Article 15 states that “Where an agent or representative, without the authorization of the principal, seeks to register in the agent’s name the principal’s trademark and where the principal objects, registration shall be refused and the use of the mark shall be prohibited.” and “Where a trademark applied for registration is identical or similar to an unregistered trademark in prior use by another party, in respect of identical or similar goods, and the applicant has contractual, business or other prior relationships other than those prescribed by the preceding paragraph, with the prior trademark user and knows the existence of the unregistered trademark, the trademark shall not be registered upon opposition from the other party.”

The expansion of the scope of protection under Article 15 has been welcomed by brand owners as it further strengthens their position in the battle against bad faith filings in China. Nevertheless, in order to establish the case, a complete chain of evidence is currently required to prove the existence of a prior relationship.

In case of a direct relationship, the evidence required would be straightforward. For instance, if an OEM manufacturer or distributor applied for a brand owner’s mark in China, the relevant written OEM agreement or distribution agreement between manufacturer or distributor and brand owner entered before the application date of the mark in dispute...
would be sufficient to show prior relationship between the parties. Nevertheless, sometimes, despite the business relationship, there can be scenarios where contracts in written form between the parties cannot be produced. This does not automatically and necessarily mean that the brand owner’s hands are completely tied. We have successfully argued for, and have seen cases which supports the admittance of notarised audio evidence by the authorities in China, including the Supreme People’s Court, as sufficient evidence to prove the relationship between parties.

A more difficult situation is whereby there is no direct relationship. By using a web of different companies, either domestically in China, or elsewhere, bad faith applicants are able to create “distance” between the actual applicant and the entity who had prior dealings with the brand owner. This imposes additional evidential burden on the rightful brand owner to prove the existence of a “prior relationship”. This is particular prevalent in Hong Kong as squatters use the jurisdiction to set up companies. Here, a common scenario is where a former shareholder or director of the OEM manufacturer/distributor sets up a new company in Hong Kong and registers the brand owner’s trademark in China. In such cases, an example of a complete chain of evidence would include: (i) distribution contract between the OEM manufacturer/distributor and brand owner; (ii) employment contract or other documents between current registrant/applicant (or the former shareholder or director of the OEM manufacturer/distributor) and the OEM manufacturer/distributor showing the former relationship between current registrant/applicant (or the former shareholder or director of the OEM manufacturer/distributor) and the OEM manufacturer/distributor; (iii) communication between brand owner and the current registrant/applicant (or the former shareholder or director of the OEM manufacturer/distributor) to demonstrate the current registrant’s/applicant’s knowledge of the brand owner; (iv) when the current registrant/applicant is a company, evidence showing the relationship between or the former shareholder or director of the OEM manufacturer/distributor and the current registrant/applicant and so on. Any missing link of the relationship between the current registrant/applicant of the mark and the rightful brand owner may be fatal to the case.

As such, it is vital to conduct regular evidence audits and ensure that all agreements with suppliers be in writing. It will also be helpful for key agreements to be in Chinese and also notarised. Further, it remains important for counsel to remain flexible and creative in trying to obtain different sources of evidence.
Due to the sophistication of counterfeit activities in China, we regularly find counterfeiters separating their chain of manufacturing, retailing into different entities. There are therefore practical difficulties in holding the relevant companies liable for their infringing acts. On top of that, in the attempt to justify their use of the brand owners’ marks, counterfeiters may register the same mark in different classes, which sometimes makes it even more difficult for brand owners to protect their brands. The recent Supreme People’s Court (the “SPC”) decision in “Intercontinental” provides good guidance as to how brand owners can manoeuvre through these difficulties.

The Intercontinental case: an illustrative example of the determination of joint liability and similarities of goods

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Although China adopts a civil law system and the court’s decisions are not technically binding, they often provide us with useful insight of the court’s interpretation of the law in practice. In the Intercontinental case, the Plaintiff was Intercontinental Great Brands LLC (“Intercontinental”) and the four Defendants included Jiangsu Tongye Dietary Supplements Limited Company (“Tongye”) and Taizhou City Jinglong Nutritional Supplements Factory (“Jinglong Factory”).

