



THE CHINA IP BULLETIN
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CHINA IP Bulletin

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Executive Summary

“Three Fights, Two Actions” campaign



In February, Guangdong Province took the lead in efforts to combat counterfeiters and solidify a firm foundation for future economic growth through its campaign entitled “Three fights and two actions.” The first of its kind in China, the campaign has already seen great success, resulting in the destruction of thousands of counterfeiting hideouts and the arrest of thousands of criminal suspects. It is hoped that Guangdong’s action will serve as a template for other provinces around the country, so the nation as a whole can improve its reputation as a secure environment for companies’ intellectual property.

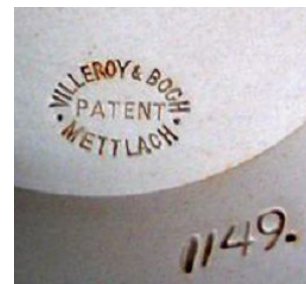
Ipap Dispute

The landmark dispute over ownership of the iPad trademark in China has finally come to an end. The saga between California-based Apple and Guangdong-based Shenzhen Proview began with a seemingly clear trademark transfer agreement, but resulted in over two years of legal battles. In the end, Apple’s desire to get its product in the Chinese market and debt-laden Shenzhen Proview’s need for funds produced enough will to overcome differences and an agreement between the parties was reached. While it is unfortunate that the dispute arose, it provides valuable lessons for companies planning on entering into intellectual property agreements in China. enterprise.



Snapshot of New Law

- As of August 1, the latest patent applications to be eligible for expedited review were released in the State Intellectual Property Office’s Administration Measures on the Priority Review of an Application for a Patent Invention. The Measures outline four key situations in which patent applications will receive expedited review, including applications for inventions in targeted industries and those applications filed in other countries subsequent to being filed in China. The measures also include the time frame for review and application guidelines.



- The State Intellectual Property Office has issued Methods for the Marking of Patents in order to facilitate standardization and enhance protection of the patent owners’ legal rights. The Methods, which went into effect on May 1, 2012, provide detail on the mandatory components of a patent mark.

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Special Action of “Three Fights and Two Constructions” in Guangdong



For the sake of maintaining a good market environment and economic order, in February of this year, Guangdong Province initiated a campaign called “combat market monopoly, crack down on counterfeits, penalize commercial bribery, establish a social credit system, and build a system for market supervision” (hereinafter referred to as “Three Fights and Two Constructions”). The “Three Fights” of the campaign, which focus on cracking down on counterfeits, are mainly carried out pursuant to the “Ten Special Actions about Anti-counterfeiting” as outlined by the Provincial Special Action Plan of Crack-down on Counterfeits. The leading units plan to crack down on counterfeits in the following areas: food, pharmaceutical and daily chemical articles, alcohol articles, salt, cigarettes, construction materials, luggage and

leather ware, telecommunication products, auto parts, and licenses.

Given its priority with the Guangdong Provincial Government, the crack-down on counterfeits has been extremely successful thus far. According to statistics, by early June of this year, 9 cities in the Pearl River Delta region had investigated and dealt with 26,333 cases of counterfeits and destroyed 5,155 hideouts. Among the cases investigated, 1,440 cases were major, 644 cases were transferred to the public security department; 3,533 criminal suspects were caught, 2,317 persons were detained and 853 persons were arrested.

The campaign has been generally welcomed by the public because they appreciate the results it is producing. Confirming their position at the forefront

of national reform and integration, Guangdong Province is the first province to launch such a campaign. It has not only greatly improved the market environment of the Province, but also reiterated the fact that it takes intellectual property protection seriously. At the same time, the campaign has established a good model for other provinces and municipalities to follow. Although other provinces and municipalities have not yet followed suit, the campaign provides a regulatory template for law enforcement departments of other provinces and municipalities, so that they too can create a stronger environment for local economic development.

by Jiang Yuandong & Joe Rocha III

SNAPSHOT OF NEW LAW

The Forthcoming Administration Measures on the Priority Review of an Application for a Patent for Invention

By Jiang Yuandong

The State Intellectual Property Office recently issued the *Administration Measures on the Priority Review of an Application for a Patent for Invention* (hereinafter referred to as “the Measures”) which will take effect as of August 1st, 2012.

