

China updates

This issue contains the second quarterly report on IP developments in China kindly submitted by **Toby Mak** (Foreign Member and partner in Tee & Howe Intellectual Property Attorneys) and his colleague **Jie Zhang**. It includes interesting reviews of reliance on a **"prior use" defence in patent infringement proceedings**, repeated stress on **the importance of "officially" approved evidence** in any proceedings, how the Chinese SIPO is applying its law to **Swiss type claims** – when you thought we had managed to escape from them – to drug dosage regimes, and something about **the interaction of patent law with competition law in China** in relation to FRAND-type cases, showing that care must still be taken of competition law issues in China in relation to exploitation of patents, and an **update on pilot PPH programmes in China**.

The issue also includes, without apology, a summary of some of the changes which have taken place in **Chinese trade mark law**, although these have now been in effect for nearly three months -- since 1 May 2014, and have been reported elsewhere. The changes are important as they reflect an increased appreciation in China for trade mark issues which businesses looking at the Chinese market have long been troubled by, and also because businesses (and attorneys representing those businesses), who have been doubtful about trade mark protection in China, should take a fresh look. Of course we have yet to see how much of this is implemented in practice -- that will be the subject of future reports.

Alasdair Poore, Editor



By Toby Mak
(Foreign Member)*

A FRAND decision in China between Huawei and InterDigital – how patents could be relevant¹

The decision reported below is the second instance decision, an appeal against the first instance decision handed down by the Shenzhen Intermediate People's Court in 2011. This second instance decision was handed down by the Guangdong High People's Court on 21 October 2013, and has recently been published.

In the first instance decision, Huawei requested the Shenzhen Intermediate People's Court to rule that:

- a) InterDigital immediately stop manipulating infringement actions against Huawei including overpricing, discriminatory pricing, tying sales, the addition of unreasonable transaction terms, and the refusal to do business.
- b) Compensation to Huawei's economical loss of 20,000,000 RMB.
- c) Compensation for reasonable costs incurred by Huawei to defend its rights, including investigation, notarisation, and attorney fees.

Huawei based these requests on the Chinese anti-trust law. At first instance, the Shenzhen Intermediate People's Court considered the following:

- Huawei's situation, including its place of business, research spending, number of

employees, number of patent applications and patents granted in China and overseas, and its annual turnover.

- InterDigital's situation, including various companies in its group, and statements made in InterDigital's annual reports.
- 2G, 3G, and 4G communication standards, and standards organizations that InterDigital joined including the European Telecommunications Standards Institute (ETSI) and its policies
- Patents declared by InterDigital at ETSI to be essential to various telecommunications standards, and the uses of these patents in China
- Negotiations between Huawei and InterDigital. Huawei apparently disclosed all of the negotiation details to the court, and, as such, various details regarding such negotiations including the specific terms offered were redacted in the decision, presumably at the request from InterDigital as trade secrets.

- Information on transactions between InterDigital with various companies including Intel, Apple, Samsung and LG, RIM, and HTC. Such information, according to the decision, was obtained from public information disclosed by InterDigital to various parties including the US Securities and Exchange Commission, news reports, and InterDigital's annual reports.
- Evidence submitted by InterDigital relating to transactions involving patents in the telecoms field, including the acquisition of Motorola by Google, in which the decision disclosed Google's admission of Motorola's preparedness to offer a licence fee of 2.25% per terminal device for its standard essential patents.

The decision of the first instance court mentioned that, as fellow readers could expect, InterDigital did not provide details of its licence agreements with various companies including Apple and Samsung. On the other hand, Huawei provided an analysis report from research institute, Strategy Analytics, in which the total sales among various companies including Samsung, LG, Apple, RIM, and HTC were mentioned. Such figures were used by the first instance court to assess the fairness of the licence fees offered by InterDigital to Huawei. InterDigital tried to challenge the authenticity of this report by pointing out the discrepancies between the sales figures in this report for Apple, and those in Apple's annual report. This challenge was unsuccessful as Huawei defended the discrepancies, on the basis that they were due to the difference of the dates in two reports. (Strategy Analytics' report calculated the figures from 1 January to 31 December, while Apple's annual report calculated its figures from September to September.)

- Infringement actions brought by InterDigital against Huawei in the US. Specifically, InterDigital had sued Huawei for potential infringement of US patent numbers 7349540, 7502406, 7536013, 7616070, 7706332, 7706830, and 7970127 in Delaware, and on the same date requested ITC to initiate unfair competition investigations against Huawei.
- The Annual Report from InterDigital disclosing various facts, including the number of patents InterDigital had, the licence fees collected by InterDigital, and so on.
- Evidence from Huawei on loss. However, Huawei only provided photocopies of invoices for attorney and notarization fees in the US, and such invoices were challenged by InterDigital due to lack of notarization and legalisation.

The court of the first instance decided on four identified points of contention; all were appealed, and naturally the court of the second instance also decided these four points. In the following sections, these four points will be presented by first describing the decisions from the court of the first instance, and then followed by the decision at the second instance/the appeal.

i. Issue regarding definition of the scope of market

The first point of contention is on the definition of the scope of market. Huawei asserted that the scope of market was China and US, while InterDigital asserted that the scope of market was worldwide, in an attempt to avoid jurisdiction of the Chinese court. The court of the first instance affirmed Huawei's assertion on the following basis:

- Both parties agreed that InterDigital owns patents essential to the standards of 3G and 4G and ETSI, and these essential patents have corresponding US and Chinese family members.
- Huawei's manufacturing activities are mainly in Shenzhen, China, and the products would be exported to the US.
- InterDigital owns 3G standard essential patents worldwide, including China and the US, and such 3G standard essential patents are unique and non-replaceable.

The above facts were affirmed by the court of the second instance. At the appeal, InterDigital argued that 3G standard could be replaced by 2G and 4G standards, and therefore these 3G essential patents are replaceable. The court of the second instance ruled that at the beginning of establishing a standard, players in the field could still easily abandon technology and use an alternative one. However, following increased investments into the standard and an increase in cost to shift to another standard, the transfer becomes more difficult. 2G, 3G and 4G standards are different standards established at different times in the telecommunication field, and each essential patent in each essential standard is still unique and irreplaceable.

