



INDEX:

ARTICLES:

- AMENDMENT TO THE TRADEMARK LAW: A NEW DRAFT PUBLISHED IN DECEMBER 2012 P.2
- INTANGIBLE ASSETS' CONTRIBUTION P.3

SPECIAL SECTIONS:

- Practical tip: sub-Class protection
- IP School: Institutions in charge of trademark matters P.4

NEWS:

- Provisions on Infringement of information networking transmission right issued by SPC P.4
- Privacy in China: new rule to protect personal information
- PRC Trademark Office Expands Class 35 Services
- A new legal ground to reject bad-faith applications: art. 10 (i)(8) unhealthy influence
- Cloud computing and dilution of the trademark P.5
- 61.54% e-commerce operators encounter IP disputes
- Over 800,000 copyright registrations in 2012
- 14,319 court cases in Beijing in 2012
- GE: China now 3rd most innovative country P.6
- 653,000 invention application filed in 2012
- SIPO to protect IPR in specialized markets P.7
- HFG News P.8

pictured as having snake like tails interlocked. According to a Chinese myth, Fuxi and Nüwa were the sole survivors of a massive flood. After the flood, Fuxi and Nüwa received Divine approval to procreate in order to re-establish the human race. Nüwa in the oldest pictures carries a compass, the instrument related to heavenly observations. Fuxi became the first legendary emperor, which also implies the establishment of government, of law and order.

In this issue we are introducing two special sections which are not linked to recent legislative changes or case law. "Practical tips" aims at providing easy reference method for dealing with IP issues in China. "IP School" provides basic general knowledge about IP topics in China.

As far as the content of our newsletter we are presenting two articles, one relates to the recently issued 3rd draft of the Amendment to the Trademark Law. This draft appears to be the good one, probably indeed will be enacted and be in force from next year. The second article is about utilization of intangible assets when making direct investments in China. IPRs are valuable assets and can be used as alternative to cash contributions when establishing a company in China. It is not brand new issue, but it is now hot especially under the pressure of Chinese policy to develop innovation and attract high-tech foreign investments.

Among the rest news I just highlight a new wave on statistics which prove that China is an IP giant at least in its own internal market.

Enjoy reading and if you need any further information do not hesitate to contact us.

Dear All,

Happy New Year of the Snake! In China we have just celebrated the so called Spring Festival. The snake year brings changes, take advantage of those and achieve impossible targets. This year, it is possible. Our mission impossible includes delivering to all of you our CHINA GOSSIP every month with fresh and interesting news.

The above image represents Nüwa and Fuxi,

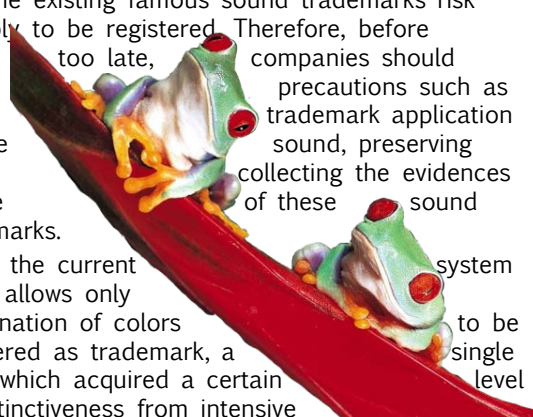
AMENDMENT TO THE TRADEMARK LAW: A NEW DRAFT PUBLISHED IN DECEMBER 2012

It is quite a long time that the Chinese National People's Congress (NPC) is working on the amendment to the trademark law. Recently a new draft (the 3rd) has been published, and -if promulgated- it would give birth to the 4th amendment to the Chinese Trademark Law (TML). Among many modifications that will be introduced, we mention herein a few hot issues:

1. One application for many classes (multiple filing);
2. Non-traditional trademarks;
3. Provisions to curb bad faith applications;
4. Appeal (deadline to file);
5. Opposition (reduce subjects and eliminate review);
6. Damage compensation.

Art. 20 of Amendment to TML now states that *"The trademark office may, in due time, accept registration of one trademark on several classes of goods through one single application"*. As a consequence art. 30 TML introduces the partial refusal which might be issued with reference only to part of the goods/services designated in the application. Needless to say that this change is welcome since it reduces the cost of filing.

