China & Hong Kong

Spotlight on IP rights protection and enforcement

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China

China showed no signs of slowing down when it came to the protection and enforcement of intellectual property during the past year. The Chinese judiciary and other enforcement authorities have been busy handling IP cases, with a couple of disputes making international news headlines. Legislative bodies are also gearing up for the next round of key updates to all major IP laws.

Filing statistics

Trademarks

The Chinese Trademark Office remained the busiest trademark registry in the world for the 10th consecutive year. In 2011 it received over 1.4 million trademark applications – 32% more than the previous year and double the number in 2008. The average turnaround time for a trademark filing was reduced to 10 months. Just over 20 foreign brands were recognised as well-known marks in China in 2011.

Patents

The number of patent applications continues to soar. In the first half of 2012 the State Intellectual Property Office received approximately 856,600 applications, including 66,629 foreign-related filings, an increase of 27% from last year; nearly 530,000 patents were granted during the same period (45,840 of which were foreign-related), an increase of 21% from last year.

Chinese patents are becoming increasingly important. All member countries of the Patent Cooperation Treaty (PCT) are required to search invention patent filings in China when examining PCT applications after July 2012.

Domain names

The number of internet users in China surged to 538 million in June 2012; 388 million are mobile internet users, surpassing the number of desktop internet users.

There are now 4 million '.cn' domain name registrations. This number, which fell for two consecutive years due to certain local presence requirements implemented in 2009, is expected to rise again because such restrictions were relaxed in early 2012. The launch of English domain names with the extension '.cn' in Chinese characters as a standalone top-level domain name in October 2012 should fuel further increase.

New laws and directives

Key reforms of all major IP laws in China are underway.

Copyright

The National Copyright Administration of China issued a second draft amended Copyright Law for public consultation in July 2012. A controversial proposal allowing the unlicensed use of musical works that are more than three months old has been dropped. Provisions on punitive damages and ownership of employees' and performers' works are other notable changes found in the latest draft. Circulation of a further draft is expected before the amendments are finalised.

Trademarks

A second draft amended Trademark Law was released for public consultation in September 2011. The major proposed changes remain the same and were summarised in the China and Hong Kong chapter of *IP Value 2012*. The release of a further revised draft is expected in late 2012.

Patents

Proposed amendments to the Patent Law were published for public comments in August 2012. The draft revisions focused on enhancing patent enforcement. The key changes include:

- enabling administrative enforcement authorities to award damages to rights owners;
- authorising judicial and administrative enforcement authorities to investigate and collect evidence of infringement;
- imposing punitive damages against wilful infringers; and
- instructing enforcement authorities to resolve infringement disputes promptly following invalidation decisions.

Revisions to the initial draft amendments are expected after public consultation, but no timetable to finalise the revised new law has been set.

The State Intellectual Property Office issued a series of measures in 2012 covering a wide range of patent-related subjects, from compulsory licensing and patent marking to priority review of patent applications.

Effective May 2012, a patent that has not been used for four years from the application date or three years from the grant date may become the subject of a compulsory licence. While no compulsory licence has been granted in China, it is believed that the new measures will have an impact on the import of certain patented goods, such as pharmaceuticals, into China.

Patent marking is not mandatory in China but is often used as a marketing tool or to help establish an infringer's knowledge in enforcement. Since May 2012 patentees that choose to mark their patented products, products directly derived by their patented method, or the packaging or user manuals of such products must specify the patent number and the type of patent right in Chinese. Applicants for Chinese patents must also adopt a prescribed wording.

From August 2012 applications for invention patents involving green technologies or emerging industries of strategic importance will be given priority review – an examination report can be issued within 30 days after the application is accepted for such priority review. Sectors likely to benefit include environmental protection, energy conservation, clean energy, information technology, advanced manufacturing, new materials and alternative energy vehicles.

Since September 2012 more parties dissatisfied with the decisions of the State Intellectual Property Office can apply for a reconsideration before seeking a judicial review. The types of decision that are amenable to this administrative procedure have been expanded to include procedural issues relating to invalidation and re-examination proceedings.