InterDigital also argued in the appeal that Huawei's products are exported throughout the world, and therefore the geographic scope should be worldwide. However, the court of the second instance disagreed on the basis that intellectual property is territorial.

The court of the second instance also explained that licensing and all related activities of InterDigital's Chinese patents are within China and are therefore covered by the Chinese anti-trust law. With regard to InterDigital's US patents, the court of the second instance ruled that these could substantially affect the manufacturing activities, export opportunities and transactions of Huawei in China, and are therefore also under the jurisdiction of the Chinese anti-trust law.

ii. Issue regarding whether InterDigital dominates the market

The court of the first instance ruled that InterDigital dominates the market on the following basis:

InterDigital does not manufacture but only engages in licensing, and as such, Huawei cannot constrain InterDigital through cross licensing. [The writer: so, in this way, patent trolls are now punished?]

The court of the second instance affirmed the above views, and therefore also the decision of this point from the court of the first instance.

iii. Huawei's accusation that InterDigital abused use its market dominance

It is difficult to report and/or comment on this section as much information in this section is not published due to its trade secret character. Specifically, Huawei handed in information on the offers made by InterDigital, including the price and any additional offers. The writer will try to report as much as he can. [There are really a lot of asterisks and stars in this section...]

The court of the first instance ruled against InterDigital on the following basis:

- InterDigital's price to Huawei is much higher than that to Apple, Samsung, RIM, and HTC, mainly based on the report from Strategy Analytics.
- The number of research staff, patent applications, patents granted, and proposals to standard organizations from Huawei well exceed those from InterDigital. The court of the first instance then, "logically" deduced that the quantity and **quality** of patents owned by Huawei far exceed those of InterDigital, and in other words, the value of Huawei's patents well exceeded that of InterDigital [Where is the application form for the course Logic 101?].
- InterDigital filed lawsuits against Huawei in the US during negotiation, and these were considered as malicious in order to force Huawei to accept the terms from InterDigital.
- InterDigital's tie-in of some patents to Huawei, which were considered to be replaceable. Unfortunately, all such information was concealed in the decision.
- Interestingly, the court of the first instance ruled in favour of InterDigital on tie-in of some of its patents on the basis that this is the industrial norm. However, again, as all such information was concealed, it is not clear how this conclusion was reached.

On appeal, InterDigital argued the following:

- The comparison between InterDigital's offer to Huawei and the licence fees to other companies were inappropriate due to these discrepancies in how the licence fees were collected. However, the court of the second instance ruled against InterDigital, as InterDigital refused to disclose any details of its licence arrangements with other companies, and InterDigital was never able to deny that the licence fee to Huawei were apparently unreasonably higher than to other companies. Further, InterDigital disclosed in its annual reports that the licence fees collected every year from 2009 to 2011 were decreasing. The lawsuits in the US filed by InterDigital also backfired here.
- With regard to the tie-in allegations, the court of the second instance maintained the decisions from the court of the first instance. However, again, as important information regarding this issue is concealed, it is not apparent how the two courts reached at this conclusion.

IV) Compensation to Huawei

The decisions in both courts held that InterDigital must compensate Huawei in an amount of 20,000,000 RMB.

However, it is not clear from both decisions how this figure was reached. It was only stated in the decision in the court of the second instance that this figure was set after considering the nature of the infringement by InterDigital, the period of infringement, the effects of the infringement, and the reasonable costs of Huawei to investigate and stop the infringement action. [The writer: Huawei's headquarters is in Shenzhen, Guangdong... and have a look at the two courts involved ...]

In addition to the above points, InterDigital also did the following in the appeal. These were all not considered:

- InterDigital submitted seven pieces of evidence including the ranking of Huawei's relevant business in the world and China, the report of Huawei's mobile phone sales figures, decisions from US and Europe on infringement, licensing, and anti-trust cases, and so on. However, Huawei contested these on the basis that they were irrelevant and could not be compared in the current case.
- InterDigital hired an expert to present an opinion during the court hearing to support InterDigital's assertions. Again, the expert opinion was contested by Huawei on the basis that it was only an opinion without relevant data and investigation to support.

How patents may be relevant in an anti-trust case in China?

It can be seen from the above that whether a patent would impact anti-trust cases in China depends on whether it is *unique and irreplaceable*. According to the decisions, this would also affect the determination whether a company has market dominance, which is a necessary characteristic in anti-trust cases. Standards essential patents will, by definition, fall within this category.

Further, "uniqueness and irreplaceability" of a patent also affects determination on whether there are tie-in sales, but will be less influential as the norm of the industry would be also be considered. For example, if it is the norm of industrial (particularly the telecoms industry) to tie-in licence of non-standard essential patent, then such acts may be allowed under the anti-trust law in China.

Although starting patent infringement proceedings in the US may be usual during licence negotiations, the current decisions show that this will backfire in China. The writer is interested to know whether this would also backfire in Europe.

These decisions also show that as long as a patent would affect business operations in China, an inter-trust action could be started in China, even though the patent involved is not a Chinese patent.

***Author: Toby Mak, Tee & Howe Intellectual Property Attorneys. ©2014.**

Note

1 The writer is the first to say that he is not an expert in the topics of FRAND (fair, reasonable, and non-discriminatory) licensing obligation, as required by standards organizations, and anti-trust law. Consequently, this article only reports the facts in this case, and discuss how patents could be relevant when involved in such decisions in China. The writer welcomes FRAND and anti-trust experts to provide their further comments on this case.

Invalidation of Cubist Pharmaceuticals, cubicin

Although methods of (medical) treatment claims are accepted in the US and Europe, such claims are still not accepted in China. Currently such claims have to be rewritten into so called Swiss-type claims. However, Swiss-type claims are not suitable for inventions involving merely changes in the dosage regimen and/or timing of administration. This was the problem faced by Cubist Pharmaceuticals, Inc. with its Chinese patent covering its block-buster drug cubicin. This is also the first ruling from the Supreme Court on its position regarding the dosage amount and timing of administration on determination of patentability in China.

