IP CASE EXPRESS

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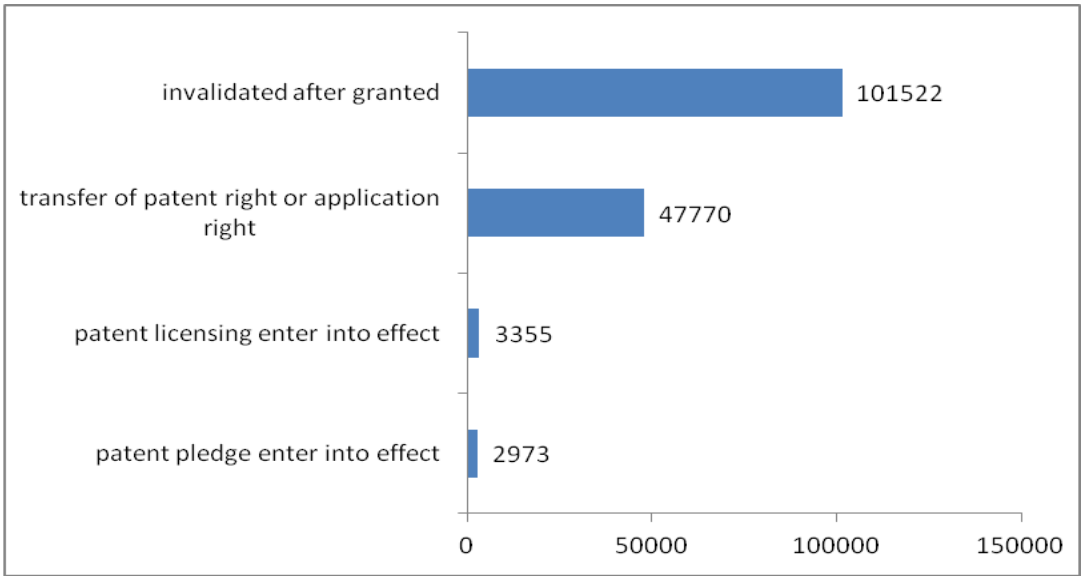
Table of contents

In this edition, we browsed and analyzed IP-related court judgments and adjudications together with the key statistics recently, and we would like to share with you noteworthy statistics and our comments on some significant cases.

I. Statistics

China's Patent-related Statistics

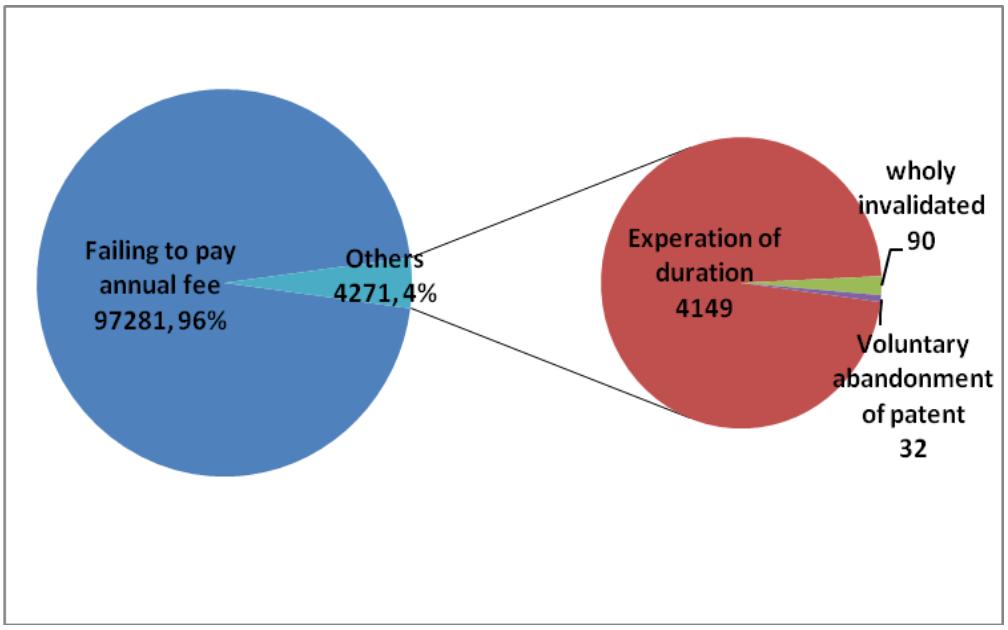
Variation of invention patent rights in 2016