Intellectual property and antitrust

A draft of the much-anticipated guidelines regarding the application of the Anti-monopoly Law to IP rights was released in August 2012. The guidelines prohibit the inclusion of certain terms in an IP licence that would eliminate and restrict competition or otherwise render it a monopoly agreement. IP owners occupying a dominant market position are also prohibited from discriminatorily refusing to license their rights or engaging in tied selling.

Intellectual property and employment

A draft of the Regulations on Service Inventions was released for public comment in November 2012. Disclosure and disposal schemes, as well as minimum compensation programmes, were proposed to ensure that employees are compensated for their job-related intellectual creations, including patents, designs, software copyrights, plant varieties, integrated circuit lay-out designs and trade secrets. Some of the provisions will place significant operational and financial burdens on employers and they will likely attract heavy scrutiny from both local and foreign IP rights holders, particularly those with active research and development operations in China.

IP trials

The Supreme People's Court issued an opinion in December 2011 which sets out helpful guidelines to lower courts in adjudicating substantive and procedural issues in civil lawsuits involving trademarks, copyright, patents, trade secrets and unfair competition.

In April 2012 the court released a set of provisions covering various issues in civil disputes involving dissemination right over information network. Although these are only drafts for public consultation, they contain useful guidance for IP owners and internet service providers to assess their rights and liabilities.

Enforcement statistics

The Chinese judiciary and the criminal and administrative authorities have been actively adjudicating and enforcing IP rights in 2012. The Administration for Industry and Commerce accepted more than 12,000 cases, while the Public Security Bureau concluded over 14,500 cases in the first five months of 2012. The value of goods involved exceeded Rmb7.7 billion.

Court statistics

The number of civil IP cases continued to grow. Almost 60,000 new cases were commenced and 58,200 cases were decided in 2011 – an increase of nearly 39% and 40% respectively from the previous year. Approximately 60% of the new cases were copyright-related; trademark and patent cases accounted for approximately 23% and 13% respectively. About 1,300 of those cases were foreign related.

The number of IP cases that reached the highest court in China has also jumped 33%: in total, 423 IP cases were concluded by the Supreme People's Court in 2011.

Notable cases

Apple v Shenzhen Proview Technology was undoubtedly one of the most widely reported IP cases of the year, both locally and internationally. Apple believed that it had acquired certain IPAD trademark registrations in a number of countries, including China, from an affiliate of Proview in 2009. Proview, the owner-on-record of the IPAD mark in China and a non-party to that transaction, sued Apple for trademark infringement when the latter's popular iPad tablets were shipped into China. After various proceedings in China, Hong Kong and the United States, Apple finally agreed to pay Proview US$60 million in a court-mediated settlement and acquired the rights to the IPAD trademark at issue. This case highlights the importance for foreign IP owners to understand the nuisances of IP transactions in China.

Jordan v Qiaodan Sports was another IP case in China that attracted global attention. Retired basketball superstar Michael Jordan sued a Chinese sportswear and footwear manufacturer in early March 2012 for misusing Qiaodan (the widely recognised Chinese name for 'Jordan'), the number 23 and even the names of his children. The lawsuit was filed when Qiaodan Sports was planning to go public. The case has been accepted by a Shanghai court and will be watched closely by IP owners worldwide.

Trademarks

In *Muji* the Supreme People's Court had a chance to address the long-awaited question on whether use of a foreign trademark to manufacture goods in China solely for export constituted trademark use. In that case such use was found not to constitute trademark use giving rise to any prior right that could block a later application for the same mark by a third party in China. The ruling will have important ramifications for foreign brand owners that make but do not sell their goods in China.

The Supreme People's Court held in *French Castel Brothers v Li Daozhi* that genuine use of a trademark in compliance with the Trademark Law shall be regarded as valid trademark use for the purpose of defending a non-use cancellation, irrespective of whether such use may have violated other laws and regulations in China.

In *Advent Software v Foshan City Shunde District Hai De Man Electrical Appliances* the Supreme People's Court confirmed that no deference to a ruling of the Trademark Review and Adjudication Board would be necessary if the circumstance of the decision under review had changed, such as the status of a blocking mark.

