China and Hong Kong
Onwards and upwards: the fight to protect IP rights continues

China

China has continued to refine its legislative framework for the protection of intellectual property. Many new and draft laws and regulations concerning different aspects of IP rights have been issued over the past year. The judiciary and other enforcement authorities have also been active. Further, despite the slowdown in the Chinese economy, patent and trademark filings have increased.

Filing statistics

Trademarks

The Chinese Trademark Office remains the busiest trademark registry in the world. In 2010 it received over 1 million trademark applications, a record high and a jump of nearly 29% from the previous year. Its efficiency also improved – almost 1.5 million applications were examined in 2010 and the turnaround time was shortened from 36 months to 12 months.

Patents

In the first half of 2011 over 676,000 patent applications were filed with the State Intellectual Property Office (SIPO), a 45% increase on the same period last year. There was an 11% rise in the number of foreign filings, which accounted for 9% of all applications. Over 445,000 patents were granted during the same period – a 24% increase on the same period last year – and 35,000 of those were foreign-related.

Domain names

The number of internet users in China reached 485 million in June 2011. The number of registrations for '.cn' domain names dropped to 3.5 million in June 2011 as a result of the stringent registration requirements implemented since 2009.

New legislation and directives

Criminal enforcement

In January 2011 the Supreme People's Court (SPC) issued an opinion regarding the handling of criminal cases of IP infringement. In particular, the opinion:

- established that physical evidence from previous administrative actions such as raids can be used in subsequent criminal prosecutions, while testimonial evidence such as investigator's statements cannot;
- set down a threshold for criminal copyright infringement against website operators;
- clarified that the 'for profit' requirement for copyright infringement includes profits made from posting advertisements on the infringing site; and
- made online service providers jointly liable if they knowingly facilitate any criminal IP infringement.

Administrative enforcement

Among other continuing efforts to implement the National IP Strategy, plans were announced in April 2011 regarding the launch of a special campaign for the administrative enforcement of IP rights and the issuance of guidelines on the administrative enforcement of copyright.

The SIPO's new measures for the administrative enforcement of patent rights came into effect in February 2011. Key provisions included that:

- complainants can request the administrative authorities to collect evidence if they are unable to obtain such evidence on their own;
- administrative authorities (usually the local SIPO offices) should make a decision on whether to commence an investigation within five days and, if such investigation takes place, the investigation report should be issued within four months; and
- administrative authorities may request that a complainant provide prior art search reports from the SIPO before enforcing rights in utility model or design patents.

An updated measure requiring all licence agreements involving Chinese patents be recorded with the SIPO took effect in August 2011. In addition, the SIPO released two draft sets of new measures in October 2011, one on the compulsory licensing of patents and the other on patent marking, for public comments. The former described the conditions and procedures for requesting, granting and terminating compulsory patent licences in China, while the latter prescribed how patentees and their licensees could label their patented products.

Trademarks

A further draft amended Trademark Law was released for public consultation in September 2011. The major proposals include:

- filing trademark applications electronically;
- allowing an application to cover more than one class of goods or services;
- protecting against bad-faith registration;
- restricting standing to oppose — only prior right holders or interested parties will be eligible;
- broadening acts of trademark infringement to cover parties that knowingly assist in an infringement by providing storage, transportation or delivery services;
- raising the maximum statutory damages from Rmb500,000 to Rmb1 million; and
- refusing to award compensation without use — evidence of actual use in the past three years is required before damages for infringement may be sought.

Enforcement initiatives

A highly successful national campaign to crack down on IP infringement and sales of counterfeit goods was concluded in June 2011. All of the major criminal and administrative enforcement authorities were involved and a wide range of activities, including cross-border infringement and online privacy, were targeted. About 156,000 cases and goods worth nearly Rmb3.5 billion ($537 million) were examined; 9,000 locations were raided and 1,700 prosecutions were brought. Three notorious infringing websites (www.qishi.com, www.5474.com and VeryCD) were shut down and two of their operators were sentenced to three to five years in prison.

Despite such efforts, China remained on the Priority Watch List of the 2011 Special 301 Report prepared by the Office of the US Trade Representative, although its commitments to protect IP rights and enact measures against counterfeiting were acknowledged.

Court statistics

The number of civil IP cases in China continued to grow. Around 43,000 cases were commenced and 41,700 decided in 2010 — an increase of 40% and 37%, respectively, from the previous year. Almost 60% of new cases were copyright-related; trademark and patent cases accounted for around 20% and 14%, respectively. About 1,370 of the new cases involved a foreign element. A study of such cases between 2006 and 2010 concluded that the success rate for foreign litigants was more than 55%, a figure supportive of the claim that the Chinese courts protect the interests of foreign IP owners just as vigilantly as those of their domestic counterparts.

Notable cases

The SPC has been busy issuing new precedents in IP cases. In 2010 it heard 313 and decided 317 IP cases. These cases highlighted for IP owners the importance of securing their IP rights early and putting in place contractual safeguards in order to avoid surprises when enforcing those rights in China.