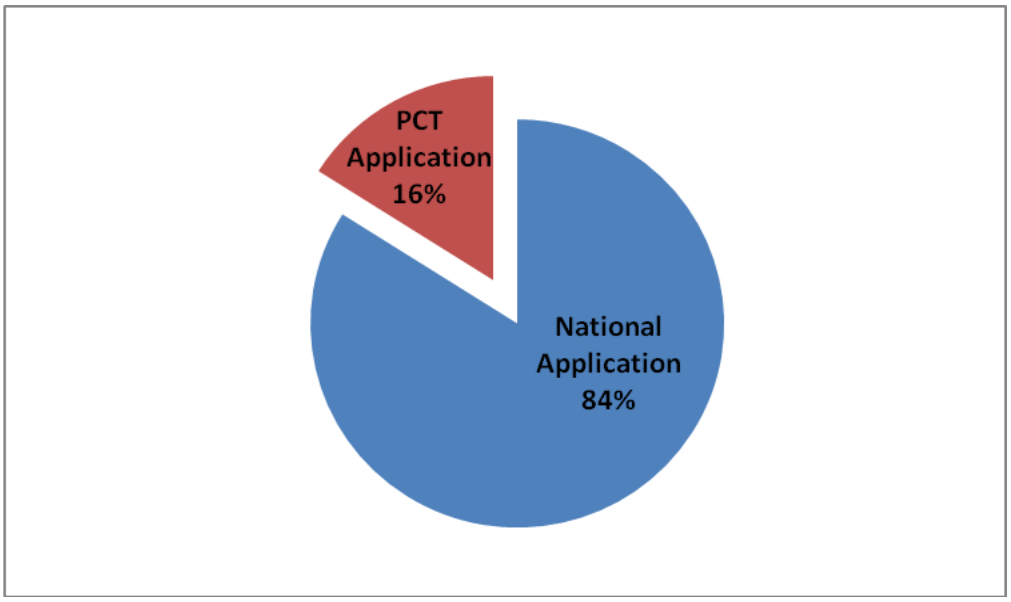


— In 2016, over 100,000 invention patents became invalid.

— 3,335 patent licensing and 2,973 patent pledge entered into effect. 30,491 patent rights and 17,279 patent application rights were transferred.

