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CHINA IP Bulletin

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Executive Summary

Special Operation "Double Strikes" Curbs IPR Infringement

The State Council launched a nationwide Special Operation against IPR infringement and counterfeiting which was extended until the end of June 2011. This was the largest special operation against IPR infringement and counterfeiting in China in recent years, which mainly focused on copyrights, trademark rights, and patent rights. IPR infringement continues to be a challenge for many foreign companies in China today.

PRC's Top 10 IPR cases in 2010

The top ten cases in 2010 concerning IPR were recently published by The People's Supreme Court, consisting of seven civil cases, two administrative cases and one criminal case. These ten cases address the current relevant IPR issues and the judgments set the tone for future cases. In this issue we review the top ten cases and their importance on future rulings in relation to IPR issues.

NEWS

Intellectual Property Perspectives ------ Special Operation against IPR Infringement and Counterfeiting ("Double Strikes").

In order to enhance IPR protection and maintain a fair market environment, the State Council launched a nationwide Special Operation against IPR infringement and counterfeiting from October 2010 to March 2011, known as "double strikes". The special operation was then extended by the State Council to the end of June 2011. This was the largest special operation against IPR infringement and counterfeiting in China in recent years.

The main focus for this special operation was the protection of copyrights, trademark rights, and patent rights for a variety of products and areas. Such products included publications, audio-visual products, software, export products in large quantities, auto-parts, mobile phones, agricultural chemicals and seeds. There was also a focus on the cultural entertainment industry, high technology industry and agriculture industry. Products manufacturing and commodity distribution regions prone to cases of intellectual property infringement and counterfeiting, were also under close watch during the double strikes.

It is worth mentioning that under the guidance of the *Notice of the Supreme People's Court on Giving Full Play to the Functions of Trial of Criminal Cases and Severely Punishing Intellectual Property Infringements and the Production and Sale of Counterfeit and Shoddy Commodities Pursuant to Law*, departments have strengthened communications and cooperation, to enhance the effectiveness of the handling of criminal cases and trials.

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The 2010 PRC Top Ten IP Court Cases

On 18th April 2011, the People's Supreme Court published the 2010 top ten cases concerning IPR, consisting of seven civil cases, two administrative cases and one criminal case. These ten cases address tendencies that arise from the application of the law and the judgments clarify current relevant IPR issues.

Patent - Invention of "overhead stereo building" at the French Pavilion at the Shanghai Expo

The plaintiff held that the French Pavilion of the Shanghai Expo infringed on its patent for the invention of the "overhead stereo building" and brought litigation against the defendant, the Shanghai Expo French Pavilion and China Construction Eighth Engineering Division for its construction.

The court ruled that the rooms inside the French pavilion were built on the surface of the ramp way and did not extend to the surrounding space, thus it is different from and not equivalent to the technical feature in dispute. According, to patent claims submitted by the plaintiff, "rooms were set up around the space frame and its surface", thus the construction and use of the French Pavilion did not infringe the plaintiff's patent rights leading the court to dismiss the claims of the plaintiff. The plaintiff filed an appeal to the higher court which also dismissed the appeal and affirmed the original judgment.

This case attracted extensive attention because it centered around a popular pavilion during the Shanghai Expo. Since the description of the patent claims in this case were too simple and poorly arranged, the court had to limit the technical features in terms of the purpose, effectiveness and technology of the patent involved. Therefore, whether or not infringement claims may be successful will depend on whether or not the patent application documents sufficiently express the technology of the patent.

"Crocodile" Trademark

On 11th May 2000, the plaintiff, LACOSTE (France) brought litigation against the defendant, Crocodile (Singapore) International Pte Ltd, on the grounds that the defendant had infringed its exclusive right of use to the registered trademark of the crocodile graphic. The court held that, subjectively the defendant did not intend to make use of the brand reputation of the plaintiff so as to mislead the consumers, and objectively that the defendant's trademark has already gained a certain business reputation in the Chinese market. The Crocodile marking consists of not only the crocodile graphic but also the letters "CARTELO" and "CARTELO and picture", creating an overall distinction significantly different from the plaintiff's trademark and would not mislead consumers. Therefore, the court dismissed the claims of the plaintiff, leading them to file an appeal to a higher court. On 29th December 2010 the judgment of the appeal was dismissed and affirmed the original judgment.

Earlier in 1969, the parties concerned had been involved in trademark litigation concerning the crocodile graphic trademark in Japan. This case is one of the most noted among a series of trademark disputes between the two parties in the industry. Through the judgment of this case, the People's Supreme Court defines the rule of adjudication concerning cases with complicated historical origins, pointing out that a similar trademark when defining infringement of the exclusive use right to the registered trademark, shall mean a trademark which is confusingly similar and will bring about confusion in the market. To establish whether the disputed trademark is confusingly similar, the relevant element of the trademark, the subjective intent, the history & the current situation of the use and the disputed marking shall all be taken into consideration in light of the actual circumstances of the case.