Intercontinental claimed that Jinglong Factory’s trademark “新果珍” (“New Guozhen” in Chinese characters) (the “Defendants’ Mark”) in Class 30 for “dietary supplements for non-medical use” and other goods is similar to Intercontinental’s earlier registered mark “果珍” (“Guozhen” in Chinese characters) (the “Plaintiff’s Mark”) in Class 32 for “powdered drink products” and other goods. As the Defendants’ products should in fact fall under Class 32, there was a cross-class use of the Defendants’ Mark which infringed upon the Plaintiff’s Mark. Intercontinental also argued that the Defendants’ behaviour constituted unfair competition. Here, Tongye was directly involved in the production and sales of products while Jinglong Factory registered the Defendants’ Mark and licensed the same to Tongye for its use.

When Intercontinental found out about the Defendants’ activities, it did not immediately resort to the court, it filed a complaint with the Administration of Industry and Commerce (the “AIC”), who consulted the Chinese Trade Marks Office (the “CTMO”) on the classification of the Defendant’s goods during investigation. The CTMO’s official reply was handed down in 2006 (the “2006 Opinion”), which stated that the Defendants’ products in fact fell under Class 32. As such, the AIC seized the Defendants’ products. However, this did not effectively put an end to the Defendants’ production and sale of the infringing products. In 2011, Intercontinental decided to bring the case to the court.
At the court of first instance, the Liaoning Intermediate People’s Court held that the Plaintiff’s Mark has been one of the Plaintiff’s main brands since its entry to China in the 1980s. Coupled with the distinctive design of the packaging of its products, the Plaintiff’s Mark has become a famous brand in China and thereby its products, famous products. Following the CTMO’s 2006 Opinion, the court was of the view that the Defendants’ goods were similar to the Plaintiff’s goods. The court also held that the incorporation of the word “新” (“New” in Chinese characters) in front of the Plaintiff’s Mark and the two different Chinese characters “果” and “枼” in the two marks are only minor differences with no trademark significance as “枼” is merely a variant of the Chinese character “果”. Besides, as Tongye and Jinglong Factory shared the same office address, same telephone number and same authorised representative, they were held liable for infringing the Plaintiff’s trademark rights in Class 32 as they were considered sufficiently connected.

The Defendants appealed to the Liaoning Higher People’s Court and argued that the 2006 Opinion should not be a binding indication as to the classification of the goods as it possesses no legal authority. Further, given the separate legal entities of the two Defendants, Jinglong Factory should not be held jointly liable for trademark infringement as it was not involved in the production or sales of the allegedly infringing products.

The Liaoning Higher People’s Court disagreed with the Defendants and upheld the court of first instance’s decision that there was trademark infringement of the Plaintiff’s Mark by the Defendants and it was not inappropriate for the court of first instance to take into consideration of the 2006 Opinion. The court, however, accepted the Defendants’ argument that as Tongye and Jinglong Factory had different assets, shareholders and operating officers, even though Jinglong Factory authorised Tongye to use the Defendants’ Mark in Class 30, the evidence submitted could not prove that Jinglong Factory had participated in the manufacturing, sales and promotion of the infringing products.

Intercontinental appealed to the SPC on this point and argued that both Tongye and Jinglong Factory should be held jointly liable for infringing the Plaintiff’s Mark while the Defendants kept their line of argument that the Defendants’ products were Class 30 goods and their use of the Defendants’ Mark did not infringe upon the Plaintiff’s Mark.

The SPC accepted Intercontinental’s argument and held that the evidence submitted by the Plaintiff are admissible and can prove that Tongye and Jinglong are in fact closely related. The evidence accepted was a key part of the case. These include the Defendants’ infringing products preserved in a sealed bag under the supervision of the representative from the Notary Office, the notarised telephone conversation with the representatives of Tongye and Jinglong Factory claiming that both companies were in fact the same company, and the fact that both Tongye and Jinglong share the same Quality Management System Certificate as shown in the notarised printouts of Tongye’s website. Based on these, the SPC held that both Tongye and Jinglong Factory are to be jointly liable for infringing the Plaintiff’s Mark.

