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CHINA IP Bulletin



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Executive Summary

IP Law - How It Works and What is on the Horizon, Part 2

Recent legislation and revised regulations have strengthened the rights of IP holders in China. Copyright reform has increased the scope of prohibited activities and added three categories of administrative punishment which regulators may apply to those who violate the law. New administrative measures also expand copyright protection for digital media and storage. The recent antitrust law continues to be better implemented. The rules now define concentration in terms of the financial size of a company which is possibly subject to antitrust regulations and the financial size of that company's business sector both globally and within China. Customs officials now have enhanced enforcement capacity and authority to negotiate settlements for certain IP matters.

by Peng Kai and Zach Wortham

The Top Ten Intellectual Property Cases of 2009

The Supreme People's Court released a list of the top ten intellectual property cases of 2009. From record damages awarded for patent infringement, to criminal penalties handed down to illegal Microsoft XP modifiers and online providers, to BMW's successful lawsuit against a trademark-infringing clothing company, we describe the decisions and tell you how they are changing China's legal landscape.

by Peng Kai and Margalit Faden

NEWS

Supreme People's Court Publishes White Paper on Chinese IP Cases

On the 20th of April 2010, the Supreme People's Court published a white paper summarizing the progress in judicial protection of IPRs in 2009.

Among the data released was that more than 50% of civil IP cases have been settled via court mediation. In 2009, the total disputed amount for first instance cases was RMB 3billion. Further, 15,302 were copyright cases, 6,906 were for trademarks, and 4,422 regarded patents. For cases that closed in 2009, foreign parties were involved in 1,361, an increase of about 19% from 2008. The Supreme People's Court (SPC) admitted 297 IP civil cases and clearance rates in the SPC increased from about 56% in 2008 to nearly 89% in 2009. For criminal IP cases, 3,660 closed in 2009 and 1,007 people were found guilty of IP infringement crimes, 646 were convicted of producing and selling counterfeit or inferior goods, and 1,973 were found guilty of illegal business involving IP infringement. IP administrative cases were at a record high in 2009. Local courts increased their admittance of such cases by about 92% and their closure by about 91%. The SPC admitted 54 administrative IP cases.

You can find the White Paper at http://www.court.gov.cn/zscq/znss/201004/t20100426_4545.html.

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IP Law - How it Works and What is on the Horizon, Part 2



IP Law in China - An Overview of the Existing Structure and New Laws Soon to Come

In Part 1 of this article, found in the March issue of the China IP Bulletin, we covered The National IP Strategy, Patent Law, and Trademark Law.

Copyright Law

Copyright law has notoriously been considered to be very lax in China in the past and so 2009 was a good step forward when on the 15th of June 2009 the New Measures for the Implementation of Copyright Administrative Punishment (New Measures) were promulgated by the State Copyright Administration. The New Measures enlarge the scope of illegal acts which can have administrative punishments imposed upon them and add three new types of administrative punishment; warning, confiscation of infringing products, and confiscation of equipment used to install or store infringing products. The New Measures also specify that an illegal act of infringement involving the dissemination of information through a network can be investigated and punished by the Copyright Administration Department either in the place where the infringer is located, in the place where the web server or any of the equipment used in the infringement is located, or in the place where the infringing website is registered for archival purposes.

The General Administration of Press and Publication also helped to increase the protection of copyrights by promulgating the Administrative Measures for Replication on the 1st of August 2009. These measures apply to the replication of optical disks, magnetic tapes and disks, and other storage media and increase the responsibilities of the management of replication entities and replication production equipment, as well as the business activities of replication, and finally provides for administrative punishment of illegal acts.

The second amendment to the Copyright Law of the People's Republic of China entered into force on the 1st of April, 2010. However, the amendment only addresses two general rules and does not provide any essential new information regarding copyright protection.

Anti-monopoly Law

The Anti-monopoly Law has attracted a lot of attention since entering into force on the 1st of August 2008. The State Council has since established an Anti-monopoly Commission, to study and draft competition policies, as well as organize, coordinate, and instruct companies

on how the anti-monopoly Law works. The specific administrative institutions in charge of anti-monopoly law enforcement are:

- The Ministry of Commerce "Concentration of Business Operators", i.e. monitoring mergers and acquisitions;
- National Development and Reform Commission "Acts of Price Monopoly";
- The State Administration of Industry and Commerce: Manages Enforcement efforts in regards to Monopoly Agreements, Abuse of Dominant Market Position, and Abuse of Administrative Power to Eliminate or Restrict Competition.