Before discussing the current case, there was a previous High Court decision (in the case of Chinese Patent No. ZL94194471.9) that a limitation on unit dose should be considered as a technical characteristic in evaluating patentability. In that case, the distinguishing feature of the Swiss-type claim was the "0.05 to 3.0mg dosage amount" of the medicament, and the drug is administered orally. The current Supreme Court decision does not appear to contradict this High Court decision; rather this Supreme Court decision distinguishes the unit dose in Chinese Patent No. ZL94194471.9 from treatment dose in Cubist's Chinese patent.

Claim 1 of the Cubist's Chinese Patent (No. ZL 99812498.2) read:

Use of daptomycin for the manufacture of a medicament for treating a bacterial infection in a patient in need thereof without generating skeletal muscle toxicity, wherein a dose for said treatment is 3-75 mg/kg of daptomycin, wherein said doses are administered repeatedly at a dose interval of once every 24 hours or 48 hours.

It was determined that the following features were distinctions, as daptomycin was known to be used in treating bacterial infection, particularly those infected by gram-positive bacteria:

a. Skeletal muscle toxicity did not result

b. A treatment dose of 3-75 mg/kg of daptomycin

c. The above treatment dose is administered repeatedly at a dose interval of once every 24 hours or 48 hours

Before the decision of the Supreme Court, the Chinese patent was first invalidated at the Patent Re-examination Board (PRB) of the Chinese SIPO, then in an appeal at the Beijing Intermediate People's Court, and in a second appeal at the Beijing High People's Court. In short, the three People's Courts affirmed the invalidation decision from the PRB of the SIPO. Specifically, the feature of "not generating skeletal muscle toxicity" was considered to be not limiting as such is an effect occurred **after** the drug is administered on the patient. The significance of the dose of the treatment and the dosage interval were also dismissed as these two limitations were considered to be not related to the manufacturing of the medicament. More specifically, the PRB and the three Chinese People's Courts considered that a Swiss-type claim is a "method of manufacturing" claim, more specifically a method of manufacturing a medicament, and therefore, the above limitations relating to the administration itself or effects of the administration were considered to be carrying no weight on determination of patentability of a Swiss-type claim.

The Supreme Court decision has additional comments on these points, which will be discussed below.

As expected, Cubist tried to argue for the patentability of the above two features at various stages. Attempts from

Updates on the Patent Prosecution Highway

The PPH "circle" with China has expanded further. PPH pilot programmes between China have been started with the following countries, and will end on the respective dates:

- The UK, Iceland and Sweden: started on 1 July 2014, and plan to end on 30 June 2016 – the UK (but why did the UK not get through in 2013 and much later than the US? Remember **David Cameron's** meeting with **Dalai Lama** in May 2012?)
- Israel: started on 1 August 2014, and plan to end on 31 July 2016.

These pilot programmes were supposed to end on the dates indicated, but are expected to be extended at that point. However, unless the SIPO announces the termination of the programmes, they will continue.

The specifics of filing a PPH request are the same as other PPH pilot programmes in China. For details, please refer to the May 2014 issue of the *Journal* (page 283, The Patent Prosecution Highway in China, Toby Mak).

Cubist included the following:

- Skeletal muscle toxicity in prior art composition resulted in the suspension of Eli Lilly's clinical trials of daptomycin at the US FDA, and therefore, the non-generation of skeletal muscle toxicity feature should be considered when evaluating patentability.
- The process of manufacturing a medicament does not only include raw materials, drug treatment dosage, method manufacturing and equipment, but also include specification of the drug, drafting a specification of the labels and packaging, and all processes involved before the drug is shipped out of the factory. As such, the treatment dosage amount and dosage interval recited in the current patent claims will directly affect the drug specification and labels, and therefore should be considered as limiting.
- The prior art did not disclose the less frequent dosage interval of 24 to 48 hours but higher administration dose of 3-75 mg/kg of daptomycin.
- At the application date of this patent, daptomycin is still at the research and development stage, and is very distant from actually being used as a medicine. As such, doctors will strictly follow the treatment dosage and dosage interval according to the specification without any freedom.
- Cubicin has received huge commercial success, and Cubist presented various pieces of evidence including news reports that Cubist major income is from cubicin, annual reports from Cubist, and so on.
- The Chinese Patent Examination Guideline 1993 edition should be used, while the 2006 edition was used instead. The main difference between the two editions is that the 2006 edition recited that distinguishing features only realized at drug administration cannot be used to confer novelty to the use for Swiss-type claims, while such statement is absent in the 1993 edition.

All the above attempts failed: it was decided that Swiss-type claims are in fact a claim directed to method of manufacturing of a medicament, and features relating to administration of such medicament and/or effect after

administration should be disregarded.

During the evolvement of the case and in this decision from the Chinese Supreme People's Court, the writer notes the following interesting points:

- Whether medical use approved by drug administrations in various countries like the US FDA is relevant to use in drug manufacturing was discussed. The invalidation petitioner, whom was an individual, argued that these are irrelevant, as, if use in manufacturing of a medicament under patent law is the same as use of the drug licensed by drug administration, this would lead to the incorrect conclusion that obtaining patent grant for Swiss-type claims must mean first obtaining approval from the relevant drug administration.
- Cubist actively abandoned priority claim of certain claims during the invalidation hearing, presumably due to inconsistencies between the priority document and the specification as filed.
- During the first appeal at the Beijing Intermediate People's Court, Cubist admitted that a person skilled in the art could *not* distinguish two medicaments of daptomycin if the distinction is based on the above three distinguishing features a) to c). The writer believes this admission is Cubist's Achilles heel in this case.
- Cubist tried to argue that the medicament of the invention is particularly used to treat gram-positive bacterial infection. However, this was dismissed, as the specification itself mentioned that various bacterial infections could be treated, and the current claims did not limit to treatment for gram-positive bacterial infection.
- The Supreme Court decision specifically discussed the distinction between unit dose and an administration or treatment dose. The decision recited that current claim 1 does not specify the dosage of 3-75 mg/kg is unit dose or treatment dose. The Supreme Court ruled that according to the specification, the above dosage is the treatment dose as would be understood by a person skilled in the art. The Supreme Court decision

CBBC/UK IPO China IP Roadshow – October 2014

This October **Tom Duke**, Senior IP Liaison Officer from the British Embassy in Beijing, is visiting the UK. The China-Britain Business Council is working with the UK IPO to organise a series of IP events in key cities. This presents an opportunity for UK companies to gain direct advice on the latest developments in China's intellectual property law and policy.

