NTD INTELLECTUAL PROPERTY

IP CASE EXPRESS

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In this edition, we scanned all IP related judgments and adjudications published in September, 2014 at the Supreme Court's official website (http://www.court.gov.cn/zgcpwsw/); worked out the statistics based on all the IP related judgments and adjudications published by the Supreme Court and the 32 Higher Courts, and selected some significant cases with our comments to share with you.

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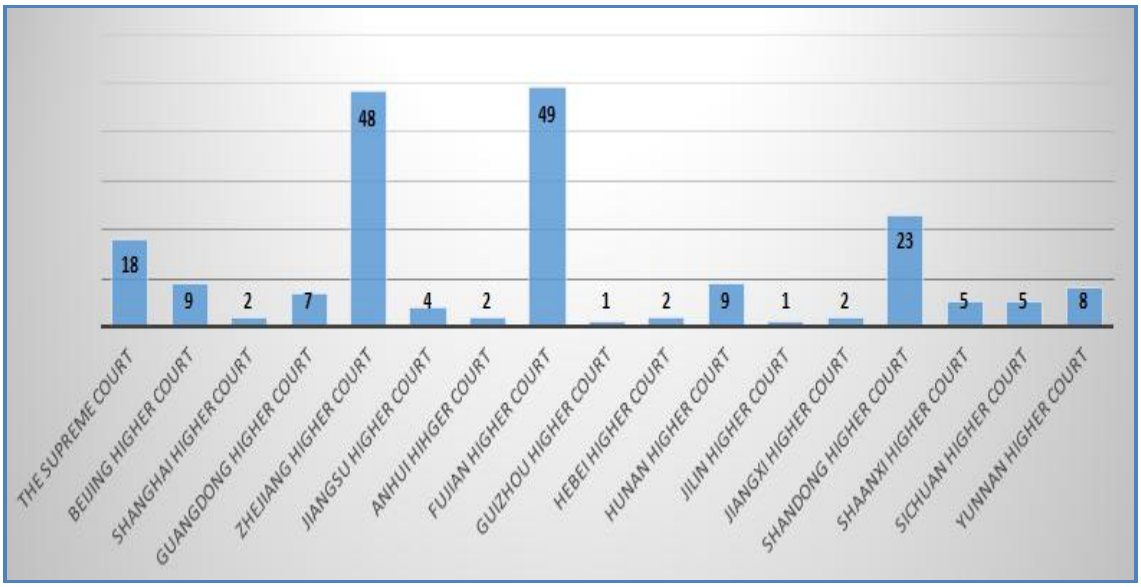
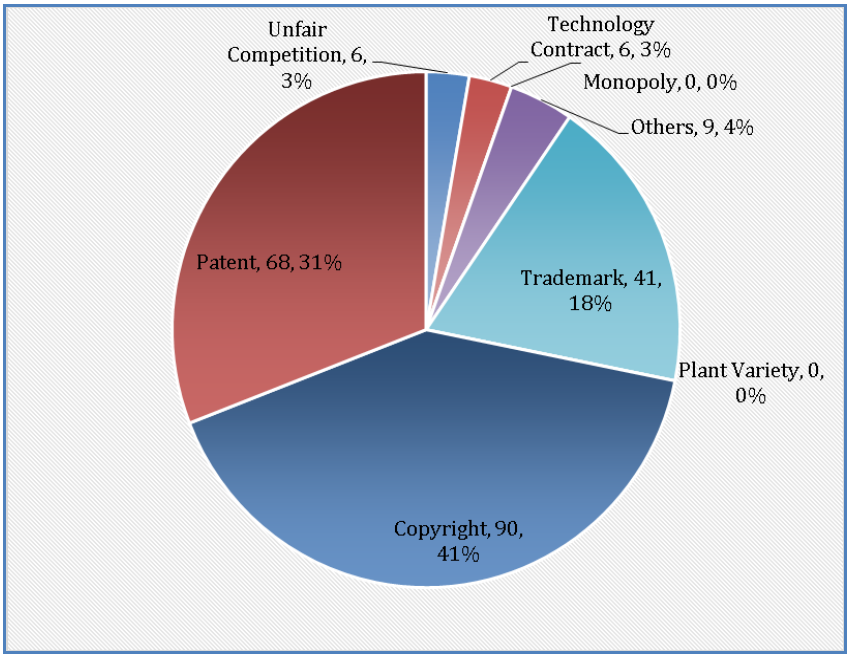
NTD PATENT & TRADEMARK AGENCY LIMITED
NTD LAW OFFICE
10th Floor, Block A, Investment Plaza, 27 Jinrongdajie, Beijing 100033,P.R. China
Tel: 86-10-66211836 Fax: 86-10-66211845 E-mail: mailbox@chinantd.com Website: www.chinantd.com