As is the case with most laws after being drafted and promulgated they must then be implemented and guidelines issued as to how this should be done. Thus, many rules which support the Anti-monopoly Law have since been and continue to be created. Among the first of those was the Provisions of the State Council on the Standard for Declaration of Concentration of Business Operators promulgated and implemented on the 1st of August 2008 and says that where the concentration of business operators reaches certain amounts, the business operators concerned should declare the concentration to the relevant authorities otherwise, the concentration may not be allowed. The concentrations are defined as:

1. When the global business volume of all the business operators involved in the concentration exceeds RMB 10 billion in the previous fiscal year, and the business volume in China of at least two of the relevant business operators has exceeded RMB 400 million each in the previous fiscal year;
2. When the business volume in China of all the business operators involved in the concentration exceeds RMB 2 billion in the previous fiscal year, and the business volume in China of at least two of the relevant business operators exceeds RMB 400 million each in the previous fiscal year.

On the 24th of May 2009, the Anti-monopoly Committee of the State Council published the Guide for the Definition of Relevant Market. In this guide three major factors are clarified when defining a Relevant Market: the basis for defining a relevant market; the general method for defining a relevant market and the major factors which should be considered thereof; and the basic method for how to conduct a Hypothetical Monopoly Owner Test.

Then on the 1st July 2009, two regulations regarding enforcement procedures were promulgated by the SAIC; the Provisions on the Procedures for the Administrative Departments for Industry and Commerce to Investigate and Handle Cases of Monopolization Agreements

CHINA IPR NEWS

New trade secret regulation for state-owned enterprises

The State-Owned Assets Supervision and Administration Commission (SASAC) recently issued the Provisional Regulations on the Protection of Trade Secrets for State-Owned Enterprises ("the Regulations"). The Regulations increase protection of state-owned enterprises' ("SOEs") trade secrets. They list examples of trade secrets that are protected under the Regulations and require SOEs to sign non-competition and confidentiality agreements with their employees. The Regulations will affect any business that do business with SOEs as they must sign confidentiality agreements with all relevant parties for any business actions involving trade secrets.

Microsoft is Taking Steps to Protect its IP in China

Microsoft, has alleged that Tonecan Network Communications, a Guangdong Internet café chain, used 5,000 illegal copies of Windows XP resulting in damages to Microsoft of RMB 1.58million. Microsoft announced a plan that would permit Internet cafés to register pirated copies of Windows XP. Under the plan, a café with 200 computers would pay approximately RMB 850,000 to register the software. The Internet café industry fears widespread impact on their business if Microsoft prevails against Tonecan.

Microsoft has also been active in the rural areas of China, recently announcing that they have reached an agreement with the Yunnan government to provide legal software to 200 Internet cafés in the province's capital, Kunming. The project also will provide training opportunities for up to 3,000 laid off workers.

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and Abuse of Dominant Market Position and the Provisions on the Procedure for the Industrial and Commercial Administrations to Stop Acts of Abusing Administrative Power for Excluding or Limiting Competition. These regulations stipulate in detail the administrative procedures for exposing, investigating and punishing monopolistic activities, as well as the abuse of administrative power to eliminate or restrict competition, and anti-competitive practices.

Other supporting rules for the Anti-Monopoly Law are being completed as this article was being written and will surely be detailed in future issues of China IP Bulletin.

Customs Protection of Intellectual Property

When goods leave or enter the PRC it is an excellent opportunity to catch infringers and the Customs authority is actively engaged in strengthening their enforcement and protection of intellectual property rights. As such in July of 2009 the General Administration of Customs publicized the Measures for the Implementation of Provisions on Customs Protection of Intellectual Property. The new Measures, improves IP protection in the Customs application, increases the opportunity for Customs officials to passively catch infringers; encourages negotiations to

settle disputes, economizes the cost of law enforcement, and further balances the rights and obligations of customs, the obligee, the consignee, and the consignor.

The new Provisions on Customs Protection of Intellectual Property was promulgated on the 24th of March, 2010 by the State Council, and entered into force on the 1st of April, 2010. However, the revised Provisions contain no new rules or guidelines to further intensify customs' protection scope.

Other New IP Legislation

The State Standardization Administration issued the Administrative Provisions on the Amendments of Patent Related National Standard in November of 2009 for comment from the public. The provisions address patent technologies which directly effect national standards, and state that those technologies must disclose all relevant information within a set deadline and an irrevocable patent license must be made to the state. Otherwise, the relevant standard may not be published or approved. It is believed that the implementation of the above Provisions will greatly affect enterprises with R & D based in China.