Art. 8 of Amendment to TML now includes color, smell, sound and animation which were previously excluded from protection. If the amendment passes, sounds that possess distinctive characteristics and can be distinguished easily by consumers will be brought into the protection path of trademark application, which means that those popular sounds such as "Intel inside", "Nokia tone", "Hello Moto", the Windows start music and the interludes of some famous TV shows and commercials are able to be applied for trademark registration. The amendment will greatly encourage creativity. At the same time, it should be reminded that the existing famous sound trademarks risk possibly to be registered. Therefore, before it is too late, companies should take precautions such as trademark application for the sound, preserving the evidences of these sound trademarks. Under the current system which allows only combination of colors to be registered as trademark, a color which acquired a certain level of distinctiveness from intensive



use is protected as "decoration peculiar to well-known goods" by Anti-Unfair Competition Law or by the Copyright Law.

Moreover, color trademarks which are either too simple or too complex would be considered lack of distinctiveness by examiners and be prohibited from registration. Since it is hard for them to be spread through oral transmission, a long-time and wide-ranged use is required for these kinds of trademarks to get distinctiveness so as to get registration

Art. 9 of the Amendment TML introduces the general principle under which *"The application and use of a trademark shall be made in good faith"*. Furthermore, art. 34 Amendment TML add that *"Where a trademark applied for registration in respect of same or similar goods is identical with or similar to other's prior used trademark in China, and the applicant has contract, business contact, geographical relationship or other relations with this party so that shall definitely know the existence of this party's trademark, it shall not be registered"*. And *"Where a trademark applied for registration in respect of different or dissimilar goods is plagiarism of other's registered trademark which enjoys strong distinctiveness and certain reputation, and would easily cause confusion, it shall not be registered"*.

It seems that the NPC is seriously tackling the phenomenon of trademark squatting. Introducing a general principle of good faith and describing as illegal the behavior that we have commonly encountered in the past might bring to an improvement. If the amendment will be passed, it would be interesting to read more detailed provisions in the implementing regulations and rules for adjudication of disputes.

Art. 43 Amendment TML modifies the prior provision fixing in 30 days the deadline to file appeal against the preliminary refusal of a trademark. The previous 15dd was widely criticized for being too short.

Another major change to the process of examination and adjudication of trademarks relates to the opposition. Art. 44 Amendment TML limits the right to file opposition to owner of prior rights and interested parties, while under the current law everyone can lodge an opposition. Moreover, in the new process, the applicant of opposition will have no right to raise a review to the opposition.

With reference to the protection of trademarks, the Amendment increases the amount of compensation in three circumstances: firstly if the infringement happens in bad faith, indeed the amount of

compensation can be confirmed from one to three times of the calculable damages or the profits from the infringement; secondly, if the damages or the profit cannot be confirmed, the legal amount compensation will be raised from RMB 500,000 RMB 1,000,000; thirdly, if the infringer refuses to provide the financial books to prove the amount of its profits, the court will tend to make an unfavorable presumption to the infringers according to the owner of the trademark.

However, in a lawsuit, the infringer can request the owner to provide the evidence that the trademark has been used in the 3 years prior to the action was brought or the evidence to prove the damages. If the owner is not able to provide these evidences accordingly, the judge might avoid imposing damages. This amendment considers that a trademark's life depends on use. No use, no damage.

It seems that the NPC is seriously tackling the phenomenon of trademark squatting

The above analysis only refers to part of the draft of the Standing Committee of NPC. According to Legislation Law of the PRC, it shall be examined and passed w

In conclusion, after the draft of amendment to Trademark Law is passed, the State Council will promulgate relevant regulations of the implementation on the new provisions, and the Supreme People's Court will also promulgate new Interpretation to make the relevant regulations and legal concepts clear to integrate smoothly from legislation to judicial practices.

INTANGIBLE ASSETS' CONTRIBUTION AS WAY OF INVESTMENT

Besides being core-assets for any business, intellectual property rights – as well as non-patented know how – can be used by foreign investors as capital contribution in their PRC subsidiaries.

As a matter of fact, while in the past the main alternative to cash contribution was contribution by means of industrial equipment and land use rights, we see now foreign investors more and more oriented to contribute intangible assets into their subsidiaries' registered capital.