I. Statistics

- The Supreme Court and the 32 Higher Courts published 220 IP decisions in September, 2014. The Fujian Higher Court ranked No. 1 (49) for the first time, followed by the Zhejiang Higher Court (48) and the Shandong Higher Court (23).





Notes:

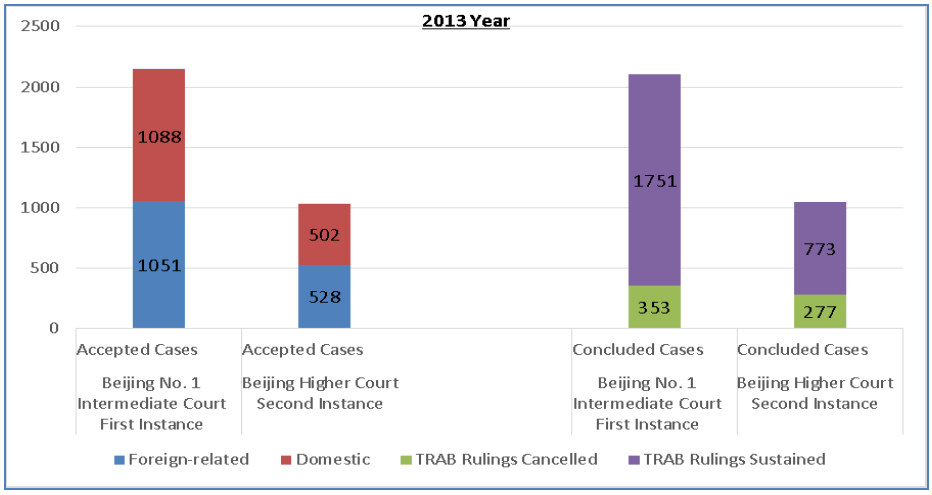
1） Decisions uploaded on the Internet are effective judgments and adjudications. First-instance judgments in the on-going appellant proceedings are not uploaded.

2） Not all enforceable judgments and adjudications issued by courts are uploaded. Cases involving trade secrets are not uploaded under the Exception rule of the Supreme Court Regulations. Also, some courts have not uploaded judgments and adjudications so far due to technical incapability.

Updates on Trademark Administrative Litigation Cases by Beijing Courts

In 2013:

- In 2013, the Beijing No. 1 Intermediate People's Court accepted 2,139 trademark administrative litigation cases at the first instance stage, including 1,051 foreign-related cases. A total of 2,104 cases were concluded, among which 353 TRAB rulings (ratio: 17%) were canceled by the Beijing No. 1 Intermediate People's Court.
- In 2013, the Beijing Higher People's Court accepted 1,030 trademark administrative litigation cases at the second instance level, including 528 foreign-related cases. 1,050 cases were concluded and the Beijing Higher People's Court canceled 277 TRAB ruling (ratio: 26%).