The Measures explicitly specify 4 circumstances under which an application for a patent for invention may receive priority review:

1. Important patent applications that involve energy saving and environmental protection, a new generation of information technology, biotechnology, high-end equipment manufacturing, new energy, new materials, new energy vehicles and other technical areas;
2. Important patent applications that are concerned with low-carbon technologies and resource conservation and that contribute to green development;
3. Patent applications filed with the competent Chinese authority for the first time and subsequently filed with authorities of another country or region with respect to the same subject;
4. Other patent applications that are of great significance

to national interests or public interests and need priority review.

With regard to the review time, which is likely the matter of greatest concern to the public, the Measures specify that for any application for a patent for invention meeting certain conditions, the case shall be closed within one year from the date the application for priority review was accepted. In addition, the quantity of applications for patents for inventions that may receive priority review will be determined by the State Intellectual Property Office based on such factors as its review capabilities in different areas of expertise, the number of patents granted in the preceding year, and the number of applications pending review for the current year. The Measures also provide guidelines for submission of materials and application procedures, such as the amended requirement that the applicant reply to the notice of review comments within two months.

In general, the Measures aim at establishing a channel for the expedited review of applications for new patents that carry significant economic and social potential. This in turn will accelerate the transformation of important technologies and advance the development of emerging industries.



Dispute over Ownership of the iPad Trademark

Recently, Apple Inc. (“Apple”) and Proview Technology (Shenzhen) Co., Ltd. (“Shenzhen Proview”) reached a compromise in the dispute over the iPad trademark in China. The dispute attracted great attention, as it dealt with both a hot topic, intellectual property rights, and a hot product, the iPad. The iPad is the latest addition to Apple’s family of electronic products that have gained worldwide acclaim for their innovation and design. However, Apple found no red carpet or fanfare to welcome its tablet to China, but instead quickly encountered a challenge to its ownership of the iPad trademark, raised by an inconspicuous flat panel display manufacturer- Shenzhen Proview. A series of legal battles followed, culminating in a settlement and valuable lessons that should be observed by foreign companies seeking to market their products in China.

• Background of the dispute

The dispute between Apple and Shenzhen Proview was over ownership of the iPad trademark and arose from a trademark transfer contract. As early as 2000, the iPad trademark was registered in several countries by Proview Electronics Co., Ltd. (“Proview Electronics”), a wholly-owned subsidiary of Proview International Holdings Limited (a Hong Kong-listed Company), while in mainland China the trademark was registered in 2001 by Shenzhen Proview, another wholly-owned subsidiary of Proview International Holdings Limited. Unaware of Shenzhen Proview’s ownership rights, Apple concluded a trademark transfer contract in 2009 with Proview Electronics via a British Company, IPAD Ltd. (“IP Company”). In the contract, both parties agreed that IP Company would purchase the trademark that Proview Electronics

owned in Vietnam, Mexico, Thailand, Korea, Indonesia, Singapore and China for the price of £35,000. Apple then purchased the trademark in the aforesaid countries from IP Company at the price of £100,000. However, after concluding this contract, and after Apple formally launched the iPad in the Chinese market, Shenzhen Proview claimed that they were in fact the rightful owners of the trademark in China, and the transfer by Proview Electronics had been invalid. Shenzhen Proview insisted that it and Proview Electronics were two independent companies, thus, the trademark transfer contract concluded by Proview Electronics and Apple should not bind Shenzhen Proview. At this time Shenzhen Proview was on the verge of bankruptcy due to massive debt.