CBBC will host a series of IP events in key cities throughout the UK, to provide a platform for Tom to share his expertise and hear directly from UK companies about their IP issues. The focus of these

seminars will be on IP in Science, Innovation and Technology, making them highly relevant for companies with a lot of IP such as those in the pharmaceutical, hi-tech manufacturing and advanced engineering sectors. Join these events for a chance to ask your China IP questions to the UK government's leading expert.

The events will take place in Birmingham, Manchester, London and Cambridge on 23-24 October. For the latest details and to register your place, please view the calendar on the CBBC website – www.cbcc.org. Any questions on the programme may be emailed to ipr@cbcc.org.

specifically stated that treatment dose does not necessarily affect the manufacturing process of a medicament, so that it changes the composition of the drug, and therefore it is not limiting to a Swiss-type claim.

- With regard to the use of the 2006 edition of the Chinese Patent Examination Guideline, the Supreme Court ruled that this does not affect the ruling in this case, as the standards of patentability evaluation for a product manufacturing claim are maintained to be the same.

This ruling is disturbing to companies having inventions involving change of dosage regimens or dosage intervals of existing drugs. However, this is not surprising with the current Chinese interpretation of Swiss-type claims being method of manufacturing a medicament claims. The writer considers that it would be strange if limitations on “mere drug administration” would be considered as limitation of manufacturing of the medicament itself. This is a deadlock, and will only be resolved if attitude towards method of treatment claims is changed in China. In this respect, the USPTO and EPO are encouraged to talk to the SIPO to introduce such changes of allowing method of treatment claims to be granted in China.

The following lessons can be learned from this case:

- 1) If the improvement of the medicament is in its dosage, it would be helpful to specify that the dosage in the Swiss-type claim is the unit dose. Although not specified, this Supreme Court decision seems to imply that what is the unit dose would affect the composition of the final medicament manufactured, as opposed to treatment dose (which it decided would not). This would help to confer patentability on Swiss-type claims.

- 2) Cubist’s current issue is that they only have Swiss-type claims covering their second medical use. Then would a claim like the following help?

“An article of manufacture comprising a package material, daptomycin, and a label of package insert contained within the packaging material indicating that the daptomycin is administered at a dosage of 3-75 mg/kg of daptomycin, and is administered repeatedly at a dose interval of once every 24 hours or 48 hours.”

Similar claims have been granted for inventions involving new chemical compounds or new compositions in which the compound/composition is different from the prior art, for example in Chinese patent nos. 200580018660.1, 200580028061.8, 200680042380.9, and 200980112242.7. Whether the above exemplary claim for daptomycin could be properly granted for a medicament is unknown, as the only distinctions from the prior art are treatment dosage and/or dose interval. The writer’s experience is that these are determined on a case-by-case basis. Some examiners may allow such a claim, while other examiners do not. However, the format of the above claim could at least solve the issue of the product manufactured by the Swiss-type claim remaining unchanged if the limitations are only directed to treatment dose and dose interval. The next question to be resolved is whether these distinctions, which in this case lie in the label and draft of the specification of the package only, would be considered as technical? The writer is interested to receive views from fellow readers.

*Author: **Toby Mak, Tee & Howe Intellectual Property Attorneys.** ©2014

ZIKO Ltd v Yonghe Chemical – successful prior use defense

A defence of prior use is not very easy to invoke and particularly so in China due to its stringent evidence requirements. This case is about a successful prior art defense in China, and it may be interesting to know how such a defense succeeded.

The patent at issue was Chinese Patent No. ZL200580016157.2 owned by ZIKO, and directed to benzyl formamidine compounds as ultraviolet light absorbers. The priority date of the patent was 27 May 2004. This date is important, as various contentions in the case were about this date. There was not much debate in the infringement itself: in fact, the defendant, Yonghe, admitted that the chemical compound it produced fell within the scope of claim 8 of the patent. Yonghe of course did not stop here, or the case would be a straightforward infringement case for the court to decide.

The current decision is an appeal against the first instance decision. All stages were tried in Jiangsu, which is the home province of Yonghe, the defendant in the proceedings.

In the first instance, Yonghe presented two defenses: suspension on the basis of challenge to validity, and prior use.

i. Challenge to validity as a basis to suspend the infringement case

Yonghe argued that the chemical compounds covered by ZIKO’s CN patent were not new. Yonghe presented a search report issued by the SIPO to support this claim. This report showed that the subject compound was registered on 16 September 2003 in the STN Database of the American Chemical Society. Although ZIKO admitted that the chemical compound recorded in the STN Database was the same as in the subject Chinese patent, ZIKO challenged the date of disclosure, specifically, that the date of recordal of the compound in the STN Database was not the actual

disclosure date; and the actual disclosure date of the chemical compound was the date of publication of the Chemical Abstract on 16 January 2006. This was after the priority date of this Chinese patent. The court of the first instance, however, did not rule on this point, as Yonghe filed an invalidation request with the SIPO, and ZIKO contested Yonghe's reason of invalidation. This may also be the reason why the infringement decision was not suspended.

ii. Prior use defense

Accordingly, the only point of contention in this infringement decision was whether Yonghe had prior use rights. To establish this, Yonghe presented the following evidence:

