



2009-2010 LEGAL UPDATE

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▪ **CHINA'S HIGHEST COURT OPINES ON IMPLEMENTATION OF NATIONAL INTELLECTUAL PROPERTY STRATEGY: COURTS URGED TO PROTECT THE INTERESTS OF INTELLECTUAL PROPERTY RIGHTS HOLDERS**

On March 30, 2009, the Supreme People's Court (SPC) of the People's Republic of China (PRC), China's highest court, issued its Opinions on the Implementation of the National Intellectual Property Strategy (Opinion). The Opinion provides the framework for effectively implementing within the court system the National Intellectual Property Strategy Outlines (Strategy) published by the State Counsel on June 5, 2008. The Opinion, which re-emphasizes the importance of intellectual property rights (IPR) and seeks to enhance the judicial protections of such rights, is therefore likely to affect the protection of IPR in China significantly.

Pursuant to the Opinion, China's judicial bodies shall take a leading role in intellectual property (IP) protection, thereby contributing to China's transformation into an "innovation-oriented nation," one of the central tenets of the PRC government's most recent five-year plan. Specifically, the SPC urges all courts to utilize actively comprehensive remedies to protect the interests of IPR holders, including both monetary and non-monetary remedies. In addition, the SPC particularly encourages all courts to enhance damages awards in IP-infringement cases, especially for those with serious circumstances (i.e., willful infringement) so as to effectively prevent repeated infringement by the same infringer(s) and more widespread infringement. Finally, the Opinion also states that it will (1) expedite the establishment of a quasi-precedential reporting system for IP-related cases in order to unify judgment standards; (2) intensify the judicial re-examination of the activities of granting and affirming IPR by administrative authorities in order to unify the examination standards for grant of IPR; and (3) promote the publication of all IP-related court decisions.

While general guidance on handling various IPR infringement cases has been provided, the Opinion also emphasizes the balance between IP protection and public

¹ We would like to thank our Shanghai Office Vanessa Xu for putting this summary together. Should you have further questions, please contact Catherine Sun, the Managing Partner, at csun@foley.com.



interest, and cautions against the abuse of IPR. For instance, the SPC's Opinion notes that (1) the scope of a patent claim should be interpreted accurately and the doctrine of equivalents should be applied more narrowly; (2) well-known trademarks shall be recognized passively and prudently by the courts on both a case-by-case and a need-to-have basis; (3) in trade secret cases, the courts also shall protect the alleged infringer's own trade secrets from being inappropriately acquired by the plaintiff; (4) the courts shall be very cautious when adopting pre-litigation interim measures for invention and utility model patent cases (i.e., injunctive remedies), though for trademark and copyright infringement cases, the interim measures shall be adopted more actively; and (5) acts constituting unfair competition shall be recognized based on the Anti-Unfair Competition Law's general principle that “market competitors shall not violate the principle in good faith and honesty” and shall not be made simply on the ground of utilizing or damaging competitive advantage.

The SPC notes its intention to study carefully the necessity and possibility of establishing a special unified IPR tribunal to address civil, administrative, and criminal IPR cases as well as an IP appeal court, although no further details have been provided in this Opinion.

With respect to legislation, the SPC states in the Opinion that it very soon will issue the Judicial Interpretations on Protections of Well-Known Trademarks and in the very near future will roll out the Judicial Interpretations on Patent Infringement Assessment Standard and the Judicial Interpretations on Civil Procedures for Anti-Monopoly Lawsuits. Considering the technical aspects of many IP cases, the SPC also will establish certain legal procedures concerning judicial appraisals, expert witnesses, and technical investigations, among other issues.

In summary, the Opinion provides general guidance to all PRC courts in terms of IPR protections and touches on several important issues relating to such protections in China. With the issuance of such an Opinion, enhanced IPR protections and more uniform and transparent court decisions can be expected.



▪ **CHINA’S HIGHEST COURT OPINION ADDRESSES IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS ON INTELLECTUAL PROPERTY²**

In the face of the international financial crisis, China continues to focus on the importance of intellectual property (IP). On April 21, 2009, China’s highest court — the Supreme People’s Court of the People’s Republic of China (PRC) — issued its Opinion on Certain Issues With Respect to Intellectual Property Judicial Adjudication Under the Current Economic Situation (Opinion) within the court system in China.