Eli Lilly and Company: Patent Rights Concerning Gemcitabine and Gemcitabine Hydrochloride

The plaintiff, Eli Lilly and Company (American) brought litigation against Jiangsu Hansoh Pharmaceutical Co., Ltd., on the ground that the defendant applied their patent without permission for the production and sale of Gemcitabine and Gemcitabine Hydrochloride, which infringed the plaintiff's patent right for invention. The court held that there was no record of the proportion of 10α/10β in the declaration materials submitted by the defendant. After appraising the said chemicals, the court found that the key mixture handled by the defendant was different from the patent involved, and thus dismissed the claims of the plaintiff. During the second trial heard by the People's Supreme Court, the appraisal of the chemical was confirmed and allowed to be admitted as evidence. In addition, the burden of proof for the proportion of 10α/10β was deemed to be the responsibility of the plaintiff, not the defendant. Therefore, the court in the second instance rendered a judgment affirming the original judgment.

In recent years, more and more disputes over patent rights in the medical field are being heard by the courts. The relevant points of such cases lie in the facts found on the technology and the establishment of the claimed technical solutions. In cases where no relevant technical contents are recorded in the pharmaceutical production process as claimed by documents filed with the Drug Administration department, the establishment of the technical contents can be presumed. Through the judgment of this case, it is clear that as long as there is sufficient evidence, the establishment of technical contents in the claimed technical solutions should be admitted. Only when patent rights for invention about the manufacturing of new products are involved in such infringement disputes, should the alleged infringing party have the burden of proof that the manufacturing method is different from that of the patented method.

Trade Secrets for the Formula and Production Process of "Tianfu Cola"

China Tianfu Cola Group (Chongqing) (hereinafter referred to as "Tianfu Cola Group"), established a joint venture with the subsidiary of Pepsi-Cola (US). The joint venture considered the formula and production process as a trade secret and applied it to the production of Tianfu Cola and its concentrated solution. The Tianfu Cola Group was aware of the use of the formula and production process. After the termination of the joint venture, the Tianfu Cola Group continued to make use of the formula. The Tianfu Cola Group asserted that the formula and production process was not part of the capital contributions, thus it brought litigation

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requesting the court to establish that the formula and production process belongs to them.

The court was of the opinion that the formula and production process of the Tianfu Cola drink constituted a trade secret and no records in the joint venture contract, capital verification report or other relevant facts of the case could prove that such a trade secret was treated as registered capital for the investment of the joint venture. Therefore, the court ruled that Tianfu Cola Group is the owner of the trade secret involved in this case, and the joint venture shall stop using the trade secret involved and return all relevant documents related to the trade secret involved to Tianfu Cola Group. The court did however dismiss Tianfu Cola Group's claim for compensation.

The relevant points of this case are whether the technology asking for protection constitutes a trade secret, who is the rightful owner, and whether such technology constitutes infringement or not. After the court pronounced the judgment, the defendant asked for permission to perform its obligation under the judgment with the witness of the collegiate bench.

Unfair Competition Dispute Over Search Engine Service Interference

Qingdao Aoshang Networks Co., Ltd. started a business named "Network Express" under a cooperation with China Unicom (Qingdao) Co., Ltd. When users searched key words through the Baidu search engine, an advertisement of Network Express would be displayed for 5 seconds prior to completion of the search. Users have the ability to click on the advertisement, leading directly to a promotional website. After 5 seconds the search window would display the original search results as requested. The Plaintiff, Beijing Baidu Networks Information Technology Co., Ltd., filed litigation with the court on the grounds that the automatic 5 second advertisement constituted unfair competition. The court was of the opinion that the claimed conduct does take advantage of the service provided by the search service supplier and intended to make profits. The network users would mistakenly consider the forced window as provided by the search engine, having a negative influence on the quality of service and cause damage to its legal interests. Such conduct shall be considered as unfair competition. The decision was appealed and the higher court affirmed the first court's judgment.

This is a case concerning a new type of dispute over unfair competition and therefore attracted great attention, especially within the network industry. The key element of this case is that the competition relationship stipulated by the Anti-Unfair Competition Law is not limited to operators of the same industry or the same kind of service providers. During the first trial, the court brought forth network technology experts for their technological findings, which will be used as future reference for trials of the same case. The adjudication of this case will continue to guide the future of competition within the network industry.

Ownership of the Rights of New Plant Varieties Concerning "Honey Pomelo with Red Flesh"

The plaintiff, Lin Jinshan, filed for litigation for ownership of the rights to a new plant variety, "honey pomelo with red flesh" against the defendants, Lu Xiumin and Lu Xinkun, owners of the new plant variety who work for the Fujian Academy of Agriculture Sciences Fruit Tree Research Institute (hereinafter referred to as "Fujian Fruit Tree").

The court held that Lin Jinshan discovered the seed source of the new plant variety "honey pomelo with red flesh" and made a great contribution after the cultivation of the new plant variety. Lin Jinshan successfully transplanted and cultivated the variation, therefore the court decided that Lin Jinshan is the owner of the new plant variety. Fujian Fruit Tree and Lu Xiumin filed an appeal of the original judgment to the Higher Court of Fujian Province. The court held that in the course of the seed breeding of the "honey pomelo with red flesh", Fujian Fruit Tree must treat Lin Jinshan as a joint breeder. In accordance with Regulations on Protection of New Varieties of Plants, Lin Jinshan, as the joint breeder of the "honey pomelo with red flesh", shall enjoy the plant variety rights.