- Four faxes from a Taiwanese company Hexin to Yonghe. (Hexin is the parent company of Yonghe; Yonghe is the manufacturing facility of Hexin in China).
 - a. A copy of a fax dated 14 April 2004 at 11:03 reciting the subject chemical compound and its Chemical Abstracts Service number, and its synthetic route;
 - b. A copy of a fax dated 14 April 2004 at 16:52 supplementing the specification of the subject chemical compound;
 - c. A copy of a fax dated 20 May 2004 mentioning the two earlier faxes, and asking about progress, as Hexin's client was chasing. This fax also requested a cost quotation and provision of 500 grams of sample to be supplied to the client;
 - d. A copy of a fax dated 4 June 2004 requesting Yonghe contact Hexin if the development of the production of the product had any problem.
- Two official receipts (发票):
 - An official VAT receipt dated 7 December 2004 from Yonghe to Union Chemical Ind. (Shanghai) Co., Ltd. reciting the goods (namely the subject compound), in a quantity of one tonne and price at 165,000 RMB
 - An official receipt from Yonghe to FUNGWINCO., LTD reciting the goods (i.e. the subject chemical compound) at unit price FOB US\$17.50 per kilo and total price of US\$8,750
 - Yonghe also provided its accounting books for the years 2004, 2005, 2011, and 2012 showing that the expected annual manufacturing quantity of the compound was 50 tons in 2004, and actual sold quantities were 1.5 tons in 2004, over 9 tons in 2005, 4.6 tons in 2011, and 8.75 tons in 2012

ZIKO did not challenge the authenticity of any of the documents presented by Yonghe at first instance, including the four faxes referred to above. In fact they admitted that the synthetic route of the chemical compound described in the fax dated 14 April 2004 at 11:03 was theoretically possible, and the resulting compound would be the same as covered by ZIKO's Chinese patent; however, ZIKO argued

that this could not be considered as Yonghe had already completed necessary preparations to produce the chemical compound.

The writer's view is that this admission greatly affected the courts' decisions on the prior use defense.

Because ZIKO did not contest the authenticity of Yonghe's evidence, the court of the first instance ruled that Yonghe had prior use rights, for the following reasons:

- Yonghe obtained the chemical structure and synthetic route of the subject chemical compound from Hexin, and Yonghe produced the chemical compound according to this synthetic route.
- As the expected annual manufacturing quantity of the subject chemical compound was 50 tons per year, and the sales in 2011 and 2012 did not exceed this expected quantity, the court considered that Yonghe acted under its original scope.

ZIKO disagreed and filed an appeal, arguing that:

- There was an unknown chemical compound X recited in the fax provided by Yonghe (the writer believes this referred to the 14 April 2004 (11:03) fax). The identity of this compound X was not specified in the fax, and therefore the fax did not recite the possible synthetic route for the compound.
- Even if the fax did recite the possible synthetic route, this could not be used to show that Yonghe had obtained necessary equipment to manufacture the compound, as Yonghe did not provide detailed records of the synthetic steps, conditions, and yield of the chemical compound. In fact, Yonghe's evidence showed that Yonghe had not made any progress in the development of the compound as of 4 June 2004.

On appeal, both sides presented new evidence:

- ZIKO presented a Chinese notary certificate affirming the definition of "technical papers". Based on this ZIKO asserted that Yonghe did not have technical papers for making the subject chemical compound in 2004, and therefore Yonghe's prior use rights should be denied. Yonghe accepted the authenticity of this piece of evidence, but challenged its relevance.
- Yonghe presented a copy of an official receipt to show that the product referred to belonged to the same series as the subject chemical compound, and although these compounds had different structures, their starting materials were the same. ZIKO challenged the authenticity of this evidence as Yonghe did not present the original official receipt.

ZIKO's evidence was accepted by the court of appeal due to its proper Chinese notarization; Yonghe's evidence was rejected as only a copy was provided.

The appeal court then found the following facts:

- The registered capital of Yonghe was US\$5.5m, and ZIKO did not object to the account books and sales records presented by Yonghe at [the second hearing during the] first instance.
- According to the evidence presented by ZIKO, “technical papers” could be replenished or modified due to a change in conditions.
- The court of appeal requested both ZIKO and Yonghe to provide an opinion regarding “original scope”. In response to this request, ZIKO argued that Yonghe did not have evidence showing what the original scope was, and claimed that they (ZIKO) would provide the court with their written opinion on whether ZIKO could ascertain what Yonghe’s “original scope” was. However, ZIKO failed to deliver such opinion to the court of appeal.

Based on these findings, the court of appeal ruled against ZIKO:

- With regard to the unknown chemical compound X, the court of appeal considered that it referred to halogen, due to the nature of the subject compound, which was considered to be conventional to the relevant technical field. As such, the relevant argument from ZIKO was denied.
- Although Yonghe could not provide technical papers in 2004 for the manufacturing of the subject compound, the court of appeal considered that the possession of such technical papers could be deduced from the following:
 - a. The registered capital of Yonghe was US\$5.5m, and Yonghe would be considered as a relatively big chemical company. By 2004, during the development of the target compound, Yonghe had already been working in the field for over ten years, and mastered the chemical manufacturing process well.
 - b. In relation to the target chemical compound and the synthetic route provided by Yonghe, the manufacturing of the target compound did not require any special conditions. Further, ZIKO had never asserted any special requirement on the manufacturing process or equipment during the first and second instances.
 - c. As it is necessary to replenish or modify technical papers in light of changes in conditions, it was reasonable that Yonghe could not provide the technical papers used in 2004 for manufacturing the target compound.
 - d. There was no evidence proving that Yonghe had produced the subject compound exceeding the original scope. The court of appeal considered that as no specific processes or equipment was required for manufacturing the subject compound; the equipment possessed by Yonghe at that time,

that is in 2004, could be used to manufacture the subject compound. Judging from the size of Yonghe, and the capability of Yonghe to produce 36 tons of the subject compound in 2006, the court of appeal found that Yonghe’s capability to produce the subject compound at the very beginning was 20 tons, while in 2011 and 2012, Yonghe did not produce more than 10 tons of the subject compound.

As such, the court of appeal decided that Yonghe did not produce the compound exceeding its original scope.