The Opinion, among various other issues, provides explicit guidance as follows:

That courts shall strictly apply the doctrine of equivalents to avoid inappropriate broadening of patent scope

That prior use rights shall be reasonably recognized in patent lawsuits

That the courts shall recognize defenses based on prior art (the doctrine of which has been codified into the Third Amendment to the PRC Patent Law; See http://www.foley.com/publications/pub_detail.aspx?pubid=5766)

That courts shall recognize well-known trademarks under strict conditions based on necessity

That courts shall appropriately balance between trade secret protection (including non-compete issues) and employee career development

That courts shall improve the system for declaratory judgments of non-infringement in order to restrain abuse of IP rights

That courts shall be cautious in issuing pre-suit preliminary injunctions

That courts shall explore the possibility of relying upon experts such as accountants, auditors, and professional evaluation agencies when deciding damages

Consistent with the National Intellectual Property Strategy Outlines published by the State Counsel on June 5, 2008, the Opinion emphasizes the balance between IP protection and public interests, and will certainly impact the protection of IP rights in China.

² A full Chinese version of the Opinion is available at: http://news.xinhuanet.com/legal/2009-04/24/content_11247180.htm



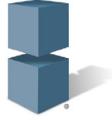
- **JUDICIAL RECOGNITION OF WELL-KNOWN TRADEMARKS IN CHINA MAY BE TIGHTENED UP**

On April 23, 2009, the PRC Supreme People's Court (SPC) issued its Judicial Interpretation of Several Issues Regarding Application of Laws in Well-Known Trademark-Protection-Related Civil Disputes (Interpretation). The Interpretation addresses various issues relating to well-known trademark recognition that have surfaced since the Provisions for the Determination and Protection of Well-Known Trademarks were issued by the State Administration for Industry and Commerce on June 1, 2003 (2003 Provisions). The Interpretation became effective on May 1, 2009.

The Interpretation, when implemented, is likely to reshape the judicial scheme for recognition of well-known trademarks set forth by the 2003 Provisions. Proposed changes include the following: (1) causes of actions for recognition of well-known status will be limited to trademark infringement and unfair competition claims recognized under applicable law, excluding (a) trademark or unfair competition claims not explicitly recognized under applicable law or (b) cases where the well-known status of the mark has no material bearing on the outcome of the case; (2) the well-known status will not be confirmed by the principal text of a court judgment or in writing in a court-administered settlement adjudication, which will prevent the res judicata doctrine from applying for future cases; and (3) trademark holders and owners will bear the burden of proof of establishing well-known status, and courts should not make a well-known determination based solely on the alleged infringer's admission, to prevent, in part, potential conspired phony lawsuits designed to establish the well-known status of certain marks.

Notably, the issued Interpretation omitted at least one key provision from the draft circulated on November 11, 2008. Specifically, the Interpretation omitted the well-known status of the mark outside China as a factor in recognizing well-known status in China. Thus, the Interpretation confirms that the 2003 Provisions will continue to define Chinese and China, respectively, to be the relevant public and relevant geography in determining well-known status. Another key change is that the domain name will be difficult to use as the basis for a cause of action for well-known trademark recognition. The Interpretation defines only (1) the domain name contains the well-known trademark or its similarity; (2) the relevant products are traded under the domain name through e-commerce; and (3) it will mislead the relevant general public, then one can raise the infringement case with recognition of well-known trademark.

Furthermore, under the SPC's January 9, 2009 Notification on Jurisdiction Issues Regarding Well-Known Trademark Recognition Related Civil Disputes, only certain courts at the intermediate level or above located in provincial capitals or other



designated cities have the jurisdiction over cases for determining well-known trademark status.

In view of these changes, it appears that the PRC courts are likely to limit judicial recognition of well-known trademark in the future.