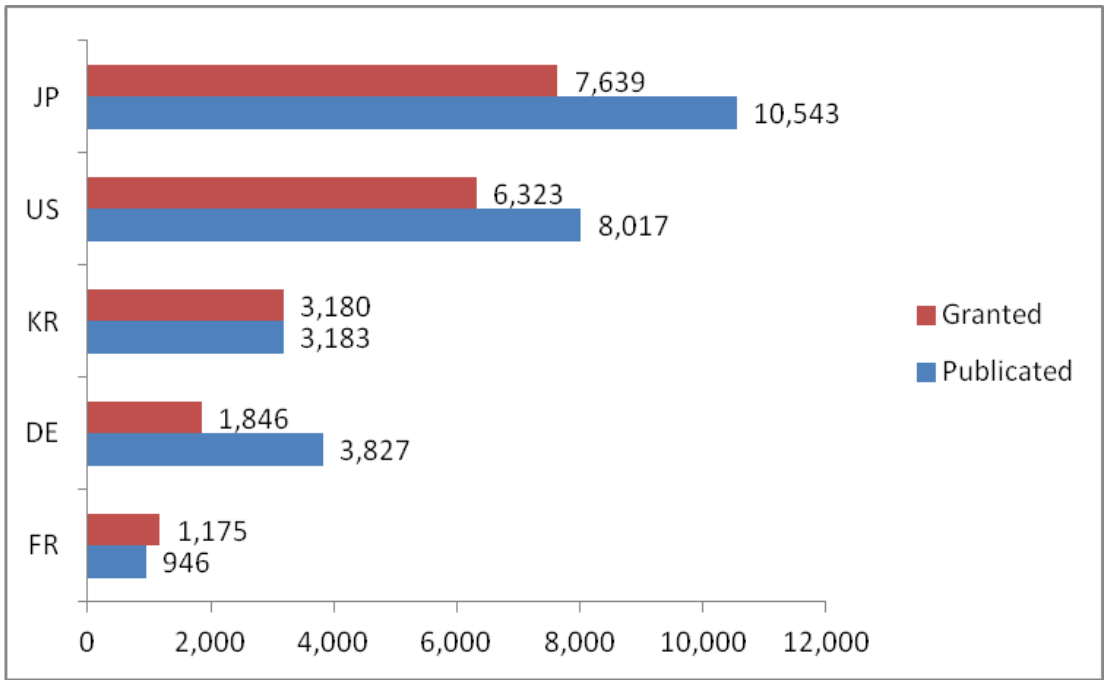
The causes of invalidation of invention patents





- 96% of the invalidated invention patents are ceased for failing to pay the annual fee and 4% has other causes.
- 84% of the invalidated invention patents are national applications and 16% of them are PCT applications.

Invention patents from Major Countries from September to December 2016



Source: SIPO

II. Comments on Typical Cases

Patent

Utility Model Patent Infringement Suit Lodged by Chic Company against Anshang Company

- *- (2016) Zhe Min Zhong No. 528 Civil Judgment*
- *- (2015) Zhe Hang Zhi Chu Zi No. 735 Civil Judgment*

Rules:

Where an allegedly infringing technical scheme includes technical features identical or equivalent to all the technical features specified in claims, the people's court shall find it falls within the protection scope of a patent;

With respect to a specific disputed feature, if the disputed feature belongs to the invention point, innovation point and distinction point from existing technologies of a patent, the criterion of equivalence shall apply in a strict manner; on the contrary, if the allegedly infringing technical scheme has the invention point of a patent, the equivalence of other technical features shall be determined in a relatively lenient manner.

Facts:

Hangzhou Chic Intelligent Technology Co., Ltd. (hereinafter referred to as Chic Company) owns a utility model patent named power-driven balancing scooter and the patent number is ZL201420314351.5 (hereinafter referred to as the patent). Chic Company sued Yongkang Anshang Fitness Equipment Co., Ltd. (hereinafter referred to as Anshang Company) and Zhejiang Taobao Network Co., Ltd. by claiming the latter two infringed the utility model patent thereof, requesting the court to rule that the two defendants committed infringement.

The main focus of dispute in this case lied in whether the allegedly infringing product fell within the protection scope of the involved patent:

Claim 1 of the patent, based on which the

plaintiff claimed rights, has specified the following contents: power-driven balancing scooter, comprising a top cover, an inner cover, a bottom cover, a hub motor, a revolving gear and a balance mechanism; the top cover, inner cover and bottom cover separately comprising two symmetrically placed and mutually rotating parts, while the inner cover lying between the top cover and the bottom cover, as well as matching up to the latter two; a slewing mechanism lying at the horizontal position in the middle of the inner cover; a hub motor lying lengthways at the edge positions at both sides of the inner cover; a balance mechanism lying on the bottom cover and connecting with the electric motor; said slewing mechanism comprising two bearings, one shaft sleeve and two jump rings; two bearings separately lying at the inner ends of the two identical parts on the inner cover, while the shaft sleeve lying in the two bearings and being fixed on the inner cover via the jump rings.