The Ministry of Science and Technology, the National Development and Reform

Commission, and the Ministry of Finance jointly issued the Notice to Initiate the Accreditation of National Independent Innovation Products of 2009 last October. This notice is seen as a precursor to a Catalog of National Independent Innovation Products being published, in which the products listed in the Catalog would have a distinctive advantage in procuring government projects.

Conclusion

While this article lists only the most important IP legislation brought about over the past two years, many more are currently being drafted and the trend, as witnessed above, appears to be an increase in IP protection in China. However, it is well-known that the key problem in protection of intellectual property is not the existing laws, but the enforcement of those laws and in order for this to change it will take a concerted effort over time by all parties involved. New investors to China should be encouraged by the signs which point to increased protection for IP rights in the future and remember that those who take the risks now will be rewarded best in the future.

By Peng Kai and Zach Wortham

The Top 10 IP Cases of 2009

The Top Ten Intellectual Property Cases of 2009

In April 2009, the Supreme People's Court published the top ten cases in intellectual property protection. There were eight civil disputes, one administrative dispute, and one criminal dispute. These cases provide insight into some of the more significant changes occurring in Chinese IP law.

1. Chint Group Corp. (Wenzhou) sues Schneider Electric Low-Voltage (Tianjin) for infringement of a small circuit breaker utility model patent and receives record compensation.

In September 2007, the Wenzhou Intermediate Court awarded about RMB 334.8 million (USD 48 million) to electrical product manufacturer Chint Group Corp. The compensation was the highest ever awarded in a Chinese IP lawsuit. Schneider appealed to the Zhejiang High Court, where the issue was mediated, the two

parties settled, and the amount was nearly halved to RMB 157.5 million (USD 22 million).

2. Chinese court imposes criminal penalties upon the creators and online providers of modified Windows XP software "Tomato Garden."

Criminal penalties were handed down to several people involved in copying Windows XP, modifying it into the software "Tomato Garden," and providing it to the public via the Internet. The court sentenced Lei Hong, producer of "Tomato Garden" and manager of the program's website, to three-and-a-half years in prison and fined him RMB 1 million (about USD 146,000). Chengdu Share Software Net Science and Technology Co., Ltd. (SSN) cooperated with Hong and provided technical support. The court fined the company nearly RMB 9 million (about USD 1.3 million) and ordered it to forfeit about RMB 3 million (approximately USD 430,000) in illegal earnings. SSN President Xianzhong Sun received three-and-a-half years in prison

and was fined RMB 1 million (about USD 146,000). The court sentenced Marketing Director of SSN, Tianping Zhang, to two years in prison and ordered him to pay a RMB 1 million fine. Zhuoyong Liang, who participated in developing and producing the plagiarized software, also received a two-year sentence and was ordered to pay a RMB 100,000 (about USD 14,000) fine. It is the first time that a Chinese court has treated such copyright infringement as a crime.

3. Court balances public interest and patent holders' rights in a noteworthy decision on patent infringement.

China Environmental Project Tech, Inc. (CEPT), a company specializing in pollution-reduction solutions, brought an action against Fuji of Japan Water Industries and Huangyang Electric Ltd. (the owner of Zhangzhou Houshi Electric Power Plant) for infringement of a patented method of using seawater for flue gas desulphurization. The court held that the defendants had



infringed CEPT's patent and ruled in favor of CEPT; the second-instance court affirmed. Typically, the court grants an injunction in such circumstances. In this case, however, the court awarded CEPT RMB 50 million (about USD 7.3 million) and ordered the defendants to compensate CEPT for use fees until the patent expires. An injunction was not granted because the infringing method is now used for generating electricity, and the injunction would interfere with the public interest.

This is the first case in which a court has ordered a patent infringer to pay use fees in lieu of an injunction. Although it lacks precedent, the court's decision appears to indicate that courts may balance the interests of patent owners and the public in special cases.

4. Court holds that an on-line ticket-selling agent does not need the same legal qualifications to sell airline tickets as a brick-and-mortar ticket seller.

Beijing Golden Holiday Travel Service, Ltd. sued Ctrip.com International, Ltd. (Shanghai) for acting as a ticket-selling agent without the appropriate legal capacity. The Supreme People's Court held that because Ctrip only provides services for selling airline tickets but does not issue tickets, Ctrip need not have the same legal qualifications that brick-and-mortar ticket agents must have. This holding encourages market competition by enabling online selling to occur with fewer bureaucratic barriers. In this case, the court held that it did not have the authority to determine the legal status of businesses and deferred the issue of status determination to the relevant Administration for Industry and Commerce.