- **CHINA MARCHES TOWARD THIRD REVISION OF TRADEMARK LAW: NEW DRAFT AMENDMENTS SIGNAL POTENTIAL EASE OF SURVEILLANCE BURDEN ON OWNERS**

The current era of intellectual property reform in China is impacting both patent and trademark law alike. China is in the process of revising — for the third time — its Trademark Law, which was first promulgated on August 23, 1982. Unlike the second amendment to the PRC Trademark Law, adopted in preparation of China's accession to the World Trade Organization in 2001, the current third revision was initiated by the China Trademark Office (CTMO) to streamline the trademark prosecution and enforcement process to meet the demand of rapid domestic economic growth. On June 20, 2009, the State Administration for Industry and Commerce (SAIC) issued a revised draft of the proposed amendments to the PRC Trademark Law (2009 Draft Amendments). The 2009 Draft Amendments are significant, as they represent changes currently contemplated in an ongoing process to reshape the law governing brand procurement and protection in China. It is anticipated that the third amendment will be finalized and implemented within the next two years.

Chinese trademark policy is presently a dynamic area of change. The 2009 Draft Amendments come on the heels of the May 1, 2009 implementation of the Judicial Interpretation of Several Issues Regarding Application of Laws in Well-Known Trademark-Protection-Related Civil Disputes (Interpretation) issued by the PRC Supreme People's Court. [See Foley's June 11, 2009 Legal News Alert: China, “Judicial Recognition of Well-Known Trademarks in China May Be Tightened Up,” at http://www.foley.com/publications/pub_detail.aspx?pubid=6100.] The Interpretation addresses various issues related to well-known trademark recognition that have surfaced since the Provisions for the Determination and Protection of Well-Known Trademarks were issued by the SAIC on June 1, 2003.

The 2009 Draft Amendments retain features similar to those previously presented in a draft last circulated for comment in August 2007 (2007 Draft). [See Foley's June 11, 2009 article, “China Trademark Law Is Being Revised: Is the Third Time Really a Charm?” at http://www.foley.com/publications/pub_detail.aspx?pubid=6096#5.] Specifically, the 2009 Draft Amendments provide for a scope of registrable trademarks to include color marks and non-visual marks such as sounds, smells, and motion marks. Notably, the examination and registration procedures for marks will be addressed in regulations to be separately promulgated by the SAIC. The 2009 Draft Amendments allow for multi-class applications and propose to double the present limit for maximum statutory damages to RMB 1 million (currently about U.S. \$147,000). In addition, the 2009 Draft Amendments provide for increased administrative fines of up to five times the amount of the illegal gain and, where the illegal gain cannot be quantified, the maximum statutory fine may reach RMB 1



million (about U.S. \$147,000). Also, standing to file trademark oppositions and invalidation actions would be restricted to parties holding prior rights and interested parties. Notably, the 2009 Draft Amendments do not define “interested parties.”

The 2009 Draft Amendments retain features of the 2007 Draft that serve to enhance enforcement of owners' rights in either registered or unregistered marks. For example, the 2009 Draft Amendments provide for enforcement rights where “the principle of honesty and credibility” has been violated. As such, separate from the Anti-Unfair Competition Law, the PRC Trademark Law would provide a potential protection for owners of unregistered trademarks against the knowing preemptive registrations of other parties. The 2009 Draft Amendments also provide a remedy in favor of select marks that are not recognized as “well-known” trademarks. In present practice, only well-known trademarks can have the cross-class protection, but the well-known trademark status is difficult to obtain. It is nearly impossible for most foreign brand owners to protect their trademarks from “bad-will” copy registrations in other classes. Significantly, the 2009 Draft Amendments provide cross-class protection for trademarks having certain significance in China but that are not yet well known. As a result, many foreign brand owners would likely benefit from this expansion of cross-class protection.

The 2009 Draft Amendments have been revised in several important areas in relation to the 2007 Draft. First, the 2009 Draft Amendments no longer require the CTMO to complete the examination of trademarks within 12 months of the date of application filing. The 2007 Draft proposed to set a statutory one-year examination term for trademark applications. This was a very ambitious proposal in view of the increased volume of applications and significant backlog for pending cases. Second, the 2007 Draft proposal shifted the burden of “gate keeping” before and after the applications to applicants and registrants. In the 2009 Draft Amendments, substantive examination of a candidate mark by the CTMO for refusal based on relative grounds has been maintained. Retention of this requirement may serve to ease significantly the burden on trademark owners to monitor the marketplace for and file oppositions against confusingly similar marks.

