

# VIVIEN CHAN & Co.

YOUR GREATER CHINA LAWYERS

HONG KONG | BEIJING

## NEWSLETTER

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### IP UPDATE



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## First Draft E-Commerce Law in China Issued

China's first comprehensive draft of the e-commerce law (the "Draft") is finally complete and is now published on the National People's Congress (NPC)'s website for public comments. It will be presented to the Standing Committee of the NPC for further reading. This is the first law that regulates the e-commerce industry in China, incorporating various areas of law including data and privacy protection, intellectual property protection, unfair competition and consumer protection. While further clarifications are required, the Draft nonetheless signifies the government's determination to tighten control over the booming sector.

The Draft has a broad regulatory scope, covering 5 main areas: regulation of e-commerce business operators, electronic contracts and payments, e-commerce transactions and cross-border e-commerce. We have listed out a few key measures and requirements that the Draft has proposed below:

### Product Quality Liability Placed on E-Commerce Platforms

The Draft establishes that it is the responsibility of goods or service providers to guarantee the quality of such goods or services. Consumers may seek damages from e-commerce platforms directly, and therefore will not be provided with the identity and/or contact details of the individual retailers listed on the e-commerce platforms ("Retailers"). E-commerce platforms can then

seek compensation from the Retailer should they be required to compensate the consumers. This will add another very effective enforcement route for consumers, but we expect e-commerce platforms to vehemently oppose this given that this is an onerous liability. We anticipate that this proposed liability will be watered down in future drafts.

### **Duty of E-Commerce Platforms to Respond to Rightholders**

E-commerce platforms and Retailers have the duty to actively delete, block or terminate transactions or services if they detect actions that infringe on intellectual property rights.

The Draft further stipulates a notification mechanism to regulate intellectual property complaints on e-commerce platforms. When an e-commerce platform receives a notice of infringement issued by the right-holder, it should inform the Retailer. The Retailer can subsequently submit a declaration of denial or response to the e-commerce platform. Should the e-commerce platform receive this response from the Retailer, it must cease all actions and forward the said response to the right-holder. The right-holder will then be required to commence an AIC action or civil proceedings to enforce the rights. Should any wrong notice incur losses to Retailers, the right-holder will be held civilly liable. This seems to be a codification of the practice of larger e-commerce platforms such as Alibaba, Taobao and Jingdong. This, however, will enable the unification of the practices of smaller e-commerce platforms.

### **E-Payment Service Providers at Risk for Liability**

The Draft places the burden on e-payment service providers to minimize losses when unauthorized payments are identified by consumers. Further, the Draft places the responsibility of the actual losses on the e-payment service provider. Unless the e-payment service providers can prove that i) they are not at fault and ii) the fault lies with retailer, they will be held responsible for the losses incurred. This is in line with the objective of the Draft in protecting consumers' rights during online transactions. However, with the "fault" requirement, it may mean that e-payment service providers may find it hard to avoid liability.

### **Additional Liability on Retailers**

The Draft explicitly prohibits Retailers from acts of unfair competition such as using domain names, websites or marks that are similar to well-known trademarks, attacking other Retailers' websites, restricting trade or overcharging.

### **Enforcement**

Details of enforcement and the enforcement body are yet to be determined.

Public submissions on the Draft close on 26 January 2017. We will keep you posted on further updates of the Draft.



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## Cautionary Tale Involving Letters of Undertaking: GAP's woes in Hong Kong

The Hong Kong High Court recently examined the proper relief in copyright infringement cases where the liability is established, in a recent copyright infringement claim brought by Morn Creations Limited ("MCL") against Gap Limited ("GAP"). In the case, GAP initially filed a Defence, which was subsequently withdrawn. GAP also acknowledged that MCL was at liberty to enter default judgment but reserved the right to contest applications for specific orders including injunctive relief, damages and costs.

GAP relied on a letter of undertaking to argue that an injunction should not be granted. GAP argued that the letter of undertaking had offered everything which MCL sought by way of injunction. The letter of undertaking was issued around 2.5 month after GAP withdrew its Defence. Notwithstanding the withdrawal of the Defence (which effectively amounts to admission of MCL's claims), the letter of undertaking offered was expressed to be issued on a "without admission of liability" basis. The terms "alleged copyright" and "alleged infringement" were also used to qualify the allegations of subsistence of copyright and copyright infringement.

The Court held that the letter of undertaking is not sufficient to resist the injunction application. The Court took the view that the letter of undertaking was intentionally drafted in order to reserve arguments of MCL's copyright and GAP's infringement. It therefore did not amount to a clear and unequivocal offer to MCL. The Court also considered that the letter of undertaking was too late, as it was only provided in response to MCL's default judgment application and 15 months after the issue of the Writ by MCL.

### TAKEAWAYS

This case highlights the importance of having a well-thought-out and consistent strategy in trying to negotiate for settlement. Once a party decides to admit liability, it should not put forward any offer which qualifies the liability after the liability is admitted or established. Such offer will unlikely be regarded as an unequivocal

offer, and does not help in resisting formal sanction being granted against the liable party.

The case also reminds us of the practical implications of using "without prejudice" correspondence that we will need to pay attention to when negotiating settlement. In this case, GAP also tried to rely on various offers of undertaking made in the form of "without prejudice" correspondence to resist injunction application. However, given that the correspondence was issued on "without prejudice" basis, it is privileged and inadmissible and cannot be relied on to show that reasonable offers have been made. While "without prejudice" correspondence facilitates the open and frank settlement negotiations, the use of the same blindly may have an undesirable adverse effect. In appropriate circumstances, one may have to communicate settlement offers through the use of open letters so as to protect its position.


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## China & Hong Kong Adopt the Eleventh Edition of the International (Nice) Classification For Trademark Applications as from 1 January 2017

The Chinese Trademark Office and the Hong Kong Trademark Registry have both adopted the 11th Edition of the International (Nice) Classification ("11th edition") for specification of goods and services on 1 January 2017.

### PRACTICAL CONSIDERATIONS

#### 1. Importance of cross-class searches

Despite the re-classification, certain goods and services in different classes (that were in the same class) may be considered similar. It is therefore important to conduct cross-class clearance searches to ensure registrability. For example, although disinfectant soap is now classified under Class 5 of the 11th edition, it should also be cross-searched against Class 3.

#### 2. Changes in the class headings and explanatory notes

Class headings and explanatory notes of certain classes have been changed as a result of the use of the 11th edition. For example, "soaps", "cosmetics", "hair lotions" and "dentifrices" have been amended to "non-medicated soaps", "non-medicated cosmetics", "non-medicated hair lotions" and "non-medicated dentifrices" under class heading of Class 3. Caution is to be exercised if the 10th edition class heading is adopted for filing. The Chinese classification table has also been updated accordingly, changing a number of the standard terms for goods and services.

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