5. Court rules that a company's registered trade name cannot be similar to another company's registered trademark.

The "Wu Liang Cai" trademark is well-known in the Yangtze River Delta and other parts of China and is owned by the Shanghai Sanlian Group Co. Ltd. (SSG), which retails and wholesells clocks, eyeglasses, and photographic materials. The defendant, Suzhou Wu Liang Cai Glasses LLC (SWLC) used "Wu Liang Cai" and "Suzhou Wu Liang Cai" on their products and services. The court ordered SWLC to cease infringing, modify its shop names, and pay damages. The court found that SWLC should have been aware of the popularity of the Wu Liang Cai trademark, and that SWLC had intended to take advantage of the plaintiff's brand and confuse customers through false recognition.

In China, companies' trade names and trademarks are registered in separate administrative departments. Companies' trade names are registered in a local Administration

for Industry and Commerce (AIC). Companies' trademarks are registered in the national-level State Administration for Industry and Commerce (SAIC) and give a registrant an exclusive right to use the trademark throughout the country. The court's ruling clarified that a company's trade name may not be composed of words which are the same as or similar to another company's registered trademark. If a company violates this provision and the violation leads to customers' falsely identifying the company's products, this company may be liable for trademark infringement. The court found that it had the authority to resolve disputes involving trade names registered at local AICs and trademarks registered in the SAIC. Even though the local AIC legally registered SWLC's trade name, the court held the name to violate IP law.

6. Court holds that the trademark registrant of a common name does not hold exclusive rights to the name.

In 1999 Industrial Co., Ltd. Shandong Brocade (Shandong Brocade) registered "Lujing" as a trademark. "Lujing" is a common name for handmade cotton fabric from Shandong. Shandong Brocade then sued Juancheng County Lu Brocade and Jining Li Zhi Bang Home Textile Co., Ltd. for trademark infringement. The defendants argued that "Lujing" can not be registered as a trademark because it is a generic name in the industry. In a second-instance judgment, the Shandong High Court held that Shandong Brocade could not hold exclusive rights to the name.

This case provided legal standards for adjudicating cases concerning common names of products coming from specific geographical locations or origins. The court held that a common name can exist even if it does not receive national recognition. It found that whether a common name has fallen into common use depends on what it stands for and the extent to which people normally recognize it. In this vein, the court held that it is enough that a product's common name is recognized by local people in a certain location or region. Furthermore, the court held that although it does not have the authority to revoke a trademark registration, it can rule that the trademark owner does not have an exclusive right to use the common name.

7. Court holds that a GPS map can still be protected as a copyrighted work even if it has not been approved by the appropriate administrative office.

Digital navigation map producer Changdi Mapping Technologies Co., Ltd. (Changdi) sued GPS mapping and software developer Careland Ltd. for plagiarizing its "Dao Dao Tong" GPS Electronic Map. Careland argued that Changdi's map should not be legally recognized as

CHINA IPR NEWS

Goldengreen's listing on the CHASDAQ market suspended for void patents

The listing of Suzhou Goldengreen Technologies Ltd. on China's Second Stock Bourse, was suspended on the grounds that five of the patents listed in Goldengreen's prospectus were void. This is the first case of a company failing to be listed on CHASDAQ. It was reported that the five patents including one utility model and four designs became invalid because Goldengreen had not paid the annual fees.

Trademark registration of "You Pan" revoked

The trademark "You Pan" No. 1509740, owned by Netac, has been pending for 7 years since an application for cancellation was submitted in October of 2002. However, in April, the Trademark Review and Appraisal Board of the SAIC finally decided to revoke the trademark on the grounds that "You Pan" is a common product name.

PRC Antitrust Regulators Order Pfizer to Divest Specific Vaccine IP

The US drug company Pfizer, has sold the IP rights to a drug used to inoculate pigs to Harbin Pharmaceuticals. The undisclosed sale price is believed to be about USD 50million and represents the first time PRC antitrust regulators have ordered an IP divestment. The order followed Pfizer's USD 68billion take over of Wyeth. Chinese regulators claimed that had the divestment not occurred Pfizer-Wyeth would have controlled 50% of the domestic market for the vaccine.



copyrighted because it had not been approved by the appropriate administrative authority. The Guangdong High Court held that even though the map had not been approved, it could still be protected as a copyrighted work in court. The court awarded RMB 1 million (about USD 146,000) to Changdi. The court found that the originality of GPS maps is reflected in the way that they express, sift, and select geographic information.