• Main lawsuits arising out of the dispute

1. In May 2010, Apple initiated a lawsuit against Shenzhen Proview with the Shenzhen Intermediate Court to request that it transfer ownership of the trademark.
2. In December 2011, Shenzhen Intermediate Court dismissed the claims filed by Apple and determined Shenzhen Proview was still the owner of the iPad Trademark in China; Apple was dissatisfied with the Ruling and lodged an appeal with the Guangdong Higher People’s Court.
3. In February 2012, Shenzhen Proview filed a lawsuit against Apple with the California Superior Court, alleging that fraud existed due to the process by which Apple purchased the iPad registered trademark from Shenzhen Proview via IP Company. It requested that the court find Apple guilty of commercial fraud

and rescind the right to use the iPad trademark. The lawsuit was dismissed by the California Superior Court in 2012.

4. In February 2012, Shenzhen Proview filed a lawsuit against Apple’s exclusive distributor in China with the People’s Court of the Pudong District of Shanghai and requested that the court grant a temporary injunction, immediately prohibiting Apple’s further use of the trademark. The Court dismissed the application filed by Shenzhen Proview and suspended the trial.
5. From February to June 2012, the Guangdong Higher People’s Court conducted a second review of the dispute over the iPad trademark ownership. On July 2nd, 2012 the court announced that Apple and Shenzhen Proview had reached a compromise and that both parties agreed that Apple would pay USD 60 million to obtain the the iPad trademark in China.

Prior to the settlement, Shenzhen Proview had filed complaints of Apple’s misuse of the trademark with the industrial and commercial authorities in Beijing, Hebei Province, Henan Province, Shandong Province and other cities and provinces. The industrial and commercial authorities then filed the case, conducted investigations and ordered shops to take all iPads off their shelves.

• Interpretation of the dispute

Key Issues

One of the focuses of the dispute was whether two key persons, Yuan Hui and Mai Shihong, both claiming to be authorized by Shenzhen Proview, were

Dispute over Ownership of the iPad Trademark



actually entitled to transfer ownership of the iPad trademark in China to IP Company on behalf of Shenzhen Proview via the trademark transfer contract. In the lawsuit IP Company and Apple argued that Yuan Hui, with whom they had conducted negotiations in the early stages of the transaction, was an employee of Shenzhen Proview. It was Mai Shihong who concluded the trademark transfer contract with IP Company after claiming to be authorized by Shenzhen Proview. IP Company and Apple had reason to believe Shenzhen Proview had authorized Mai Shihong to transfer ownership of the iPad trademark in China as well other countries and districts, and based on that belief IP Company transferred all the aforesaid ownership to Apple. However, Shenzhen

Proview alleged that the trademark transfer was agreed to by Apple and Proview Electronics, and that as an independent subsidiary they knew nothing about the transfer and never authorized any employee to conclude the trademark transfer contract. To counter this allegation, Apple presented a letter of authorization which was issued by Yang Rongshan, the Chairman of Proview International Holdings Limited and Shenzhen Proview and submitted by Mai Shihong to IP Company when concluding the trademark transfer contract. However, the letter of authorization failed to state clearly that Yang Rongshan was, as the Chairman of Shenzhen Proview, authorizing Mai Shihong to negotiate and conclude that specific contract with IP Company.

This ambiguous authorization was a key factor which led to the subsequent dispute over the trademark transfer.

Another controversial matter was whether the transfer of the iPad trademark could be legally recognized in China, since it failed to clarify whether the trademark was owned by Proview Electronics or Shenzhen Proview. After concluding the contract, Apple and IP Company found that Proview Electronics was not in fact the owner of the registered iPad trademark in China. The case therefore turned on whether Shenzhen Proview knew and consented to Mai Shihong's transfer of its trademark. If the court found it did, the contract would be binding upon Shenzhen Proview, and it would

SNAPSHOT OF NEW LAW

Commencement of Implementation of *Methods for the Marking of Patent Marks*

By Jiang Yuandong

Methods for the Marking of Patent Marks (“the Methods”) have been issued by the State Intellectual Property Office and entered into effect as of May 1st, 2012. The Methods explicitly specify that during the period when any patent is valid, the patentee or any licensee that has received the right to use the patent may mark their relevant patented articles. Patented articles shall be marked by fixing thereon the following contents:

The patent category marked in Chinese, e.g., China's patent for invention, China's utility model patent or China's industrial design patent; and (2) The patent number granted by the State Intellectual Property Office. In addition to the foregoing, other texts, graphics or marks may be fixed onto the patented articles, provided that the additional texts, graphics or marks and their marking methods do not mislead the public.