The ascendance of the Chinese marketplace as a global powerhouse serves to heighten international interest in changes implemented during this period of intellectual property reform in China. The 2009 Draft Amendments provide insight into the potential changes to Chinese trademark law that will set the tone for future brand creation, management, and protection in this important market.



- **KEY PROVISIONS OF PRC JUDICIAL INTERPRETATION ON PATENT INFRINGEMENT TO TAKE EFFECT ON JANUARY 1, 2010**

On December 21, 2009, the PRC Supreme People's Court adopted several provisions of the Supreme People's Court on Issues Concerning Applicable Laws to the Trial of Patent Infringement Controversies (Judicial Interpretation). The Judicial Interpretation draws from and parallels the implementation of last year's Third Amendment to the Patent Law, and will become effective as of January 1, 2010. A Chinese version is available at http://www.chinacourt.org/flwk/show.php?file_id=140350.

In July 2009, Foley reported the circulation of a draft Judicial Interpretation (Draft) for public comments. (See http://www.foley.com/publications/pub_detail.aspx?pubid=6159.) As compared to the Draft, the final Judicial Interpretation is a simplified version and provides a more general guideline that gives PRC courts more discretion on a variety of complex issues. A summary of the final Judicial Interpretation follows.

Scope of Protection

A significant portion of the Judicial Interpretation concerns the determination of the scope of patent protection.

Claim Construction

Specifically, the Judicial Interpretation sets forth that the court will/should determine the scope of patent protection based on recitation of the claims, in combination with an understanding of the claims by an ordinarily skilled person in the art upon his/her reading of the specification and drawings (Section 2).

Narrow Interpretation for “Means” Claims

The Judicial Interpretation also provides for narrow interpretation of means-plus-function claims, similar to the United States (35 USC §112, ¶ 6).

However, during prosecution, most patent examiners currently read the means-plus-function claims broadly to cover all possible mechanisms that perform the same function. Such examination practice is likely to change in light of the Judicial Interpretation.

All Elements Rule

The Judicial Interpretation also explicitly requires that all technical features or their equivalents shall be present in the accused infringing product for a finding of patent infringement (Section 7). This essentially abandons the widely criticized “superfluity establishing principle,” which was adopted by the Beijing High People's



Court in an earlier decision. There, the court considered a feature of an independent claim apparently “non-essential” and removed it from consideration when determining infringement.

Prosecution History Estoppel

The Judicial Interpretation indicates that, if during prosecution or invalidity proceedings, a patent applicant or patent holder abandoned certain technical solutions through amendments or response(s), the scope of protection shall exclude such abandoned subject matter(s) (Section 6). Noticeably, unlike the Draft, the Judicial Interpretation does not require the amendments or responses to be “restrictive,” which appears to suggest that such estoppel theory may have a broader application.

Design Patent Infringement

For design patents, the Judicial Interpretation abandoned the “relevant public” concept introduced in the Draft. Instead, the Judicial Interpretation reiterates that identicalness or similarity of designs shall be determined in accordance with the knowledge and recognition of a general consumer (Section 10).

Prior Art Defense

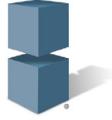
The Third Amendment to the Patent Law codifies the doctrine of prior art defense, under which the PRC courts may find no infringement if the defendant has evidence to prove that his/her technology or design is covered by or performed in accordance with prior art or prior art design. The Judicial Interpretation requires the reliance upon one piece of prior art (or design) in such a defense, but also allows certain changes from the cited prior art. For example, with respect to utility patents, the features of the accused infringing product can be “not substantially different from” those of the prior art; with respect to design patents, the design of the accused infringing product can be “not substantially different from” that of the prior art.

Cease and Desist Letters

The Judicial Interpretation sets forth that the accused infringer is entitled to file a declaratory judgment if the patentee — within one month after receipt of, or within two months after dispatch of, written notice from the accused infringer who has received a cease and desist letter therefrom, urging the patentee to take legal actions — fails to withdraw this letter or to bring a lawsuit. Such an additional procedural requirement may give the patentee significant advantages over the accused infringer in terms of forum shopping.