The writer’s observations:

1. The writer was surprised that ZIKO did not contest the evidence from Yonghe for its prior use claim at the court of the first instance, including the faxes, the official receipts, and account books. The writer believes that it would be particularly difficult for Yonghe to present properly notarized faxes between Yonghe and Hexin in 2004, as these happened almost ten years ago. Judging from the handling of the evidence presented by Yonghe and ZIKO at the appeal (as set out above), the writer believes these pieces of prior use evidence would have been rejected by the court of the first instance if ZIKO had challenged their authenticity. Instead, and surprisingly, ZIKO affirmed that the synthetic route of the subject compound in one of the 2004 faxes is theoretically possible to produce the subject compound. Unfortunately, due to *estoppel*, ZIKO could no longer challenge the authenticity of this evidence at the appeal, and the court of appeal had no choice but to work on the basis of these already admitted pieces of evidence.
2. With regard to the conclusion of the court of appeal that Yonghe had the capability to manufacture the target compound in 2004, the writer tends to agree. In fact, in the chemical field, in particular organic chemistry, it is the writer’s understanding that commissioned synthesis is well known: it is not difficult to ask a company to develop a synthetic route and actually synthesize a chemical compound, on the basis of the chemical structure, unless some specific technical difficulties arise.

This is one of the few successful cases in claiming prior use in China. The writer is a little disappointed that it does not show any significant change in handling of evidence in China: that is, that evidence will only be accepted by the Chinese court if it is verified by an independent party (for example a Chinese notary) properly, or by the authority (for example a Chinese court). Otherwise, the evidence would be rejected once its authenticity is challenged. Therefore, practitioners are advised to contest the authenticity of every piece of evidence as much as they can in China.

*Author: **Toby Mak, Tee & Howe Intellectual Property Attorneys.** ©2014

Chinese Trade Mark Law – major changes and practice notes, following the third amendments

This article discusses the major changes in the new Chinese Trade Mark Law, and the related practice notes, a number of possible contentious issues, and whether the new Law addresses changes in the commercial world and the international trade mark practice.



By **Toby Mak** and
Jie Zhang (above)

The third amendment of the Chinese Trade Mark Law was passed by the Chinese People's Congress on 30 August 2013 after almost a decade of discussions on the amendments. This new Chinese Trade Mark Law ("the new Law") came into force on 1 May 2014. The last amendment, the second amendment to the Chinese Trade Mark Law ("the old Law") was in 2001, and as many readers may know, there have been substantial changes to the commercial environment and the international trade mark practice since then. There were a lot of expectations to the new Law to satisfactorily address such changes.

i. Extension of registrable subject-matter

Under the old Law, a distinctive visual element was one of the requirements for trade mark registration in China. This excluded other subject-matter like sound, smell and the like, even though such non-visible subject-matter could identify sources of goods or services.

The new Chinese Trade Mark Law removes the "visibility" requirement, and has expressly specified that sound can now be registered as a trade mark in China.

Although not specifically excluded by the new Law, the current position of the Chinese Trade Mark Office is that smell cannot be registered as trade mark in China. It appears that this exclusion is currently based on administrative orders, and more specifically on the Chinese Trade Mark Examination Guidelines.

ii. Clarification of grounds of revocation/cancellation due to lack of distinctiveness

A registered trade mark must have distinctiveness to survive in China. However, under the old Law, it was not clear how to revoke or cancel a registered Chinese trade mark which lost its distinctiveness due to trade mark dilution. It was only specified that a registered Chinese trade mark could be revoked *ab initio* due to lack of distinctiveness.

Under the new Law, in addition to the revocation of registered Chinese trade marks due to lack of distinctiveness, it is now specified that registered Chinese trade marks can be cancelled due to trade mark dilution. An application to cancel should be filed with the China Trade Mark Office. A "diluted" registered trade mark will only be cancelled from the date with the announcement of the cancellation. One example is the revocation of the Chinese registered trade mark "优盘" due to trade mark dilution: these two Chinese words now mean a USB flash drive in China.

On the other hand, it should be noted that the cancellation of Chinese registered trade marks due to dilution can only be based on the ground that the trade mark becomes the general name of the goods or services; this does not include other circumstances such as the trade mark is used to represent the quality, major material, function, uses, weight, quantity or other qualities of the related goods or services. These other circumstances may have to be tested in future cases.

iii. Possibility of multi-class applications

Under the old Law, a multi-class trade mark application is not allowed in China. That is, an individual trade mark application has to be filed for each intended class.

It is now possible to file a multi-class application under the new Law. However, it is stipulated that the divisional application can only be filed when there is a partial objection from the China Trade Mark Office on examination of the multi-class application. What worsens the situation is the very tight deadline to file the divisional application(s): within only 15 days from the date of receipt of rejection of the trade mark application. Otherwise, a divisional application will not be accepted by the Chinese Trade Mark Office.

iv. Re-establishment of office action mechanism

Before the old Law, if the Chinese Trade Mark Office believed that it was possible to amend and/or further explain an application for registration, trade mark office actions would be issued to invite reply from the applicant. However, this mechanism was abolished under the old Law, and re-filing was the only way to rectify a rejected application from the Chinese Trade Mark Office.

This office action mechanism is now re-established under the new Law. That is, for a trade mark application which was considered to be defective but rectifiable by a Chinese trade mark examiner, an office action will now be issued inviting a reply from the applicant. An absence of reply is expected to result in the rejection of the application.

However, it is not clear whether the office action from the Chinese Trade Mark Office may include substantive examination opinions like absolute and/or relative grounds of objection, or is only limited to formality of the application. The re-establishment of this mechanism is expected to prolong the prosecution of Chinese trade mark application, although the next change apparently targets this issue.

v. Specification of time limits for trade mark prosecution and re-examination in the law

In the old Law, time limits for prosecution and re-examination of trade mark applications are not specified. This received a lot of complaints from the industry due to the prolonged prosecution of Chinese trade mark applications.