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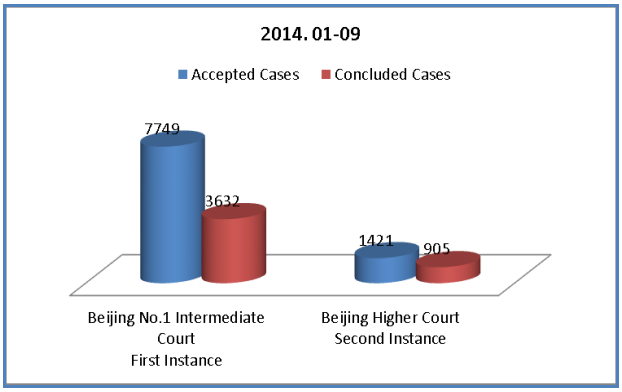
- From January to September, 2014, the Beijing No. 1 Intermediate People's Court accepted 7,749 trademark administrative litigation cases by a first instance trial, and concluded 3,632 cases.
- From January to September, 2014, the Beijing Higher People's Court accepted 1,421 trademark administrative litigation cases for second instance, and concluded 905 cases.
- Compared to last year, there was a substantial growth in the numbers of cases accepted and concluded.



II. Comments on Typical Cases

Unfair Competition

Beijing Qihoo Technology Ltd. vs. Tencent Technology (Shenzhen) Ltd.

- **Dispute over Monopoly Issue**
- **The Supreme People's Court Civil Judgment (2013) Min San Zhong Zi No. 4**
- **The Guangdong Higher People's Court Civil Judgment (2011) Yue Gao Fa Min San Chu Zi No. 2**

Rule:

The Hypothetical Monopolist Test (HMT) is universally applied to define the relevant market. However, in the business field, focusing on competition in forms of non-price competition, such as quality, service, innovation and consumer experience, the Small but Significant and Non-transitory Increase in Price test (SSNIP) can be used to define the relevant market. Market share is only one indicator of market dominance, other factors such as market admission, the market behavior of the operator, the impact on market competition, among others, should also be considered in determining the level of market dominance. As for determining abuse of the dominant position, if the level of market dominance is still in question, the effect of the disputed abuse of conduct on the market competition should be further analyzed. Even if the dominance is established, the negative impact and the active impact on the consumer and the competition should be comprehensively evaluated to determine whether the abuse of market dominance has been established.

Remarks:

As the first anti-trust case tried by the Supreme People's Court (SPC), the case is based on a dispute arising out of an open letter issued by Tencent to its instant messaging users in 2010, requiring them to make a choice between Tencent's own software and that of Qihoo 360's. Tencent

also asked the users to install other Tencent software by bundling it with QQ. SPC affirmed the first instance judgment issued by the Guangdong Higher People's Court but corrected certain aspects of the judgment. It is being regarded as a landmark judgment that sets new standards for future trials of antitrust cases in China, especially those in the internet industry.

The major points at issue of the case are as follows:

1. Defining the relevant market: in the business field, focusing on competition in forms of non-price competition, such as quality, service, innovation and consumer experience the SSNIP test can hardly be applied to define the relevant market. Under certain circumstances the Small but Significant and Non-transitory Decrease in Quality test (SSNDQ) could be used as an alternative. The main focus should be the demand alternative, and the supply alternative could be adopted as a supplementary standard. The method of qualitative analysis, as well as quantitative analysis, could be used to define the relevant market. And while a definite conclusion could be drawn from the former analysis, the latter one is unnecessary due to its complexity. In the judgment, SPC held that the relevant market is instant messaging service market in mainland China.

2. The Market dominance determination: the market share is one of the rough indicators in determining market dominance. If the relevant market is easy to enter, or a higher market share is attributed to higher market efficiency or better products provided by the business operator, or if the products outside the market constitute a strong restraint to the operator holding the higher market share, the market dominance could not be directly determined based upon the higher market share alone. Because the competition in the internet sector is changing fast and the boundary of the relevant market is very obscure compared to the traditional market, factors such as market admission, the conduct of the operators, the impact on the competition, and more should be further emphasized to determine the level of market dominance. Due to the sufficient competition in the instant messaging market in mainland China, the easy entrance to the market, the proven success of many emerging instant messaging service providers, it is held by SPC that the market dominance of Tencent could not be established based upon current evidences.