The main difference between the allegedly infringing product and the technical scheme in Claim 1 lied in the position of the balance mechanism, i.e. the balance mechanism of the allegedly infringing product was fixed on the inner cover.

With respect to the above difference, the court of the first instance held that the balance mechanism of the allegedly infringing product was indeed installed on the inner cover, but the technological means adopted for installing the balance mechanism on the inner cover or the bottom cover, the accomplished functions and the achieved technical effects were basically the same, and common technicians in the field could associate the two technical features without creative work. Therefore, the two technical features belonged to equivalent features. Further combining other facts of the case, the court of the first instance ruled that the allegedly infringing product fell within the protection scope of the involved patent.

Anshang Company was unsatisfied and filed an appeal. The court of the second instance quoted the opinion of the reexamination board during the process of invalidity, holding that the technical feature of setting up an inner cover in the patent was the key to solve the technical issues in the patent, and the allegedly infringing product included the technical feature as well. The above differences were not the invention point, innovation point and distinction point from existing technologies of a patent. A lenient standard could be applied properly for determining equivalence. As the court of the second instance stated in the judgment thereof: Although the patent did not adopt completely the same technical means as those adopted by the allegedly infringing product, in the case that Claim 1 of the patent disclosed the technical feature that the inner cover could fix the slewing mechanism and the hub motor, the allegedly infringing product fixed the balance mechanism connecting with the hub motor on the inner cover as well, which was obviously an substitution of technical means that could be envisaged by common technicians in the field without creative work. The accomplished functions and achieved technical effects were basically the same. Therefore, they belonged to equivalent technical features.

Remarks:

In the determination of equivalence infringement in this case, more focus is placed on the technical feature which is the innovation point and distinction point from existing technologies of the patent, while the criterion is lenient towards whether other disputed technical features are equivalent, which not only helps the protection of inventions and creations with high level of creativity, but also enables the protection of inventions and creations to adapt to the technical contributions thereof.

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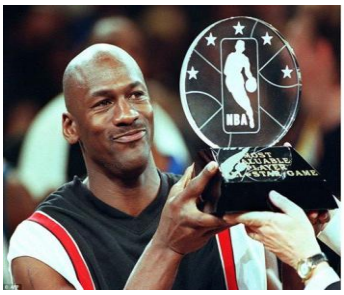
Translator: Jonathan MIAO

Trademark

Case of Dispute over the Right of Name "乔丹"

- *(2016) Supreme Court Adm. Retrial No. 27 Administrative Judgment*
- *(2015) High Court Adm. (IP) Zhong Zi No. 1915 Administrative Judgment*
- *(2014) Intermediate Court Adm.(IP) Chu Zi No. 9163 Administrative Judgment*



Rules:

1. The right of name falls under the prior right provided in Article 31 of Trademark Law 2003. When a natural person claims protection of the right of name with respect to a specific name, the following three conditions shall be satisfied: first, the specific name has certain popularity in our country and is known to the relevant public. The specific name includes the autonym of the natural person, as well as the stage name, pen name and translated name, etc.; second, the relevant public uses the specific name to refer to a natural person. The use by the owner of the right of name is not a prerequisite to obtain protection by the prior right; third, a stable corresponding relationship has been established between the specific name and the natural person. Even if the corresponding relation is not exclusive, it could still obtain legal protection of the right of name.

2. When determining whether a disputed trademark infringes the prior right of name of others, the key is to identify whether the disputed trademark could easily cause misidentification among the relevant public that there is a special connection such as endorsement and license between the goods or service marking the disputed trademark and the owner of the right of name. The components differ from the recognition of trademark infringement. Even if the applicant of the disputed trademark has made certain contribution for the accumulation of the trademark's reputation after years of management and operation, its act of malicious registration should not be justified.

Facts:

The retrial petitioner Michael Jeffrey Jordan is an American basketball star, who has been widely reported by Chinese media since 1984.