In response, the new Law stipulates that:

- Time of prosecution of a trade mark application is limited to nine months.
- Examination of opposition against a trade mark application is limited to 12 months, which is extendable for six months.
- Re-examination against a rejection decision of a trade mark application is limited to nine months, which is extendable for three months.
- Re-examination of opposition decisions is limited to 12 months, which is extendable for six months
- It is possible to suspend examination / re-examination / opposition for cases involving prior rights that rely on decisions from another case handled by the Chinese People's Court or administration.

The introduction of these time limits is excellent news to Chinese trade mark applicants. However, it is not clear how to handle cases in which the above time limits are not observed. More specifically, it is unclear of the sanction or complaint mechanism to the administration in such cases. It will be encouraging if the Chinese Trade Mark Office would issue a set of protocols specifying such mechanisms and/or punishment.

vi. Increase of time period for renewal of registered trade marks

In the old Law, a registered trade mark can only be renewed within six months before its expiration date.

In the new Law, this renewal period is increased to 12 months: a registered Chinese trade mark can be renewed within 12 months before its expiration date, which provides more time and degree of freedom to Chinese trade mark owners.

vii. Various changes to the trade mark opposition procedure

Before the old Law, a decision of the Trade Mark Re-examination Board ("the Board") was the final decision on oppositions against trade mark registrations. That was changed in the old Law, so that a request for re-examination of the opposition decision could be filed at the Board, and after that, a total of two appeals could be filed at the Chinese People's Court. Opposition could be filed on any grounds under the old Law. Business competitors could use this to delay trade mark registration through such opposition procedures for an extensive period of time and it was noted that some oppositions were even filed in bad faith for extortion of settlement fees. Those who are familiar with patent invalidation in China might note that the above trade mark opposition procedures are similar for those in patents:

for trade marks, there was an additional chance to file a request for re-examination of the opposition decision. For the appeals at the Chinese People's Court, the overturn statistics for trade mark opposition decisions was in fact even lower than that for patents at about 10%, compared to about 18% for patents in the last few years.

In light of the above, the new Law introduces several changes:

- Grounds for opposition are more limited. Specifically, the new Law restricts opposition based on prior rights: only the prior rights owner and/or its licensees are entitled to file the opposition. By contrast, any person could file an opposition based on prior rights under the old Law. Both the old Law and the new Law allow anyone to file opposition based on absolute grounds, such as state name, identical or similar to the name or logo of an International organization, well-known geographical names, contrary to morals, and so on.
- The new Law allows registration of a trade mark directly after an unsuccessful opposition. By contrast, the opposition applicants have additional three chances to delay the trade mark registration after an unsuccessful opposition (specifically, re-examination of the opposition decision at the Board, and two appeals at the Chinese People's Court). This change is in line with TRIPS Article 62(5).

Although it is possible for the Chinese Trade Mark Office to directly register a trade mark after an unsuccessful opposition, this would not occur if there are multiple oppositions, as all of these multiple oppositions have to be examined. As such, it is still possible to delay registration of Chinese trade mark by filing multiple opposition requests.

Registration of trade marks directly after an unsuccessful opposition, however, shifts the balance of rights more to the trade mark owner side. This is because, although it is still possible to invalidate a registered trade mark after an unsuccessful opposition, the invalidation decision does not have retrospective effect on administrative and/or court decisions on infringement and/or compensations.

viii. Good faith stipulations in the new Law

This is new to the new Law. However, it is uncertain how this provision is going to be used in practice. It appears that this is currently only a back-up principle that could be utilised by the authorities when necessary.

ix. Various changes with respect to the famous trade mark system

Under the old Law, there are various issues with respect to the use of a famous trade mark in China. Specifically, in practice, other than the function of prohibiting others to register and/or use trade mark that is the same or similar to a famous trade mark, a Chinese famous trade mark is frequently used for the promotion of goods or services as an honour. Such commercial use resulted in an artificial raising in standards of the recognition of famous trade marks in China.

In light of this, the new Law introduces the following changes:

- Now, the only requirement of becoming a famous trade mark in China is that the trade mark is well known to the relevant public.
- Recognition of famous trade marks has to be based on specific request from the parties involved in a specific case, and based on the facts established in that case to determine such recognition. The new Law also specifies that recognition in a case that a trade mark is a famous trade mark is only recognition of facts of that case, and is only relevant to the case in contention; it is not an honor granted to the respective goods or service. It is hoped that this would prevent the artificial lifting of the threshold for the recognition of famous trade mark in China.
- The new Law also now prohibits the use of the expression “famous trade mark” on goods, packaging or container, commercials, exhibitions or any other commercial activities in the hope of removing the incorrect understanding by the public of the expression “famous trade mark”.

It has long been criticised that there are no clear rules on the recognition of clearly famous trade marks in China, and it is disappointing that the new Law also does not specify any. However, on 3 July 2014, the Chinese State Administration for Industry and Commerce (SAIC) issued a protocol. The major points to be noted from this protocol are:

- The term “relevant public” is now specified to be:
 - Consumers of the relevant goods or services.
 - Manufacturers of the relevant goods, or providers of the relevant service.
 - Sales, marketing, and relevant personnel involved in the sales channels of the relevant goods/service.
- The cases involving the Chinese Trade Mark Office in which famous trade mark may be recognized are specified as the examination of trade mark applications, handling of disputes involving trade marks including opposition, cancellation, invalidation and ownership, and cases involving invalidation of trade marks.
- Materials which may be submitted when requesting recognitions of famous trade mark at the Chinese Trade Mark Office are specified in the protocol as follows:
 - Materials proving recognition of the mark by the Chinese public.
 - Materials proving the continuing time of use of the trade mark. For unregistered trade marks, the materials should not be less than five years, while for registered trade marks the materials involved should not be less than three years.
 - Materials proving time of continuity, level, and geographic scope of advertisement of the mark. Will foreign advertisement be accepted?
 - Evidence showing that the trade mark was protected in China or other countries and territories.
 - Other materials that could be used to show

recognition include sales figures within the recent three years, market share, net profit, tax paid, and sales territory.