This case is significant because it clarified the relationship between judicial copyright protection and administrative procedures for the publication of GPS maps. Further, the case illuminates the judicial process for determining whether an electronic map has been plagiarized.

8. Kingdream successfully sues a former employee for trade secret theft of its "roller bit" technology.

Oil and gas drill bit manufacturer Kingdream Public Limited Company accused former senior engineer Fafang Xing with illegally disclosing its "roller bit" technology to petroleum and chemical drilling equipment manufacturer LILIN Group after becoming the head of the company's technology department in 2001. The court sentenced Xing to six years in prison and ordered him to pay a RMB 50,000 (USD 7,320) fine. Thereafter, Kingdream brought a civil action against LILIN and Xing. The court granted an injunction on infringing actions and awarded Kingdream RMB 10 million (about

USD 1.5 million) in damages. On appeal, the three parties reached a mediated settlement in which LILIN agreed to pay RMB 17 million (about USD 2.5 million) in damages.

As more and more people change companies mid-career, the risk of trade secret theft also increases. In such cases, evidence collection is a difficult problem. Typically, plaintiffs find it very difficult to gather enough evidence in trade secret theft cases to proceed to trial. This case is exceptional because the information which police gathered for the criminal investigation yielded enough evidence to merit a civil hearing and permitted Kingdream to win in a trade secret infringement civil suit.

9. Court holds that an application for a trademark registration revocation cannot be accepted after it has already once been rejected.

American-based Johnson & Johnson (J & J) petitioned the Trademark Appeal Board to revoke the registration St-Flora (United) Co., Ltd's (Foshan) registration of the "Caile" trademark. J & J submitted applications against the Foshan-based cosmetics and bath products manufacturer in 1998 and 2000, but both applications were dismissed. After trademark law changed in 2001, J & J applied for a third time in 2002. Three years later, the Trademark Appeal Board revoked the trademark registration of St-Flora's "Cai Le

CAILE.". The ruling was affirmed in both the first and second administrative actions. The Supreme People's Court, however, reversed and remanded the case.

The court held that the Trademark Appeal Board had ruled improperly because it had accepted J & J's third application and rendered a judgment after its final decision in 2000. Chinese trademark law does not permit an administrative agency to accept an already-rejected application even if trademark law has been modified since the prior decision.

10. BMW (Germany) successfully sues for trademark infringement and unfair competition.

BMW sued Shenzhen Century Baoma Apparel Co. Ltd. (Century Baoma) for RMB 50 million (about USD 7 million) for unfair competition practices and trademark infringement. In this instance, because Century Baoma sells other brands, it was difficult to calculate the profits made from products carrying its MBWL trademark. The court awarded RMB 500,000 (about USD 73,000) to BMW, the maximum permitted by statute in cases in which the infringers' profits are unknown.

By Peng Kai and Margalit Faden

CHINA IPR NEWS

The Regulations on Customs Protection of Intellectual Property Rights revised

The revised Regulations on Customs Protection of Intellectual Property Rights came into force April 1st, 2010. The regulations have been revised to include the following aspects: Penalties shall be imposed separately from confiscation of the infringing goods when the quantity of the infringing goods carried by individuals or sent by post into or out of mainland China exceeds the reasonable limit for personal use.

Seized counterfeit goods shall be destroyed regardless of whether the infringing feature can be removed. Previously, goods were permitted to enter the market if the infringing feature were removed. IPR holders are now allowed to withdraw an application for protection. If any IPR holder fails to go through change or deregistration procedures in accordance with the regulations and such failure leads to a serious impact on the legal import or export of another's product or on Customs officials law enforcement activities, Customs officials may cancel the filing if an application is received by any interested party or on its own initiative.

The Supreme People's Court Opinions on Hearing Administrative Cases of Trademark Authorization

In April of 2010, the Supreme People's Court published the Opinions on Hearing Administrative Cases for Determining Rights regarding Trademark Authorization. These Opinions provide guidance on major issues contained in the judicial review for determining rights regarding trademark authorization, including the criteria for judging distinctive trademark features, well-known trademark protection, rush registrations in bad faith, the criteria for judging similar products and trademarks, protection of prior legal rights, review of registered trademarks unused for three years. These Opinions clarify the relevant legal boundaries and unify the necessary judicial criteria.

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