On October 31, 2012, the retrial petitioner filed a canellation application before the Trademark Review and Adjudication

Board (hereinafter referred to as TRAB), requesting to cancel Qiaodan Company's trademark registration No. 6020569 for "乔丹" (hereinafter referred to the disputed trademark). The main points of arguments are as follows: (1) Qiaodan Company along with its affiliated companies, who have known and should have known the popularity of the retrial petitioner, applied for registration of a large number of marks related to the retrial petitioner including "乔丹" and "QIAODAN", which constitutes an unfair competition; (2) The registration of the disputed trademark harmed the prior right of the retrial petitioner; (3) Qiaodan Company's acts have fallen within the circumstance of "obtaining registration through other unfair means".

On April 14, 2014, TRAB made a decision of Shang Ping Zi [2014] No. 052058 on the dispute over the trademark No. 6020569 for "乔丹" (hereinafter referred to as the sued decision). The disputed trademark was maintained for the following reasons: (I) In terms of Article 31 of the Trademark Law: 1. there was certain differences between the Chinese characters "乔丹" and the English letters " Michael Jordan" as well as the Chinese transliteration "迈克尔·乔丹". Besides, "乔丹" is a common family name across western countries, it was difficult to determine there was a corresponding relationship between the family name and the retrial petitioner. 2. In the advertisement and use of his name and image, the retrial petitioner and his commercial partner Nike Company were using the full name of "Michael Jordan" or "迈克尔·乔丹" and the signs relating to the image of jumping for slam dunk by the retrial petitioner. 3. The trademarks No. 1541331 for "乔丹" and No. 3028870 for devices held by Qiaodan Company were once protected as well-known trademarks. Qiaodan Company has acquired high market reputation through long-term and wide publicity related to the above trademarks. Qiaodan Company and Nike Company have respectively formed their own consuming group and market recognition. 4. Although some media had used "乔丹" to refer to the retrial petitioner in some basketball reports, the number was limited. In this sense, it cannot be determined that the relationship between "乔丹" and the retrial petitioner was stronger than that between "乔丹" and Qiaodan Company. In conclusion, the registration of the disputed trademark did not harm the right of name of the retrial petitioner.

The retrial petitioner was dissatisfied with the sued decision, and filed an administrative lawsuit before Beijing First Intermediate People's Court (hereinafter referred to as the court of the first instance), requesting to cancel the sued decision.

In 2012, Michael Jordan applied for cancelling the disputed mark before TRAB by claiming that the registration of the disputed trademark owned by Qiaodan Company had infringed his right of name, but TRAB decided to maintain the disputed trademark. Michael Jordan was unsatisfied with the decision and filed an administrative lawsuit with Beijing First Intermediate People's Court, which, however, ruled to maintain the decision of TRAB.

Afterwards, Michael Jordan appealed to Beijing Higher People's Court, which was then refused. In 2015, Michael Jordan applied for a retrial before the Supreme People's Court.

The Supreme People's Court held that the existing evidences in this case were sufficient to prove that "乔丹" was highly popular and known to the relevant public in our country. The relevant public in China usually uses "乔丹" to refer to the retrial petitioner Michael Jeffrey Jordan, and a stable corresponding relationship has been established between "乔丹" and the retrial petitioner. Therefore, the retrial petitioner should enjoy the right of name "乔丹". During the time before the application date of the disputed trademark and until 2015, the retrial petitioner had been highly popular in our country not only in the field of basketball, but also as a public figure with high popularity. The disputed trademark in this case was No. 6020569 for "乔丹", designated in goods sports equipment, swimming pools (for entertainment), roller skates and Christmas ornaments (excluding decorative lighting and candies) in Class 28. In particular, the goods sports equipment, swimming pools (for entertainment) and roller skates are common goods in athletic sports while Christmas ornaments (excluding decorative lighting and candies) belonged to common daily products. The relevant public of the above goods will easily misunderstand that there was a special connection such as endorsement, license between the goods marking the disputed trademark and the retrial petitioner, which harmed the prior right of name of the retrial petitioner. It was obvious that Qiaodan Company had registered the disputed mark in bad faith. The management and operations of Qiaodan Company, as well as the advertisement, use, awards and acquired protection, etc. of the trade name and relevant trademarks are insufficient to legalize the registration of the disputed trademark. Therefore, the registration of the disputed trademark violated the provision Article 31 of the Trademark Law.