- The time specified in the above requirements (three years, five years) refers to the trade mark application date for opposition and invalidation cases, and the date of application for protection for trade mark infringement cases.
- For a request for recognition of a famous trade mark made at opposition, cancellation, invalidation, or infringement cases handled by the Chinese Trade Mark Office, such a request is subject to time limits on handling such cases (see section V above).

It is believed that this protocol will be welcomed by trade mark users as it clarifies various requirements on recognition of famous trade mark in China.

x. Prohibition of registration of trade marks used by business partners

This addresses an area which has been a major concern of businesses outside China. The new Law now specifies the above. The requirements to invoke this ground are:

- The applicant has contractual or any business relationship with the partners and is apparently aware of the existence of the relevant trade mark.
- The trade mark has been used by the business partner.

However, it is not clear whether such use must be in China only, or the ground is equally applicable if such use is in other places. Furthermore, evidence supporting this ground is expected to be subject to the same requirements in other legal proceedings in China, i.e. proper notarization and/or legalization are required. We have to wait and see the effect of this provision.

xi. Introduction of prior use defense

Mirroring the similar mechanism under the Chinese Patent Law, the new Law now introduces a prior use defense. Specifically, trade mark owners cannot prohibit a prior user from using the relevant trade mark within the original scope of use. The trade mark owner can, however, request suitable distinctive markings to be added in such a case.

It is believed that this new introduction would be welcomed as one of the remedies of trade mark hijacking. However, there are a lot of unclear points, particularly on the original scope of use including geographical territory, licensing and sublicensing, quantities and actual commercial scope, and so on.

xii. Enhancement on good faith and responsibilities of trade mark agencies

Some specific changes can be noted, including that trade mark agencies are not allowed to register trade marks in their own name that are not directly related to their business. This is an interesting requirement, reflecting that there are trade mark agencies in China doing this.

It is worth noting that the examination of trade mark agents was abolished in the old Law, and it is disappointing that the new Law does not re-introduce such examination. In fact, there is no regulation prohibiting anyone from calling themselves a trade mark attorney or agent in China at present. Cases involving so-called “black agents” running away and damaging the interests of trade mark applicants/owners without being punished are not unheard of. Although the Chinese Trade Mark Office has now introduced an agency recordal system, this system only records business details of the trade mark agency on a voluntary basis. As such, trade mark applicants/owners are recommended to scrutinize their Chinese trade mark attorneys more rigorously.

xiii. Various enhancements on trade mark enforcement

a. Raise in fines in administrative enforcement of trade mark infringement

Under the old Law, the maximum fine was:

- three times of the turnover of the infringing act, if the turnover can be ascertained; or
- if the turnover cannot be ascertained, 100,000 RMB.

Under the new Law, the maximum fine is based on the turnover of infringement as follows:

- For turnover of infringement over 50,000 RMB, the fine can be up to five times the turnover.
- For Infringement turnover of less than 50,000 RMB or with no infringement turnover, the fine can be any amount up to 250,000 RMB.

b. Increase of amount of statutory compensation

The statutory compensation (applicable when the loss to the trade mark owner, gain of the infringer, or compensation based on trade mark licence fees cannot be ascertained, which should be the primary basis of compensation to the trade mark owner if available) has been increased from 500,000 RMB under the old Law to 3,000,000 RMB.

c) Introduction of punitive damages

This is newly introduced in the new Law. Compensation (loss to the trade mark owner, gain of the infringer, or multiple of licence fees, if any of these can be ascertained, or statutory damages) can be increased by up to three times as punitive damages for bad faith infringement of a serious nature. The introduction of such punitive damages was explained by the Chinese Trade Mark Office in that, in practice, the cost for defending a trade mark owner’s right is too high in comparison to the compensation obtained from the infringement actions.

However, is this really the case? The writer believes that the root of the problem is the difficulties for trade mark owners to prove the damages and cost for defending their rights at the court. Further, it is unclear what is the definition of “bad faith” and “serious nature”. In any event, it will be interesting to follow how such punitive damages would be effected in practice.

d. Introduction of evidence submission order

This only affects evidence in relation to the calculation of compensation in an infringement case. Specifically, when the trade mark owner has presented reasonably available evidence while books and information of the infringement is in possession of the infringer, the Chinese People’s Court can order the infringer to provide such books and information to ascertain the amount of compensation. In the event that the infringer does not provide, or provides false evidence, the court can refer to the claim and evidence of the trade mark owner to ascertain the amount of compensation. However, in practice the courts are already doing this, and the new Law merely makes this practice formal.

In actual practice, it is rare that any infringer would provide any information with respect to the infringement amount. Even if such information was provided, it is very difficult to ascertain its authenticity. In such cases, the court would have full discretion, but in most cases, the Court would merely reconcile difference regardless of principles.

e. Clearer definition of infringement

Under the old Law, in a trade mark infringement case involving use of the exact same trade mark on the same goods/services, it was possible to put up a defense that such infringing use would nevertheless not easily result in confusion.

However, under the new Law, it is no longer necessary to consider whether confusion would easily result when the same trade mark is used on the same goods/services; consequently, the argument of “not easily result in confusion” is no longer applicable as a defense in such cases.

However, it is still necessary to consider whether there would readily be confusion, as a requirement for trade mark infringement, for a similar trade mark used on the same goods/service, or same or similar trade mark used on similar goods/service.

f) Introduction of contributory infringement

Introduction of contributory infringement is introduced in the new Law. The provision of storage, transport, mailing, concealment and the like for trade mark infringing actions intentionally is also considered as infringement.

Although it is not clear what would constitute “intentional”, it is generally believed that prior warning in writing would assist in the establishment of intention.

Conclusion

It can be seen that the third revision to the Chinese Trade Mark Law has brought many changes, and most of these would be considered as positive. In general such changes would be welcomed by all trade mark users in China. However, some issues remain to be clarified, for example the definition of bad faith infringement. It is believed that such may become clearer when the new Law is put into real practice.

*Authors: **Toby Mak and Jie Zhang**, Tee & Howe Intellectual Property Attorneys. ©2014