3. Abuse of market dominance: in case that the market boundary is obscure, and the market dominance is indefinite, the disputed conduct should be further analyzed in terms of its effect on the competition to verify whether the conclusion of the market dominance is correct. Even if the market dominance of the operator is established, the abusive conduct should be determined based on a comprehensive estimation of the active and inactive impact on the consumer and the competition. The Anti-trust Law of China pays attention to whether the healthy competitive mechanism of the market has been distorted or damaged, rather than focusing on the concrete benefits of individual operators. Although the conduct of Tencent is inconvenient to the consumer, it does not constitute an abuse of market dominance prohibited by Chinese Anti-trust Law. And its conduct has not resulted in limiting or excluding market competition in a significant way.

Patent

Shenzhen Renergy Electric Co., Ltd vs. Shanghai Yachuang Electronics Parts Co., Ltd.

- Dispute over Infringement against the layout-design of integrated circuits
- The Shanghai Higher People's Court (2014) Hu Gao Min San (Zhi) Zhong Zi No.12

Rule:

Reproduction of the whole or any part of an original layout-design under protection constitutes infringement, no matter what the size or function.

As for the limited room for innovation, in the infringement judgment of layout-design, the identification of being identical or substantially similar should follow more stringent standards.

Remarks**:**

The integrated circuits industry is the core of the information technology sector. The problem to be considered is how to protect the layout-design of integrated circuits while fully promoting the innovation of the integrated circuits at the same time. As there are fewer disputes on the layout-design of integrated circuits in practice, there is no protection scope for the layout-design of integrated circuits or a clear standard for determining the related infringement.

In this case, the Shanghai Higher People's Court gave a comprehensive explanation on the protection scope for the layout-design. For example, the court explained the burden of proof for proving originality, the identification of identity or substantial similarity, the determination of the amount of compensation and so on.

The Court held that, according to the Article 30 of *Regulations for the Protection of Layout-design of Integrated Circuits of P.R.C.*, without the license of the rightful holder of a layout-design，reproducing the whole or any original part of a protected layout-design constituted infringement. Therefore, no matter how small the proportion of the copied part was compared to the whole

layout-design, no matter whether the copied part belonged to the core part or not, the illegal reproduction act constituted infringement.

With regards to the burden of proof on the originality, the Court held that the plaintiff only needed to submit the evidence to illustrate that the layout-design was original. Then the burden of proof to deny the originality of the layout-design would be shifted to the defendant. If there was no sufficient evidence to prove that the layout-design of the plaintiff was a general layout design, the layout-design of the plaintiff should be identified as original.

The Court also held that the limited room for innovation with regards to the lay-out design, more stringent standard for judging the identity or substantial similarity should be adopted in the infringement dispute involving the lay-out design.

When determining the amount of compensation, the function of the copied part in the alleged infringing chip and the proportion in the alleged infringing layout-design should be taken into consideration as infringement plot. However, because of the plaintiff's direct reproduction of the layout-design, the defendant saved its own R&D investment and shortened it's time for chip development, so as to be more competitive in the market. Therefore, the compensation amount should not be determined fully in accordance with the proportion of the two layout-designs in the chip.

Finally, the Shanghai Higher Court dismissed the appeal and sustained the trial judgment. Shenzhen Renergy Electric Co., Ltd was ordered to stop infringement and compensate the plaintiff by a total amount of 3.2 Million RMB for its economic losses and reasonable costs.

Copyright

China International Television Corporation vs. Beijing Baidu Network & Technology Co., Ltd and the third party Beijing Sohu Internet Information Service Co., Ltd

- **Copyright Infringement Dispute**
- **The Beijing No.1 Intermediate People's Court Civil Judgment (2013) Yi Zhong Min Zhong Zi No.3142**
- **The Beijing Haidian District People's Court Civil Judgment (2012) Hai Min Chu Zi No.20573**

✓ Selected as one of 2013 Beijing Courts Top 10 Innovative IP Cases

Rules:

Concerning a synchronized transmission of copyrightable programs on network television, if the content of the programs were initially disseminated in wireless form, it should use Article 10.11 of Copyright Law. If the initial transmission was on cable, Article 10.17 as a miscellaneous provision should be applied.