Remarks:

As professional lawyers, we focus on the judgment outcome of a specific case, but concentrate more on the judicial rules established by the highest judicial organ for that particular case. The judgment of a case may serve as merely a current news event, but the judicial rules could function as a leading guidance. As to the rules to solve the conflict between the trademark and the right of name, there were no clear-cut and concrete opinions on the application before this case. The rules of solving the conflict between the trademark and the right of name concluded in this case will actively guide the trial and judgment in similar cases.

In this case, when the Supreme People's Court determined the judicial rules, it used the term "the specific name", which enables the object of protection of the right of name to include not only the autonym of the natural person, but also the stage name, pen name and translated name, etc. Likewise, the protection scope of corporate right of name covers not only the full name of the enterprise, but also the trade name and abbreviated name thereof.

In the Judicial Opinions 2010 of the Supreme People's Court, the statement of "paying attention to maintain the already established and stable market order" was initially intended to solve the issue of trademark coexistence resulting from historical reasons, which, however, has been defending weapons in cases of trademark disputes due to its ambiguous expression. In the cases of disputes over trademarks "荣华" and "赖茅",

the Supreme People's Court explicitly stated that "illegal acts cannot produce legal rights". In this case, the Supreme People's Court

further pointed out that "Even if the applicant of the disputed trademark has made certain contribution for the establishment of the goodwill of the trademark after years of management and operation, the acts of malicious registration cannot be justified," which is believed to be able to further clarify the legal application of the issue "maintaining market order".

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Copyright

Dispute over Infringement of Information Network Communication Right Lodged by Li Chengpeng against Apple Inc.

- *(2015) Min Shen Zi No. 1295 Civil Judgment*
- *(2013) Gao Min Zhong Zi No. 2080 Civil Judgment*
- *(2012) Er Zhong Min Chu Zi No. 2336 Civil Judgment*

Rules:

The obligations undertaken by operators of app stores shall be consistent with and equal to the benefits obtained thereby. If operators of app stores have relatively high control of the review, online sale and benefit distribution, etc. of applications, they shall take relevant measures to review whether the contents of applications have been granted license. Where they know or shall have known applications infringe the copyright of others and do not take effective measures, they shall undertake joint liability.

Facts:

The plaintiff is the author of the book Li Kele Protests Demolitions. The plaintiff found that the defendant provided an application containing the involved book through the app store thereof AppStore, so the plaintiff sued the defendant by claiming the defendant infringed the information network communication right. The court of the first instance and the court of the second instance both ruled that the act of the defendant constituted infringement of copyright. The defendant was unsatisfied and applied for retrial with the Supreme People's Court.

The Supreme People's Court held that Apple Inc. selected the applications released on the APPSOTRE according to its own policy needs, which was not restricted by third-party developers and had strong control and management ability. It was different from the network service of general information storage space. Apple Inc. and developers agreed benefits of a fixed percentage in their agreements,

which were directly from end users. Users paid the benefits for the applications provided by developers, while the content of the involved application was an important factor for network users to make payments. Apple Inc. should undertake obligations consistent with and equal to the benefits obtained through AppStore. Apple Inc. failed to take reasonable measures after knowing that the involved application was provided by the application developer without license, so that Apple Inc. could be deemed to have not fulfilled the above duty of care and have subjective default. The act thereof constituted infringement. Therefore, the retrial petition of the defendant was dismissed.