In marking any product, its packaging, or manuals obtained

directly through patented processes, such products shall be marked in Chinese to indicate that they are the products obtained through patented processes. In marking any product, its packaging or product manuals prior to the patent being issued, the China patent application category and patent application number shall be marked thereon in Chinese,



and the expression “patent pending” shall be indicated. If any article is improperly marked as patented, which constitutes an act of passing off a patent, the competent patent administrative department shall impose sanctions in accordance with the relevant

regulations of the Patent Law.

With enterprises attaching more and more importance to patent protection, it is no surprise that the Methods facilitate the standardization of the marks of various patented articles as well as provide protection to the legal rights and interests of the patent owner.



Dispute over Ownership of the iPad Trademark

be required to transfer the iPad trademark to IP Company or Apple according to the contract, apply for approval of the registered trademark transfer with National Trademark Bureau and complete the relevant registration formalities. If Shenzhen Proview had sufficient evidence to prove it never entrusted its employee or Proview Electronics to transfer its registered iPad trademark, then the contract would be void and Apple would be incapable of obtaining the iPad trademark in China.

Factors Contributing to Settlement

There were many factors for all parties involved to consider going into settlement negotiations. Shenzhen Proview was on the verge of bankruptcy; one of its creditors, Fubon Insurance Co., Ltd., (“Fubon”) had already submitted a bankruptcy application against them and the outlook was bleak. The only method for the company to avoid bankruptcy was to leverage its two iPad trademarks registered in China, two trademarks that were invaluable to Apple. Therefore, given its impending bankruptcy, highly valued property, and favorable bargaining position, settlement was a very attractive option for Shenzhen Proview, given the right offer.

On the other side of the table, Apple urgently needed to obtain ownership of the iPad trademark in China. Apple’s latest tablet computers had already been launched in the stores, but could no longer legally remain in the Chinese market until the dispute was settled. Not only was the company losing money that could have been generated by sales, but it also faced the risk of having to pay damages for patent infringement if it lost the pending lawsuit. In the light of aforesaid lawsuits and the evidence disclosed by parties, Apple knew that the possibility of winning the lawsuit was relatively low. This led to their decision to settle with Shenzhen Proview for 60 million USD in exchange for ownership of the iPad trademark. Undoubtedly, Apple will be able to recover the settlement amount via the profits from iPad sales in China.

The Guangdong Higher People’s Court also had much to

consider as it performed the second review of the dispute. First of all, the fact the parties were from two different countries meant that no matter which party won or lost, on a political level, the court was bound to suffer criticism. Furthermore, given the fact that businesses around the world were watching this case, the court’s ruling would likely reflect the present level and strength of intellectual property protection in China. From a political perspective, the safest route for the court to take was to encourage both parties to resolve the dispute through settlement negotiations. Through this encouragement, the Guangzhou Higher People’s Court played a significant role in the resolution of the case which cannot be disregarded.

Lessons learned

The key lesson to be drawn from this case is the importance of conducting thorough due diligence prior to entering into a transaction. Know the party with whom you are dealing. While this cannot guarantee a problem-free transaction, it is a substantial step in avoiding needless disputes that often end in litigation. In this case, Apple thought it had taken the steps necessary to obtain the iPad trademark in China, and although their efforts may have been adequate to complete such a transaction in other markets, the results showed that they had not done enough to adequately protect themselves in China. This demonstrates the importance of having competent and highly skilled legal professionals to guide clients through what can be the very complex process of intellectual property protection. In international transactions, legal counsel should be intimately acquainted with the foreign market in which their company is dealing, including the traps and loopholes that may be encountered there. As this case and many others have demonstrated, investing in preventative measures before launching a business venture can reap rich returns by avoiding the costs and headaches of litigation and protecting your company’s profits after the fact.

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