Remarks:

Being authorized by CCTV, China International Television Corporation has the exclusive right to broadcast and disseminate the 2012 "Spring Festival Gala" by way of networking. The Baidu Website was found to have provided a synchronized broadcast of the 2012 "Spring Festival Gala," which the China International Television Corporation considered as an infringement on its copyright. Baidu Company ("Baidu") argued that www.baidu.com only provides a search service, and the involved search result came from Sohu Company ("Sohu") who is a registered user on Baidu's application open platform. The Gala show was also uploaded onto the Baidu application open platform by Sohu. Baidu only provided technical service but did not infringe the copyright of China International Television Corporation.

The disputed issue of this case is whether the synchronized network transmission belonged to the adjustable application regulated in Article 10 of Copyright Law. The court of second instance held that the synchronized broadcast on the network did not have interactive features, so it should not be regarded as an adjusted issue according to the right of information network dissemination regulated in Article 10.12 of Copyright Law. If the program was initially disseminated in wireless form, the court should apply Article 10.11 of Copyright Law, if it was broadcasted on cable, the broader scope under Article 10.17 should be used.

In addition, Baidu failed to provide solid evidence to prove the network transmission of the

"Spring Festival Gala" was originally from the Baidu Application Platform (a platform cooperated by Baidu and Sohu). Baidu also did not prove that it only provided a search service for simultaneously streaming the network broadcast. Therefore, Baidu should bear the adverse consequences. The court of second instance affirmed that Baidu did transmit simultaneously the Gala show on the internet.

At last, the court of second instance affirmed that the data stream of the transmission of the "Spring Festival Gala" was from the Sohu website. Because a television signal is usually wireless, the signal source of the "Spring Festival Gala" broadcasted on the Sohu website was considered as the signal source provided by CCTV. In the absence of contrary evidence, the court of second instance affirmed that the "initial disseminating" act done by the Sohu website to provide network transmission of the "Spring Festival Gala" was the "wireless broadcast" of CCTV, i.e., the "initial disseminating" act done by Baidu was a "wireless broadcast" of CCTV. As Baidu could not prove the authorization by the copyright owner, Baidu's act constituted infringement on the copyright of the China International Television Corporation. Consequently, the court of second instance overturned the first instance judgment, and ruled that Baidu must compensate China International Television Corporation for its economic loss of 60,000 RMB.

Trademark

FENG Xiao vs. China Science Publishing & Media Ltd

- **Dispute over Trademark Infringement**
- **The Beijing No. 2 Intermediate People's Court Civil Judgment (2013) Er Zhong Min Zhong Zi No. 17351**
- **The Beijing Dongcheng District People's Court Civil Judgment (2013) Dong Min Chu Zi No. 01094**

Rule:

A related shareholder can file a lawsuit in his own name in order to protect a company's interests when someone infringes on a company's trademark but the company is reluctant to file any action against the infringer.

Remarks:

Beijing Hei Bai Xiong Culture Development Co., Ltd. (hereinafter referred to as "Hei Bai Xiong Company") registered and owned the "A A Xiong" trademark in Class 16, designated in goods of periodicals and Children's books. FENG Xiao, a shareholder of Hei Bai Xiong Company, found that China Science Publishing & Media Ltd. (hereinafter referred to as Science Publishing Company) used the above trademark on the "A A Xiong" Periodical. FENG Xiao discussed the issue with Hei Bai Xiong Company several times, but the company was reluctant to take any action. Feng Xiao then initiated a shareholder representative lawsuit, requesting the court to stop Science Publishing Company from infringing and demanding that a 500,000RMB compensation be paid to Hei Bai Xiong Company.