Remarks:

Different business models will affect the assumption of the liability for fault: with respect to network service providers who simply provide network storage space, the court adopts “red flag standards”, which do not require initiative review of the contents uploaded by users; however, if network service providers have relatively strong management and control ability of the contents uploaded by users, as well as directly obtain economic benefits from the uploaded works, they shall undertake relatively high duty of care. In this case, the court ruled that Apple Inc. should undertake the obligation of taking the initiative to review the license conditions of the contents in the AppStore, which was equal to the duty of care of publishing houses.

Author: Richard Hu
Translator: Richard Hu

Unfair Competition

Case of Dispute over Unfair Competition Lodged by Beijing Herolion Technology Co., Ltd. against Eternal Asset Management Co., Ltd.

- *(2016) Jing 73 Min Zhong No. 85 Civil Judgment*
- *(2015) Chao Min (Zhi) Chu Zi No. 34628 Civil Judgment*

Rules:

Unlike such special laws as the patent law and the trademark law, the anti-unfair competition law does not create an exclusive right for operators, but regulates unfair competition acts through prohibitive terms and general terms. A proper business model belongs to the legal rights and interests of operators, which shall be protected by the competition law, while the anti-unfair competition law protects a business model by forbidding unfair competition acts which destroy the business model, rather than granting operators the right to exclusively possess or monopolize the business model.

Facts:

The plaintiff, Beijing Herolion Technology Co., Ltd. (hereinafter referred to as Herolion Company), was established in April 2003, the product Police & Banking Pavilion developed, produced and sold by which was granted a series of design and utility model patent certificates. On May 13, 2014, Herolion Company and Huzhou Municipal Public Security Bureau entered into a Service Agreement for Free Construction and Use of Police & Banking Pavilion (hereinafter referred to as Agreement 1), agreeing that Herolion Company designed and invested in construction of Police & Banking Pavilion for Huzhou Municipal Public Security Bureau without consideration. The project stopped for some reason afterwards.

The defendant, Eternal Company (hereinafter referred to as Eternal Company), was established on August 6, 2014, mainly engaging in corporate management, market survey, investment consultation, etc, and having also obtained design patent for the product Police & Banking Pavilion. On August 28, 2014, Eternal Company and Huzhou Municipal Public Security Bureau entered into a Service Agreement for Free Construction and Use of Police & Banking Pavilion (hereinafter referred to as Agreement 2), the contents of which were basically the same as Agreement 1 other than the proposed construction number and construction date.

The plaintiff and the defendant both prepared Project Reports on Police & Banking Pavilion, which were basically the

same in terms of literal contents, but didn't specify the date of preparation.

The business model advocated by the plaintiff covered the following contents: the enterprise and the public security bureau first entered into an agreement for the construction of Police & Banking Pavilion → the public security bureau issued an official document after consulting relevant government departments → the enterprise looked for a cooperative bank to enter into a purchase agreement → the enterprise placed an order with the manufacturer → the enterprise shipped the finished product to the designated site for installation → the enterprise took charge of later-stage operation and maintenance.

The plaintiff held that the defendant copied the contract template, report materials and business model thereof, as well as imitated the product design of Police & Banking Pavilion thereof, which violated the Anti-unfair Competition Law, so the plaintiff sued the defendant, requesting the latter to, among others, stop the above unfair competition acts.

During the hearing, Herolion Company explicitly stated that in this suit it didn't claim the copyright of the agreement and report materials, as well as the patent for product design and utility model, which only served as a form of the unfair competition acts of the defendant.

The court of the first instance held that:

(1) In terms of the contract template: the evidence in this case showed that Huzhou Municipal Public Security Bureau had access to the contract template earlier than Eternal Company. There was no evidence to prove that Eternal Company was in bad faith subjectively.

(2) In terms of the report materials: neither of the two materials specified the date of preparation, so that it was impossible to determine the sequential order of the establishment thereof.

(3) In terms of the business model advocated by Herolion Company: first, our law did not clearly provide that business models fell within the protection scope of IP. The business model described by Herolion Company belonged to the step and sequential order of trading activities in nature. Herolion Company did not present evidence to prove that the process and step for Eternal Company to sell the product were identical to those of Herolion Company. In view of this, Herolion Company could not prove that Eternal Company copied its business model.