Online infringement

In *E-land v Taobao* the Shanghai Intermediate People's Court held that an e-commerce operator may not be exempt from infringement liabilities if it responds passively to takedown notices. Taobao, one of the biggest e-commerce platforms in China, was found to have a duty to guard against online infringing activities because it had received repeated notices from the relevant rights holders.

Know-how

According to the Supreme People's Court's decision in *Shanghai Furi Enterprise v Huang Ziyu and Shanghai Sa Fei Ya Textile*, a proper security measure for safeguarding know-how or trade secrets should:

- clearly demonstrate the owner's intention to protect or secure the subject matter;
- identify the scope of the subject matter to be protected;
- make the above elements known to the party intended to be bound by a duty of confidentiality; and
- be sufficient to achieve said purpose in normal circumstances.

A standard trade-restraint clause lacking such elements may therefore not be regarded as a proper security measure sufficient to impart any confidentiality obligation in China.

Patents

In *Jiangxi Yintao Pharmaceuticals and Shanxi Han Wang Pharmaceuticals* the Supreme People's Court confirmed that a prior use defence is available even though the prior use may not have complied with other applicable laws. Therefore, whether the defendant obtained the requisite administrative licence to manufacture the medicine in question was not a relevant consideration in a pharmaceutical patent infringement action.

Patentees in China are now afforded more flexibility to amend their patent claims when they are being challenged. In *Jiangsu Simcere Pharmaceutical* the Supreme People's Court clarified that the manners of claim amendment are not limited to the three methods specified in the patent examination guidelines – namely, deleting claims, combining claims or removing technical solutions in claims. The patentee in that case sought to narrow the ratio of certain chemical compositions from 1:10-30 to 1:30, a change that could find support in the specifications and would not broaden the scope of the claim.

Outlook

IP filings and enforcement activities have continued to grow at impressive rates in China despite the apparent slowdown of the Chinese economy. The continuing refinement of the IP legislative framework and the increased availability of meaningful redress in IP disputes have made China a more matured and attractive venue for transacting IP business. Foreign IP owners should stay abreast of these trends in order to avoid being caught by surprise and to take full advantage of the opportunities in this vast and fast-moving market.

Hong Kong

A number of IP-related legislative initiatives have kept the local legislature, courts and government departments in Hong Kong busy during the past year.

Tax incentives

New laws were introduced in December 2011 to provide tax incentives for IP transactions in Hong Kong. In addition to patents, the costs for acquiring other types of IP right (ie, copyright, trademarks and designs) can now qualify for tax deductions. Details of the new regime, including the criteria for deducting such capital expenditure and other tax-related IP issues, such as the tax position of royalties derived from licensing IP rights, are set out in a guidance note released by the Inland Revenue Department in July 2012.

Shadow companies

For almost a decade IP owners have been plagued by companies formed in Hong Kong using names that are identical or confusingly similar to their famous marks or names. During the past year, the Companies Registry and local courts have gained significant grounds in their fight against such abuses of the company name registration system in Hong Kong by actively exercising a new statutory power to direct more than 500 shadow companies to change their names and to substitute the names of non-compliant companies with their registration numbers in some instances.

Copyright bill

There have been public demands for the withdrawal of the Copyright (Amendment) Bill 2011. The controversies centred around a certain provision that criminalises the unauthorised online communication of copyrighted works (eg, politically sensitive parodies) and its potential effect of stifling freedom of expression. There is currently no 'parody defence' to copyright infringement in Hong Kong and the legal protection for the creators of derivative works is still unclear. A public consultation on the exemption for parodies and derivative works is expected before the second reading of the bill resumes in early 2013. *iam*

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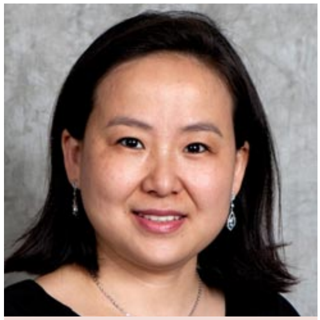

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