Unfair competition

In *Shanghai M&G Stationary v Ningbo Weiyada Pen Manufacturing* the SPC settled a longstanding debate when it held that the shape of a product would be eligible for protection under the Anti-unfair Competition Law even if it had been the subject of an expired design patent, provided that the shape was non-functional and so distinctive that it had acquired secondary meaning (eg, where consumers would immediate associate the product with a particular source).

Trade secrets and know-how

One of the most controversial decisions affirmed by the SPC last year was the *Seaweed Quota* case, where it was held that steps taken by an employee to start a competing business before departure would not necessarily contravene the Anti-unfair Competition Law in the absence of a non-compete agreement. The court further held that employees might freely exploit any non-confidential know-how acquired during their previous employment.

Although not an SPC case, a first instance decision concerning the dispute between Pepsi and its former joint venture partner Tianfu also grabbed headlines last year. The joint venture agreement between the parties was silent on the ownership of trade secrets and know-how relating to recipes and manufacturing methods of beverages developed by Tianfu and used by the joint venture. The court held that Tianfu's permission for the

joint venture to use the trade secret was a mere licence and therefore, after Tianfu sold its interest in the joint venture to Pepsi, the implied licence ended and the latter could no longer freely use the trade secrets and know-how.

Trademark

The SPC issued a significant trademark ruling of which all brand owners in China should be aware. In *Sony Ericsson* it was held that a party associated with a widely known unregistered mark would acquire no interest in the mark if it had never intended to adopt such mark, and passive use of the mark by others in referring to the associated party – no matter how extensive – would not be sufficient to establish lawful rights in the mark for the associated party. Sony Ericsson was thus unable to assert ownership right against a third party which sought to register an abbreviated Chinese name commonly used by the local media to refer to the telecommunications giant. Brand owners should take proactive steps to register names coined by the Chinese public to identify them or their products in order to pre-empt any undesirable trademark squatting activities in China.

Method patent

The SPC clarified the scope of protection afforded to products manufactured using a patented method in *Zhang v Ouyi Co.* A distinction was made between original products (ie, products made directly from performing a patented method) and subsequent products (ie, those obtained from further processing of original products); the court held that only original products were protected.

Design patent

In *Honda* the SPC refined the test for determining identity or substantial identity for the purpose of assessing design patent infringement. It directed the lower courts to focus on the decorative details that consumers would pay attention to, rather than the overall design common to the products in a specific category, as consumers would be more attracted to those details.

Outlook

The number of IP filings in China has been growing at a rapid pace and Chinese courts and other enforcement authorities have been delivering more meaningful results for IP owners. As a result, the Chinese IP landscape has become more litigious. In fact, Chinese courts are now seen as a strategic forum for resolving IP disputes between foreign parties because an IP lawsuit can disrupt a competitor's production of goods in China. Another emerging trend is that Chinese parties are no longer content with always being the defendants in IP lawsuits. With the increasing awareness of the competitive and financial advantages of IP ownership, and fuelled by record damages and settlement amounts received by Chinese parties (eg, *Chint Group v Schneider Electric*), many local IP owners are now ready to take on multinational companies. This trend will continue so that more hunters will become the hunted in the Chinese IP jungle.

Hong Kong

The local legislature has been busy considering and passing a number of IP-related laws in the past year, which should make Hong Kong a more attractive venue for carrying out IP transactions and enforcing IP rights.

Shadow companies

The Companies Registry has been plagued by companies formed in Hong Kong using names that are identical or confusingly similar to famous marks or names of others. These shadow companies have been giving IP owners a serious headache for several years. A legislative solution to this problem finally arrived in December 2010: among other things, the registrar of companies is now empowered to act on a court order to direct a shadow company to change its name or to substitute a non-compliant company name with its registration number. This and other new measures are expected to provide IP rights holders with more efficient and effective means of curbing abuses of the company name registration system.

Copyright bill

In June 2011 the Copyright (Amendment) Bill 2011 was tabled at the Legislative Council after almost five years of public consultation. The major proposed changes were summarised in the China and Hong Kong chapter of *IP Value 2011*. One of the most controversial provisions in the bill is the introduction of a safe harbour to limit the liability of online service providers for copyright infringement if they comply with certain prescribed conditions, including the guidelines and procedures laid down in a code of practice. A draft code was released in August 2011 for public comments and many IP owners criticised the fact that the proposed mechanisms stop short of deterring online copyright piracy.

Patent reform

In October 2011 the Hong Kong government issued a consultation paper putting forward a number of

fundamental reform initiatives relating to the patent system. Two key proposals are replacing the current re-registration system with an original grant regime and regulating the local patent agency services providers.

Tax incentives for IP transactions

The Inland Revenue (Amendment) Bill, gazetted in February 2011, proposed to implement new tax incentives for the acquisition of IP rights to encourage businesses to diversify and expand their IP portfolio. In addition to the existing deductions available for acquiring patents and know-how, expenses incurred in purchasing copyright, trademarks and designs would also qualify as deductible capital expenditures. Removal of the restriction that the IP rights acquired must be used in Hong Kong is another significant proposal. These changes will be closely watched by IP owners who plan to establish IP holding companies in Hong Kong.

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