(4) In terms of the imitation of product design and infringement of IP rights claimed by Herolion Company, the existing evidence could only prove that both products Police & Banking Pavilion were similar in appearance to some degree, but the appearance was mainly the standard police pattern, and it was impossible to know about the interior structure. The court of the first instance was unable to determine whether the appearance and interior structure infringed the IP rights of Herolion Company with existing evidence, and Herolion Company did not put forward such a claim, so that the court of the first instance was unable to determine whether the act was illegal.

In conclusion, the court of the first instance held that the involved circumstances claimed by Herolion Company did not constitute unfair competition.

The court of the second instance held: in terms of the contract template and report materials, it was impossible to determine that the act of Eternal Company was improper with existing evidence. In terms of the business model, the anti-unfair competition law aimed to encourage free competition, while the freedom of imitation was an important content of the freedom of competition. First, the business model did not constitute the object of protection of the patent law, the trademark law and the copyright law, so Herolion Company did not enjoy an exclusive right. Second, although the business model was proper, which could be protected by the anti-unfair competition law, the anti-unfair competition law protected the business model by forbidding unfair competition acts which destroyed the business model, rather than granting operators the right to exclusively possess or monopolize the business model. In this case, the existing evidence could not prove that Eternal Company committed any improper act to destroy the business model of Police & Banking Pavilion. In conclusion, the court of the second instance dismissed the appeal and maintained the judgment of the first instance.

Remarks:

As the specific provisions of the Anti-unfair competition law do not cover business models, as to whether it is possible to protect a business model through the principled terms in the General Provisions of the Anti-unfair competition law, it is necessary to consider whether the parties have adopted improper means to destroy the competition order, have violated the principle of good faith and the recognized commercial ethics, as well as have subjective fault.

In this case, the court did not consider the act as unfair competition mainly because of the following factors:

I. A business model does not constitute the object of protection of the patent law, the trademark law or the copyright law.

The copyright law's protection of the object of protection depends on whether it belongs to a thought or an expression. If a business model can be expressed in an original way, it may be protected by the copyright law. In this case, the business model of Herolion Company was too simple and was just a kind of inherent business process without originality, which can not become the object of protection of the copyright law.

What the trademark law mainly protects is the trademark which can identify the origin of products, so as to prevent confusion in the market. Business models obviously do not fall within the scope of protection under the trademark law.

The objects of protection of inventions and utility models in our country are limited to technical schemes, while the object of protection of design is limited to product design. According to Article 25 of the Patent Law, "No patent shall be granted for

rules and methods for mental activities." In practice, business models are generally considered to fall within the scope which is not granted patent as provided in Article 25 of the Patent Law.

II. The anti-unfair competition law protects the business model by forbidding unfair competition acts which destroy the business model, rather than granting operators the right to exclusively possess or monopolize the business model.

There are mainly two kinds of cases related to business models: first, unfair competition disputes resulting from interfering with and destroying the business model of others; second, unfair competition disputes resulting from imitating the business model of others. In judicial practice, the first circumstance is generally deemed violation of the principle of good faith and recognized commercial ethics, which destroys the competition order by unfair means and shall be regulated by the anti-unfair competition law.

This case involves the second circumstance, i.e. imitating the business model of others. In this regard, from the legislative perspective of the anti-unfair competition law, the purpose of the anti-unfair competition law is to encourage free competition and allow proper freedom of imitation. The imitation of business models will not affect the fair competition in the market. To the contrary, forbidding the imitation of business models and granting the first person using a certain business model an exclusive right will probably lead to market monopoly, which goes against free competition, thus damaging the public benefit of the whole society. Therefore, in this case, the judge held that the imitation of business models did not constitute unfair competition.

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If you are interested in gathering further details about the above cases, please do not hesitate to contact us.

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