Further, the SPC also confirmed that in determining the classification of goods and/or services, a number of factors, including the nature of the products, the sales channels, the target customers and the Table for Differentiating Similar Goods and Services published by the CTMO should all be taken into consideration. The SPC took the view that no matter how the Defendants named their products, the Defendants’ products were in substance closer to powdered drink products under Class 32 than dietary supplements in Class 30. As such, the use of the Defendants’ Mark on the Defendants’ goods infringed upon the Plaintiff’s Mark.

As seen, brand owners will need to be prepared to go to greater lengths to conduct extensive investigations and collection of evidence to prove the association of separate legal entities. This case shows however the Court’s willingness to impose liability when presented with sufficient evidence. In addition, this SPC decision also shows that trademark squatters may no longer be able to easily disprove similarities between the goods and/or services purely based on the Classification Table. This is a welcome decision for brand owners.
Reverse Confusion: bad luck or bad planning?

A popular Chinese television dating reality show “非诚勿扰” (also known as “If You Are the One” in English or literally “If Insincere Then Do Not Disturb”) (the “Show”) by Jiangsu Broadcasting Corporation (“JSBC”) has recently received a major blow from the Shenzhen Intermediate People’s Court in China. Since its broadcast in 2011, this TV programme has enjoyed a regular audience of near 100 million. However, its popularity has also attracted legal action. Mr. Jin Ahuan (the “Plaintiff”) is the trademark owner of the same Chinese characters “非诚勿扰” in Class 45, who took action against JSBC and Shenzhen City Zhenai.com Information Technology Limited Company (“Zhenai”) (the “Defendants”) for trademark infringement. The Plaintiff applied for the registration of the mark “非诚勿扰” in 2009 covering “dating services and marriage agency” and other services in Class 45. The Plaintiff claimed that the use of the mark “非诚勿扰” by the Defendants infringed upon his trademark rights as the Defendant was producing a dating show and holding relevant events to recruit participants for the Show. Although there were arguments as to whether a name of a television programme, similar to a book title, can perform the trademark function in identifying the source of goods and services, the Plaintiff was able to show evidence of precedents where the names of television programmes were registered as trademarks and that a subsidiary of JSBC had also registered the same Chinese characters “非诚勿扰” in Classes 16 and 30 in 2011. On the other hand, the Defendants argued that their use of the Chinese characters “非诚勿扰” was authorized by Huayi Brothers Media Corporation, who had applied for the registration of the mark “非诚勿扰” in Class 41 covering “television entertainment” back in 2008, before the Plaintiff’s application in Class 45 and attempted to argue that it is the Plaintiff who infringed upon other’s prior right in registering the Chinese characters “非诚勿扰”.

The Court of First Instance, Shenzhen Nanshan District People’s Court held that “非诚勿扰” was not only used as the name of JSBC’s TV programme but was also used as a trademark on dating services by JSBC based on the evidence submitted by the Plaintiff, including but not limited to the objective fact that JSBC had been using “非诚勿扰” to attract advertisers and profiting from the advertising fees generated. As the Defendants’ mark and the Plaintiff’s mark are identical, the key question of the case was whether the respective goods and/or services are similar. The Court of First Instance was, however, of the view that although the Show relates to dating, it is a television programme and therefore is not considered similar services to the Plaintiff’s and no confusion on the part of the public will be caused.
The Plaintiff appealed to the Shenzhen City Intermediate People’s Court by putting forward the argument that the Court of First Instance, in reaching its decision failed to consider the objective fact that the Show was a reality dating show targeting single males and females. The Shenzhen City Intermediate People’s Court accepted the Plaintiff’s argument and held that as the Show was a dating show, its purpose, contents and manner in which it was presented and the relevant target customers are identical to those of dating services, and as such is similar to the services in which the Plaintiff’s mark is registered in Class 45. Due to JSBC’s fame and promotion of the Show, reverse confusion has been caused on the part of the relevant public and greatly affected the normal use of the Plaintiff’s mark in his course of trade. In most trademark cases, confusion typically occurs when the second and junior use of a trademark takes advantage of the goodwill generated by the first user of the mark. Nevertheless, in reverse confusion, it is the other way round, and usually involves a second user who is or becomes much better known than the first user, depriving the first user the right to control its own reputation and goodwill. As a matter of fact, sometimes, assuming the second user is the original user of the mark, consumers may even have a negative impression of the first user when they find out the first user’s goods and/or services are not associated with the second user. Under the circumstances, the Defendants were held jointly liable for infringing the Plaintiff’s trademark in Class 45 and were ordered to cease its use of "非诚勿扰" immediately.

