. Recognised exceptions for non-use are: (1) non-use due to force majeure; (2) non-use because of public

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policy restrictions; (3) bankruptcy and liquidation; or (4) the registrant intended to use the mark and made actual preparations for its use, but failed to use due to other objective reasons.

#### G. "Unhealthy influence"

The Opinions stipulate that rejecting a trademark for registration on "other unhealthy influence" grounds under the Trademark Law should be limited to marks or elements with a negative impact on social order, public policy, and public interests in politics, economy, culture, religion and nationality.

#### Part Two

##### Annual Report on Intellectual Property Cases (2009) (Abstract) (最高人民法院知识产权案件年度报告2009 (摘要)) (Report)

#### I. Background

It is the second time the SPC issued an annual report on IP cases. In 2008, the SPC promulgated its first ever annual report, in which it summarised the legal principles upheld in 23 select cases. In the preface to the 2009 Report, the SPC highlights quantitative characteristics of IP cases in 2009. Specifically, the Court rendered final decisions on 390 IP cases, an increase of 111.96% from 2008. In terms of qualitative features, the Report states that IP cases have become increasingly more complex, more technical, and more difficult, and that they are pushing the boundaries of existing laws. Furthermore, the SPC notes that these cases are expanding the need for adjustment of and changes to existing laws and regulations. This time around, the SPC selected 37 significant representative cases in compiling the 2009 Report.

#### II. Introduction to the Report

As discussed above, the SPC decided a large number of IP cases in 2009, and through the 37 select cases, the SPC dealt with a wide range of complex and emerging issues in all four major regimes of IP.

#### A. Patents

1. *Estoppel*: Where a defendant does not assert the estoppel defense, a court may, sua sponte and in accordance with the evidence, apply the doctrine in determining the scope of protected patent rights.
2. *Doctrine of equivalents and obviousness*: Courts may rely on a patentee's explanations of the relevant technical feature to limit it as long as the patentee's explanations do not exceed the scope of claims contained in the patent application.
3. *Administratively invalid patents and patent infringement litigation*: Before the judicial confirmation of the "invalidity" of patents, courts should not refuse to accept patentees' petitions for infringement on the ground that the validity of the subject patents is under challenge.

#### B. Trademark

1. *Res Judicata*: The *Res Judicata* doctrine bars the administrative re-examination of a trademark registration by the Trademark Office where the relevant party had already exhausted available remedies then available under existing laws.
  2. *Unregistered terms and trademark use*: An unregistered term cannot constitute an unregistered trademark if: (1) the term was never used in China by the claimant; (2) only third parties advertised for the term in China; and (3) such third party advertising did not reflect that the claimant actually intended to use the term as a trademark.
- Using a mark to identify the source or origin of goods or services is a necessary condition to constitute trademark use.
3. *Similarity of marks in trademark infringement matters*: Besides comparing the appearance, pronunciation, and connotation of the marks, courts must also determine whether the challenged mark may cause market confusion.
  4. *Fair use defense in trademark infringement matters*: Elements of fair use: (1) descriptive use of a mark; (2) purpose of use was to describe another product; (3) good faith disclaimer of the use; and (4) the use will not lead to confusion.

#### C. Copyright

1. *Copyright: author vs. publisher*: In determining the ownership of copyrights, courts may look to the behaviour of an author and a publisher to determine the parties' actual intent.
2. *Permission by the copyright owner*: Where a published music recording is based on permission by the original copyright owner of the music, subsequent reproduction and publishing of the music recording do not need to be approved by the original copyright owner of the music.
3. *Liability for Internet Providers*: An Internet service provider that provides linking services may bear direct liability for copyright infringement if: (1) the links infringe another's copyright; (2) the website or webpage does not indicate that the links belong to a third party.

#### D. Unfair Competition

1. *Unfair competition and illegal business activity*: Illegal business activity is only a necessary condition to unfair competition, but not a sufficient condition.
2. *Abbreviated enterprise names*: They can be protected if the abbreviation has a certain reputation, is known by the relevant public, and actually functions as a trade name.
3. *Business disparagement*: In finding liability, the disparaging activities do not need to be directed at the target entity as long as the target of the disparagement is identifiable.