Noticeable Removals From the Draft

Various sections have been removed from the Draft. For example, the assembling and recycle and contributory infringement sections have been removed, probably due to controversies that became apparent during the comment period. Sections regarding doctrine of equivalents and patents adopted in industrial standards also have been



deleted, probably for the reason that such issues have been addressed in previous judicial interpretations (which remain effective) or will be further addressed in pending legislation activities.

Conclusion

The Judicial Interpretation is particularly important, as it represents a powerful interpretative tool for Chinese patent law and practice. Nevertheless, the Judicial Interpretation remains silent on a number of complex and controversial issues. It is possible that the PRC Supreme People's Court may seek to provide further guidance on such issues by agreeing to hear certain cases in the future, which we will certainly monitor closely.



- **PRC'S SIPO ISSUES NEW IMPLEMENTATION REGULATION IN ASSOCIATION WITH ITS THIRD AMENDMENT TO PATENT LAW**

On January 9, 2010, the State Council of the People's Republic of China (PRC) finally approved the long-awaited new Implementation Regulation of the Patent Law (Implementation Regulation), which primarily addresses procedural issues in connection with the recent changes to PRC Patent Law. The Implementation Regulation will become effective on February 1, 2010, and a Chinese version is available at http://www.gov.cn/zwggk/2010-01/18/content_1513398.htm. Certain important amendments are discussed in this alert.

National Security Review Procedure

In connection with the newly introduced national security review, applicants seeking to file either in a foreign country or a Patent Cooperation Treaty (PCT) application with a foreign receiving office must provide a detailed description of the invention together with the filing of a request for national security review, regardless of whether or not a Chinese application has been filed. The SIPO is required (1) to inform the applicant within four months of the filing of the request if it believes that a national security review is necessary, and (2) to decide within six months whether or not the invention relates to national security such that it shall be kept confidential. If within the four- or six-month statutory period the SIPO has not responded, favorable decisions are assumed, and the applicant is free to file the foreign or PCT patent application.

Furthermore, the filing of a PCT application with SIPO is tantamount to filing a request for a national security review. The Implementation Regulation fails to provide any further details about how the review will be conducted in such a scenario. More guidance is expected from the Guidelines for Examination, which are still being reviewed by SIPO, the current draft of which appears to suggest a shorter confidentiality review period, as we reported in our previous legal alert: http://www.foley.com/publications/pub_detail.aspx?pubid=6421.

The new Implementation Regulation merely provides a vague definition of “invention or utility model made in China”; that is, inventions where substantive contents of the technical solution are accomplished in China. As such, uncertainties exist with respect to inventions made through international cooperation.

Invalidation Grounds Expanded

The new Implementation Regulation has expanded the grounds for invalidating an issued patent in accordance with the new PRC Patent Law. Two major new invalidation grounds include (1) the violation of the national security review



requirement by the applicant, and (2) the illegal obtaining or use of genetic resources to complete the invention-creation.

In addition, applicants have a duty to disclose the use of genetic resources during prosecution of an application, and no patent will be granted if an applicant does not comply with this duty. However, failure to disclose is not a ground to invalidate an issued patent.

Inventor Reward and Remuneration

Most significantly, the PRC Patent Law entitles the inventor to receive monetary rewards and remuneration, which remuneration can be represented by a certain percentage of the license fees or the patentee's profits that result from exploitation of the patented technology.

Standards of such rewards and remuneration set forth in the current implementation regulation are applicable only to PRC state-owned entities. However, under the new Implementation Regulation, such standards also would be applicable to private entities, unless it is otherwise decided in the company policy or individual contract. Companies with operations in China, especially R&D activities, should strongly consider taking appropriate steps in advance of the effective date to prepare for this change.

Significant Changes Relating to Multiple-Design Patents

Under the new PRC Patent Law, applicants may file a multiple-design application for more than one similar design of the same product. Accordingly, the new Implementation Regulation provides that (1) the applicant shall identify one primary design in the brief description, and (2) not more than 10 similar designs can be included in one multiple-design application.

The new Implementation Regulation clarifies a number of issues raised by the Third Amendment to the PRC Patent Law and provides those in the intellectual property field with more guidance on various procedures, though some uncertainties remain.