The judgment puts JSBC’s RMB500 million (US$77 million) worth of endorsement of the Show at risk, not to mention all of its previous investment in the promotion of the Show using the name “非诚勿扰”. This case highlights the importance of a holistic plan and thorough clearance search before adopting any names for your businesses as a trademark, especially for foreign brand owners who has yet devised a Chinese name for the local market in China. There can be many ways of translating the English mark into Chinese. A thorough trademark search before adopting a Chinese character mark would allow brand owners to choose the most appropriate Chinese brand name and avoid the risk of being sued for trademark infringement later on.

Further, it also highlights the need for brand owners to consider the need to register terms or slogans that are used, which may later be considered as trademarks and the advantages of defensive filing in China. By registering identical or similar marks in respect of similar goods and/or services, brand owners may prevent subsequent dilution of their marks in China. To avoid becoming vulnerable to non-use cancellation actions, brand owners may have to consider minimal use or refilling the mark every so often.

As part of a long-term strategy in developing businesses in China, it is important for brand owners to think ahead and locate any identical or similar marks in other classes of goods and/or services that are potentially similar to their goods and/or services in order to take pre-emptive measures to protect brands wisely and effectively.
Under the current practices of the Chinese Trade Marks Office (the “CTMO”), if a mark is composed of a company name or contains company name, and this name is substantively different from the applicant’s name, the general rule is that such a mark cannot be registered as the use and registration of the same will likely mislead the consumers in respect of the origin of goods.

In particular, brand owners should note that the CTMO and the Trademark Review and Adjudication Board (the “TRAB”) normally hold the view that an English mark with the word ‘group’ or ‘company’ would easily be understood as the name of a group company and if such a mark is inconsistent with the applicant’s name, it is most likely that an absolute refusal against the registration of the mark will be raised. Further, as there is no concept of ‘doing business as’ or ‘trading as’ under the Chinese law, the traditional view in China is that the trade name of a business should simply be its company name and deviation from a company’s legal name as a trademark would be refused for registration.

Nevertheless, there may begin to be an exception to this general rule if one can produce concrete evidence of a company operating under a different trade name. We have recently obtained a favourable judgment from the Beijing Intellectual Property Court (the “Court”) against the TRAB in connection with such a matter for our client. The Court accepted the concept of Assumed Name and the Certificate of Assumed Name provided by our client as evidence and ruled that there is a corresponding relationship between the applied-for mark and our client, as the applied-for mark is the same as the assumed name of our client. The Court also held that no misidentification among the general public will be caused and thereby rejected TRAB’s absolute ground of refusal against our client’s applied-for mark.

TRAB is currently appealing the decision, however, this decision has been welcomed by brand owners, and demonstrates that IP courts in China are more willing and ready to accept new and sound arguments with valid evidence. Depending on the circumstances, it may therefore be worth gathering all available evidence and pursuing all lines of arguments before abandoning the prosecution of a trademark application.
COMPANY NAME & TRADEMARK SQUATTERS

It is not uncommon to find trademark squatters misusing the system of company incorporation in the course of their bad faith filings which imposes additional burden on brand owners in protecting their brands in China.

One of the ways that trademark squatters hijack brand owners is through the incorporation of companies so that separate legal entities would be created to hold the relevant trademark. This way, all these companies formed are technically separate entities that are not connected with one another, which in turn imposes a much heavier evidential burden of proof on the brand owners to show the connection of the parties to the CTMO, TRAB and the relevant courts.