This was the first shareholder representative case in the IP field that was concluded by the Beijing No.2 Intermediate People's Court. The court found two facts: whether it was reasonable for the company to ignore the lawsuit by the shareholder; and whether the defendant's actions constituted infringement on the trademark of Hei Bai Xiong Company's. Hei Bai Xiong Company did not sue within the deadline after receiving the request letter from FENG Xiao asking Hei Bai Xiong Company to file the lawsuit. Given this, the first and second instance courts held that FENG Xiao had the right to sue in her own name to protect Hei Bai Xiong Company's interests. As for the trademark infringement issue, Science Publishing Company argued that it had prior right to use the "A A Xiong" trademark. Moreover, the use of the trademark was authorized by Hei Bai Xiong Company. The authorization was proven by the board resolution of Hei Bai Xiong Company. The plaintiff could not prove that the content of the board resolution violated the law or the Articles of Association of Hei Bai Xiong Company. In the hearing, Hei Bai Xiong Company expressed the willingness to permit the defendant to use the trademark involved. Therefore, the Science Publishing Company did not constitute trademark infringement. The second instance court rejected the appeal and sustained the trial judgment, rejecting the plaintiff's petition.

Victoria's Secret Stores Brand Management, Inc. vs. Shanghai Jintian Apparel Co., Ltd.

- **Dispute over Trademark Infringement & Unfair Competition**
- **The Shangahi No. 2 Intermediate People's Court Civil Judgment (2012) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 86**

✓ **Selected as one of the Shanghai No. 2 Intermediate People's Court 2013 Top 10 Typical IP Cases**

✓ **Selected as a typical case in the Gazette of the Supreme People's Court (Issue No. 12, 2013)**

Rule:

If a domestic distributor imports genuine products that bear the registered marks of the rightful trademark holder from a third party through regular channels and re-sells them in mainland China, according to the exhaustion doctrine, if the products the distributor sells are genuine, the advertisement and promotion is moderate, and will not cause confusion and misidentification to the origin of the products among the relevant public, this act will not constitute trademark infringement.

Related Case:

Victoria's Secret Stores Brand Management, Inc. vs. Shanghai Maisi Investment Management Co., Ltd.

- **Dispute over Trademark Infringement & Unfair Competition**
- **Trial Court: the Shanghai No. 1 Intermediate People's Court**

Rule:

If a distributor imports genuine products owned by a trademark right holder through regular channels and re-sells them, that act does not constitute a trademark infringement, even if it was done without the authorization of the right holder. However, if the use of the mark goes beyond the necessary scope to indicate the source of the products and has the effect of identifying the source of the service, it infringes on the exclusive right of service mark.

Remarks:

In the case *Victoria's Secret vs. Shanghai Jintian*, the defendant, Shanghai Jintian, through a third party, imported underwear using the brand of "VICTORIA'S SECRET" from LBI, the plaintiff's parent company and re-sold them to retailers in Mainland China. From March 2011 to October 2012, the defendant sold "VICTORIA'S SECRET" brand underwear products to shopping mall counters in many cities. The products were labeled with the mark of "VICTORIA'S SECRET" and the words like "VICTORIA'S SECRET," "维多利亚秘密" and "the sole Chinese distributor: Shanghai Jintian Apparel Co., Ltd." and the company address, telephone number and fax number were printed on the sign boards, inner decorations, clothing-hangers, packing bags and brochures of the stores. Because the defendant claimed itself as the sole distributor of the plaintiff in China, promoted operation in the form of chain store or franchising, and used the plaintiff's registered trademarks and trade name of "维多利亚的秘密," "VICTORIA'S SECRET" in business, the plaintiff deemed that this constituted trademark infringement and unfair competition and filed a lawsuit with the Shanghai No. 2 Intermediate Court. The defendant argued that the exclusive rights of the plaintiff's registered trademarks had been exhausted and it was entitled to re-sell the above products along with moderate promotion, so it did not infringe upon the trademark rights of the defendant. The Shanghai No. 2 Intermediate Court finally affirmed that the products sold by the defendant were genuine products that were bought from the plaintiff's parent company through regular channels and the defendant used the registered marks of the plaintiff in the process of selling products, e.g. on packing bags, brochures, was one part of the selling process and would not cause confusion among the relevant public regarding the source of the goods. Therefore, the claim of trademark infringement should not be held. However, the defendant was held to have conducted an act of false declaration, which constituted unfair competition.