#### E. IP Infringement and Damages

1. *Damages for patent infringement*: On damages in patent infringement cases, the SPC set forth the following legal standards: (1) where the sales volume of the infringing product is ascertainable, the amount of damages for infringement can be based on the profit margin of the patented product (amount of patentee's loss) or that of the infringing product (the amount of infringer's profit); (2) where the profit margin cannot be accurately calculated, courts have the discretion to apply a reasonable profit margin; (3) in calculating damages for infringement, courts may consider the infringer's fault; especially when applying discretion in determining profit margins, courts should take into account the degree of subjective fault on the part of the infringer; (4) damages may include all reasonable expenses by a patentee in investigating and stopping infringement activities; and (5) a part of the litigation filing fee.
2. *Permanent injunction*: If the following requirements are met, courts may issue a permanent injunction against a defendant accused of unfair competition: (1) the use of the plaintiff's trademark was in bad faith; (2) the plaintiff's trademark has some market reputation and the relevant public is familiar with the trade name; (3) the plaintiff and defendant operate businesses in the same region; (4) the infringing use will easily lead to confusion; and (5) confusion cannot be avoided without an injunction.

#### F. Procedural Issues in IP Infringement Cases

1. *Subject matter jurisdiction*: In situations where an employment contract contains non-disclosure and non-competition provisions, the employer may choose to sue for breach of contract or unfair competition. If the former is chosen for a dispute regarding restrictions on post-employment competition, a People's Court does not have subject matter jurisdiction because an employment dispute should be resolved in accordance with employment dispute procedures. However, if the employer chooses to sue for unfair competition, a People's Court has subject matter jurisdiction.
2. *Venue*: In cases involving foreign parties, the parties' chosen venue for adjudicating their disputes must be limited to those courts with actual connection or relationship to the underlying disputes. Otherwise, the chosen venue is invalid.

#### Part Three

#### 1. Overall impression

IP cases remain one of the priorities for the SPC. The SPC reviewed a large number of IP-related cases in 2009, and devoted significant time and resources into compiling the 2009 Report. All of the 37 selected cases are ground-breaking in one way or another, presenting challenging legal issues. In deciding those cases, the SPC has shown a willingness to carve out exceptions to existing rules in view of the market reality in China, while at the same time adopting legal principles from other jurisdictions. Furthermore, as can be seen from the issuance of the Opinions and the 2009 Report in

addition to many other judicial interpretations, the SPC has demonstrated its leadership in shaping the contours of Chinese IP laws. We should applaud the SPC for these efforts to further IP law and enforcement in China.

## 2. Greater transparency

China is often criticised for its lack of transparency in governmental affairs, but the SPC's efforts in increasing transparency in the judicial enforcement of IP are notable. It publishes judicial interpretations and opinions on IP cases as a matter of course. It has been issuing an annual IP cases report in two consecutive years, highlighting the significant developments in all areas of IP cases in China. These endeavours contribute to greater transparency in the judicial enforcement of IP, and benefits rights holders, practitioners, scholars, and Chinese law enforcement entities alike.

## 3. Discretion to award damages: the court gives, but will the court take away?

Recent changes to patent infringement damages in China are breathtaking. In *Chint Electronics v. Schneider*, the Wenzhou Intermediate People's Court awarded approximately US\$46 million in favour of the Plaintiff in 2007. Even though the parties settled for about US\$23 million in 2009, this amount still represent a milestone in patent infringement damages in China. On January 1 2010, the SPC issued its [Interpretation on Several Issues Concerning the Application of the Law in Trials of Patent Infringement Disputes](#) (关于审理侵犯专利权纠纷案件应用法律若干问题的解释) (Interpretation on Patent Disputes). In this document, the SPC devotes Article 16 to discussing damage awards:

- A court must limit damages for patent infringement to the profits obtained by the infringer through infringement of patent rights. Profits gained through other rights shall be excluded.