This case reviewed general problems concerning the ownership of new plant variety rights and has significant meaning for how to reasonably protect the legal interests of seeds sources and the participants in seed breeding activities.

Integrated Circuit Layout Designing for Lighting LED

The defendant, Nanjing Peak Tech Co., Ltd., carried out the reverse analysis for the PT4115 chip of the LED lighting sold by the plaintiff, China Resources Powtech (Shanghai) Co., Ltd., copying the integrated circuit layout design and offered it to a third company for sale. The plaintiff lodged litigation against Nanjing Intermediate Court of Jiangsu Province on the grounds that the defendant infringed its exclusive right to the integrated circuit layout design. The court held that the layout design made by the defendant is the same with the layout design which the plaintiff enjoys the exclusive rights to, constituting infringement. The court ordered the defendant to cease the act of infringement and compensate for the relevant losses of the plaintiff. This case is typical regarding the infringement of rights to an integrated circuit layout design, and provides guidance for cases in terms of the extent of rights protection and determination of infringement in this industry.

Invalidation of the Patent for the Exterior Design of Honda Motor

Honda Motor Co., Ltd. (Honda) patent has been invalidated by The Board of Patent Appeals and Interferences of the State Intellectual Property Office on the grounds of similar exterior design. Honda brought forth litigation in Beijing's First Intermediate People's Court but the courts were of the

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opinion that the Patent shall be announced as invalid. Honda immediately appealed to the Supreme Court for retrial.

The People's Supreme Court held that although the contour of this kind of automobile is rather similar, other variations of the design features of the front, side and back parts of the automobile could attract the normal consumers of this kind of automobile. Such variations are sufficient for the consumers to tell the difference of the overall visual effect between the exterior design shown in the Patent and that was provided in relevant evidence, thus the two deigns do not belong to a similar exterior design. The Supreme People's Court revoked the invalidation issued by the Board of Patent Appeals and Interferences and the previous judgments.

The adjudication of this case further defines the judging method for identical or similar exterior design. The Supreme Court held that overall observation between the compared design and the existed design shall be conducted, on the basis of knowledge and cognitive capability of the normal consumers of the compared design products, to comprehensively judge whether the difference between the two designs would have great influence on the visual effect of the product's exterior design. This adjudication standardizes the application of law in these situations.

Retrial of Trademark Objection to "Xinghuacun"

The Plaintiff, Shanxi Xinhuacun Fenjiu Co., Ltd., is the owner of the well-known liquor trademark "Xinhuacun, Xinhuacun Brand and the Picture". Another company, Anhui Xinhuacun Group applied for "Xinhuacun" trademark registration for the merchandise of woods, grains and distiller's malt. Although the Plaintiff raised objection to the application, the trademark office approved the registration of the objected trademark. The Plaintiff was unsatisfied with the determination and applied for reconsideration with the Trademark Review and Hearing Board of the State Administration for Industry and Commerce (Trademark Review and Hearing Board). The Trademark Review and Hearing Board established that the registration of the objected trademark for woods and grains should be approved, and the registration for distiller's malt shall not be approved. The Plaintiff was not satisfied with the decision and brought forth litigation. The first instance court affirmed the decision of the Trademark Review and Hearing Board. The Plaintiff filed an appeal. The second court ruled it was insufficient to mislead the public and the Plaintiff's trademark and it would not cause improper use of the market reputation of the Plaintiff's trademark if Anhui Xinhuacun Group registered the trademark for woods and grains. Therefore the second instance court rendered a judgment affirming the first instance judgment.

This case further specifies that the protection of well-known trademark cannot cover all merchandises. The registration of a well-known trademark cannot prohibit the registration and usage by others, unless it is believed that such registration and usage of the disputed trademark has great influence on the registration of the well-known trademark, or such registration and usage improperly makes use of the market reputation of the well-known trademark.

Production and Sale of Imported Counterfeit Wine

From March to September 2009, the defendant, Liu Zhaolong, produced various famous spirits including; Chivas, Red Label, Black Label, Remy Martin, Ballantine, Jack Daniels, Martell, Hennessy and Chivas Royal Salute. Liu Zhaolong then sold the products to Zhengzhou, Shijiazhuang, Xi'ning without the permission of registered trademarks owners, totaling the amount of RMB 201,507. On 12th September 2009, the public security bureau carried out an investigation, gathering evidence against Liu Zhaolong. Upon hearing the case, the court ruled that the defendant, Liu Zhaolong, had used identical trademarks on merchandise without permission amounting to RMB 150,000 in illegal business, thus the defendant was found guilty of counterfeiting registered trademarks. The defendant, Liu Zhaolong was convictet of counterfeiting the registered trademark and was sentenced to imprisonment of four years and a fine of RMB 150,000.

This is a typical case concerning IPR judicial protection, the defendant was sentenced with imprisonment and given a considerable fine. Such sentences may serve as a deterrent for counterfeiting registered trademarks and helpful for upholding IPR protection.

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