In a recent case *Victoria's Secret vs. Shanghai Maisi*, Shanghai Maisi prominently used the mark "VICTORIA'S SECRET" on many occasions, e.g. the signboards of the stores it managed, the name tags of the employees, and underwear fashion shows held by Shanghai Maisi. Shanghai Maisi also promoted itself as Victoria's Secret's (China) operational headquarters at network platforms, e.g. website (www.nz86.com), Weibo and Weixin, and conducted franchising activities. Victoria's Secret deemed that the above acts by Shanghai Maisi constituted trademark infringement and unfair competition. Shanghai Maisi alleged that the products it sold had legitimate sources, which all came from Shanghai Jintian Apparel Co., Ltd.

After examination, the Shanghai No. 1 Intermediate Court determined that the act of the defendant

did not constitute infringement on the trademark of the plaintiff's, but the defendants infringed the exclusive rights of the plaintiff's service mark. The defendant used the mark of "VICTORIA'S SECRET" in many places, e.g. signboards of the stores, inside wall, cashiers, name tags of employees, VIP cards, fashion shows, and such use went beyond the moderate scope for indicating the products. Moreover, the defendant declared itself as Victoria's Secret's direct-sale store in Shanghai and China headquarters. This act distinguished the source of the service, which was sufficient to cause misunderstanding among relevant public that the plaintiff and the defendant may have had trademark license relations. The defendant also used the marks of "VICTORIA'S SECRET" and "维多利亚的秘密" to promote ads at website (www.nz86.com), Weibo and Weixin, to publish itself as the manager of the brand of "VICTORIA'S SECRET" in China and its launching, which constituted using identical mark with the plaintiff's registered marks with respect to identical services. Besides, the defendant actually gained advantages from its unfair competition act of false declaration by promoting itself as "the direct-sale store in Shanghai" and "China headquarters." And the price of the products sold by the defendant was higher than that of the counterparts being sold at the website of the plaintiff, which would definitely exert adverse effects to the plaintiff's operation in China. Therefore, the claim of unfair competition was sustained by the court.

In the above two cases, the plaintiff claimed that both the registered trademarks (Class 25; designated in goods of "clothing, lingerie, etc.") and the service marks (Class 35; designated in services of "sales promotion for others, advertising/publicity, business information, etc.") of "VICTORIA'S SECRET" and "维多利亚的秘密" infringed on its rights. However, as to the defendant's act of using the marks of "VICTORIA'S SECRET" on the signboards and store decoration, whether it constituted fair use or service mark infringement, the two courts held differently. This made people think that after the products were sold, whether the trademark registrant was entitled to stop distributors using its registered trademarks in attracting investment, advertisement and use? In case that the trademark was identical with the service mark in Class 35, what would be the limitations of both rights?

In the case *Victoria's Secret vs. Shanghai Maisi*, Shanghai Maisi was a distributor rather than a producer. Its act of selling products could be interpreted as providing retail service to consumers. Thus, it was reasonable for the court to identify its use of the series marks of "VICTORIA'S SECRET" as the use of service mark. However, one issue does exist. If the trademark is identical with the service mark in Class 35, how would the distributor reasonably use the trademark? Assuming that the plaintiff in this case only registers the trademark of "VICTORIA'S SECRET" in Class 25 and a third party owns the registered service mark of "VICTORIA'S SECRET" in Class 35 on the designated services of sales promotion for others, advertising/publicity, etc., if the plaintiff's distributor uses the trademark of "VICTORIA'S SECRET" on the signboard, store decoration, cashier, name tag, VIP card, fashion show, would this be recognized as infringement of the service mark in Class 35? In practice, it is actually quite normal for different right holders to own identical trademarks in goods classes and the Class 35 service class respectively. Therefore, it is necessary to clarify the boundaries of trademark and service mark rights.

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Please call +8610 66211836 ext. 323 or send email to law@chinantd.com.

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