Nevertheless, in these scenarios, it is important to note that brand owners’ hands are not always tied and it is possible to prevent the bad faith filings of the brand owners’ marks by these entities. One of the useful tools in collecting evidence to prove bad faith of such applicant company in these cases would be searches at the database of local Administration for Industry and Commerce (AIC). We have recently succeeded in establishing the link between a previously known trademark squatter and companies incorporated by him, and their bad faith in registering our client’s mark in China.

When the applicant of a mark is a company, conducting searches of the local AIC official public records would allow us to obtain the basic company information to identify the relevant representative of the company. Coupled with further searches to locate any other companies owned or represented by the same representative and the relevant trademark information, a complete chain of evidence to prove the pattern of bad faith behaviour by the representative and the companies incorporated by him and the bad faith of the applicant company may be obtained.

Trademark squatters in China will do whatever it takes to use the system to their advantage. To counteract, we need to be creative ourselves and be ready to go the extra mile in order to win against them.
Interpretation II of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II)

On 21 March 2016, the Supreme People's Court announced the “Interpretation of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases [II]” (hereinafter referred to the “Interpretation II”) which has come into effect on 1 April 2016.

The SPC has now provided further clarification on some articles of the previous Judicial Interpretation released in 2009 (hereinafter referred to “Interpretation I”) as well some new provisions. Some of the notable highlights are briefly discussed below:

(1) EFFICIENCY OF PROCEEDINGS

Patent infringement cases in China typically take a few years to complete. One of the reasons for the time lag is due to the stay of proceedings pending invalidation proceedings. Invalidation proceedings take one to two years in China, and administrative litigations related to the further appeal on the invalidation decision takes an additional 6 months to one year.

Article 2 of the Interpretation II provides that once a patent claim advocated in a patent infringement case is decided to be invalid by the Patent Reexamination Board (PRB), the court may immediately decide to reject the infringement case regardless of whether the claimant appeals the PRB decision. However, in order to balance the claimant’s rights to appeal PRB decisions, Article 2 also provides that the claimant may file a further lawsuit based on the same grounds again if the PRB decision is revoked in an administrative appeal of the invalidation proceedings.

As a result, the time lag of infringement cases has reduced as the courts can close the cases based on the first instance PRB invalidation decision. Defendants clearly benefit as they can request for closure of the infringement action as soon as they successfully invalidate the patent claim in question. This position is less beneficial to plaintiffs as extra costs may be required for filing another lawsuit based on the invalidated patent claim if the PRB decision is successfully appealed. However, it is expected that the extra costs may not be significant as the same grounds and evidence can be used again.

(2) INTERPRETATION OF PATENT CLAIMS

The SPC has gone to great lengths to improve the uniformity and consistency of how patents are interpreted and afforded protection in Interpretation I. As an on-going effort, the SPC has supplemented further fourteen articles (Articles 4 to 17) on patent interpretation in Interpretation II.
For invention and utility model patents, Article 4 further clarifies how ambiguities in claims are to be interpreted. Article 5 clarifies that the preamble portion and the characterizing portion of a claim are all limiting. Article 6 provides that the prosecution histories of a patent and its divisional patent can be used in claim interpretation. Article 7 provides that scope of protection of a closed claim of composition, except for Chinese traditional medicine, may cover additional common impurities. Article 8 further defines functional limitations and clarifies the conditions for the doctrine of equivalence. Article 9, 10 and 11 clarify how the scope of protection is determined based on working environment features, product-by-process features, and implicit process sequence, respectively. Article 12 puts limitations on scope of protection of claims with delimiting wording such as “at least” and “not greater than” in numerical features. Article 13 further clarifies rules of applying the doctrine of estoppel.

For design patents, Article 14 introduces the concept of design space and sets the related rule for determining infringement. The larger the design space, the easier for ordinary consumers to notice a minor difference between different designs, and vice versa. Articles 15, 16 and 17 are directed to the criteria for determining design patent infringement regarding a set of products, an assembled product, and a product having variable states, respectively.