- Where the infringing product is a component part of another product, a court shall determine the amount of damage award in accordance with, *inter alia*, the value of the component and its role in the infringer's achieving the profits.

These provisions might help guide the lower courts in calculating damages in view of the limiting factors. However, in practice, finding out the profits made by an infringer is easier said than done because: (1) the infringer is unlikely to volunteer that information; and (2) Chinese procedural laws do not allow liberal discovery as in the United States and many other jurisdictions. Courts and patentees have no reliable ways to determine the exact amount of damages.

The solution to this perplexing situation may lie in the 2009 Report where the SPC summarised its holding on awarding damages in a patent litigation case. In cases where it is difficult to determine the amount of damages, lower courts are now empowered to use judicial discretion in applying a reasonable profit margin of the infringing product. Further, the SPC stresses that lower courts may consider an infringer's "subjective faults" when exercising judicial discretion in calculating damages.

This "judicial discretion" embodies a major change in the award of damages in patent infringement cases in China. First of all, allowing lower courts to consider "subjective faults" factually authorises courts to examine an infringer's mental state in the infringement process. "Subjective faults" may include knowing infringement, reckless infringement or negligent infringement. Varying degree of fault on the part of the infringer may result in varying amount in damages, and this discretion gives lower courts considerable flexibility and power in awarding damages. While flexibility can be a useful tool in certain cases in determining damages, discretion exercised by incompetent or biased judges opens yet another can of worms for patent litigants. How exactly this judicial discretion will play out in patent litigation in China remains to be seen.

## 4. Trademarks-Got to use 'em!

The SPC has sent a clear message through the 2009 Report and the Opinions with respect to trademarks. That is, to get protection for trademarks in China, you've got to use them in the trademark sense.

Due to repeated litigation and controversy, the SPC once again tackled the issue regarding the conflict between a trademark registrant and a person claiming prior rights in the same mark. Fundamentally, China is a first-to-register jurisdiction, and it places a premium on the initiative to register first. At the same time, China also affords protection against bad-faith, pre-emptive registration of those marks over which others have obtained prior rights in China. Obviously, the question is "how does one acquire prior rights over a mark in China?"

The SPC instructed that there are three main ways to acquire such rights. First, prior rights as protected under the Trademark law of China. The Trademark Law prohibits registration of a mark that is identical or similar to a registered mark. Second, where no rights arose under the Trademark Law, the aggrieved party may look to the Civil Law General Principles and other laws for protection. Those rights may include right to an individual's name, right to a person's likeness, copyright, trade name, or design patent. Third, through actual use of a mark in China. According to the SPC, to establish prior rights of a mark through actual use in China, there must be evidence of continuous use, advertisement and promotion as well as documents showing sales volume in China.

In practice, many foreign companies find themselves in a defensive position. Typically, companies suddenly realise that someone in China is attempting to register their marks. In order to oppose such applications, they have to show that they have prior rights over those marks in China, short of existing registrations in China or reliance on the Paris Convention for recognised well-known marks in other member jurisdiction. However, to play defence in China's trademark opposition game can be much more costly than what it would cost to register those marks in the first place. Of course, sometimes one has to play defence, and in those situations, actual use of those unregistered marks in China becomes the key factor in opposing registrations by others.

## V. Going forward

The IP jurisprudence in China is evolving rapidly. Besides a steady stream of laws and regulations in China, the SPC continues its leading role in interpreting those laws. Through the cases summarised in the 2009 Report and the Opinions, the SPC has provided much-needed clarification and guidance for many emerging, complex, and difficult legal issues in IP litigation in China. While the Opinions and the cases in the 2009 Report have the potential to inject unified legal standards and principles into IP litigation, the ramifications of these standards and principles remain to be seen. Due to the fast pace at which IP laws evolve in China, it is in the foreign companies' best interest to follow the changes; otherwise, stale knowledge of China's laws and regulations may lead to skewed views of how their rights can be enforced and protected in China, which can be detrimental to their overall IP strategies for this major market. In addition, as Chinese IP laws continue to mature, we should pay particular attention to the SPC's growing leadership role.

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