These articles will be used as guidance in patent infringement litigation, however, they will also be important in drafting patent applications as well as conducting analysis on patentability and freedom-to-operate analyses. For example, under Article 12, the doctrine of equivalence shall not be applied to a claim with wordings like “at least” and “not greater than” in numerical features. Therefore, it may be advisable for applicants to avoid using these types of wording. Instead, the applicant may define a widest range for the numerical feature in the independent claim and narrow it to the optimal ranges or values in dependent claims.

**3) Definition of Indirect Infringement Acts**

Due to the lack of provisions which define indirect infringement acts under the Chinese patent law, the SPC has provided in the Interpretation I that using a patented product produced by other party to manufacture another product without permission of patentee constitutes infringement.

With the aim of clarifying the definition of indirect patent infringement acts, Article 21 of the Interpretation II provides that knowing and supplying materials, equipments, components, intermediates which are solely used for implementation of a patent without permission of patentee may also constitute infringement.

In general, it is difficult for a patentee to prove that a supplier has actual knowledge that its products are solely used for implementation of a patent but it may be easier in the case that the patent in question is related to a well-known product. Therefore, if a patentee has implemented its patent in a product, it is advisable to keep good records of promotion and sales of the products which may be used as supporting evidence in claiming indirect infringement by a supplier of an infringer.

**4) Definition of Prior Art**

Although the SPC has clarified in Interpretation I that the applicable versions of patent laws in a patent infringement case is the one in effect on the date of infringement, it is unclear which versions of patent law shall be based in defining prior art of the patent in question.

In order to address the uncertainty, Article 22 of the Interpretation II provides that the court shall define prior art according to the patent laws in effect on the filing date of the patent. Before the Revision of Chinese patent laws came into effect in 2009, a prior publication available in any country would be considered as a prior art but prior use or sales outside China would not. Therefore, if the patent in question was filed before Oct 01, 2009, the defendant cannot use prior use or sales which took place outside China as defence.
(5) STANDARD ESSENTIAL PATENTS

In recent years, issues relating to standard essential patents (SEP) have drawn a lot of attention. Article 24 aims to facilitate the courts in its handling of SEP related cases by clarifying the liability for using a SEP without permission of the patentee. It also provides that an injunction may not be issued if the alleged infringer has negotiated with the patentee for licensing of the SEP in question but the patentee does not license the SEP to the alleged infringer on the basis of the principle of fairness, reasonableness, and non-discrimination.

With the adoption of similar provisions related to compulsory license of a patent under the Chinese patent laws, this article aims to balance the interests and liabilities of concerned parties of SEP and enhance the implementation of SEP.

(6) INJUNCTION ON BONA FIDE PURCHASE OF INFRINGING PRODUCTS

Under the Chinese patent laws, a purchase of infringing products is deemed to be an infringing act and the court may issue an injunction to stop the purchaser from using the infringing goods. With respect to cases involving bona fide purchase however, Article 25 provides an exception that an injunction shall not be issued if the bona fide purchaser has paid a reasonable price for the infringing products.

The aim of this article is to provide a solution to balance public interests and exclusive rights of patentees. However, there is concern that this article will promote the sales of infringing products and discourage innovation.

(7) PLAINTIFF’S BURDEN OF PROOF FOR DAMAGES

In patent infringement cases, the plaintiff has to bear the burden of proof for damages due to infringement acts and has historically faced difficulties in collecting evidence. Statutory damages are only RMB1 million.

In view of the afore-said difficulties faced by plaintiffs, Article 27 of the Interpretation II provides that if the patentee has submitted preliminary evidence of the benefits obtained by the infringer due to the infringement acts, in the circumstances that the books and materials related to the infringement acts are under control of the infringer, the court may order the infringer to deliver up the books and materials. If the infringer fails to comply without justification, the court may determine the damages according to the amount claimed by the patentee.

In practice, the patentee may collect the records of profits and annual report from company website of the infringer as preliminary evidence. The infringer will then have to bear the burden of proof in order to avoid a ruling of a large amount of damages.