According to the PRC Company Law and the relevant PRC regulations concerning capital contribution, up to 70% of the registered capital of a PRC foreign-invested enterprise ("FIE") can be contributed as intangible assets.

Intangible assets include IP rights (trademarks, patents, domain name) as well as non-patented know how. Even if intangible contributions normally account for around 20-30% of the registered capital, there are cases of 70% of the registered capital being contributed by domain name assignment.

One of the main reasons why such in-kind contribution is becoming more and more frequent is that it has little impact on the cash flow of the investor. Indeed, such assets have already

been developed by the investor at the time of the contribution. On the other hand, equipment and land use rights need to be purchased on the market while innovation is developed internally much often.

Having a high registered capital can be very important in order to have a higher rating with banks, or to have a stronger position in bids, or higher commercial power with some business partners. Intangible assets contribution can help reaching a higher registered capital with less disbursement of cash.

Other reasons may be related to the so-called "PRC indigenous innovation policy", through which PRC government pressures multinational companies to transfer more of their technology to their PRC entities. Favorable tax policy are set to favor the import of technology or the development.

Whatever the reason may be, capital contribution through intangible assets requires a complex procedure involving (i) a qualified evaluation company - that will need to assess the IP rights or the know-how to be transferred, both through documents review and on-site inspection, (ii) a certified accountant that will need to issue the capital verification report, and finally (iii) the local authorities that will have to approve the contribution by issuing the new business license of the subsidiary.

Key issues in this procedure are:

✓choosing the **right evaluation company**. In every province of China, there is only a bunch of companies authorized to issue official evaluation reports. In order to obtain a correct evaluation, it is important to choose one with a real, sound understanding of both the intangible assets that



they are going to evaluate and of the specific industry that the investor is engaged in;

- ✓ choosing the **right intangible asset** to contribute. The main criterion that the evaluator will refer to is: *how the contribution of that intangible asset will enhance the business of the subsidiary?* On the same time, the investor needs to keep an eye on its worldwide operations and make sure that there is no negative impact in other markets because of such contribution in China (e.g. it shall avoid contributing secret know-how if there are fears that it could leak from the PRC subsidiary). Therefore, it is important to map all the investor's intangible assets, to tailor the choice exactly on the business to be carried out by the subsidiary (i.e. a high-valued patent which has no impact on the business of the subsidiary could reach a very low evaluation or even be refused) and to prove that the contribution will actually account for the specific targeted amount to the business of the subsidiary;



- ✓ choosing the **right kind of transfer**. Investors, of course, prefer licensing to their subsidiary rather than transferring the full ownership of the intangible asset: in this way it is easier for them to regain full control of the licensed asset if things change in the future. PRC authorities, however, prefer full transfer of ownership. It is very important to understand previously the approach of local authorities and to integrate this in the strategy of the whole operation;
- ✓ in case of transfer of know-how, it is critical understanding how much **disclosure** the local authorities will require on its content. For this kind of asset, it is in fact critical keeping the maximum possible level of secrecy.

If such procedure is not carefully planned and handled correctly in all of its legal and procedural complexity, foreign companies could face ugly surprises: the evaluation could turn out to be different from the expected value, or, even worst, the contribution could even be rejected.

In both cases the investor should make up the difference (likely in cash, if the deadline for the contribution is about to expire).

Needless to say that your headquarters' financial department will not be happy about that.

SPECIAL SECTIONS

PRACTICAL TIPS:

Pay attention to the sub-classes system when filing trademarks in China. Keep in mind that each class is divided into several sub-classes. Designate at least one good/service for each sub-class (or even more if the sub-class is divided) to obtain fair protection within the class.

IP SCHOOL:

Which are the institutions in charge of trademark matters in China? At central level (Beijing) there is the State Administration for Industry and Commerce ("SAIC"). This is an entity directly under the State Council at the same level then of a Ministry but without having such nature. Among the competence of such powerful authority there is the administration of trademarks. The China Trade Mark Office ("CTMO") and the Trademark Review and Adjudication Board ("TRAB") are instituted under the SAIC. At local level SAIC is present through local branches of AIC (province, city, county, district, etc.).

NEWS

Provisions on Infringement of information networking transmission right newly issued by SPC

Supreme People's Court of China (SPC) promulgated on 17 December 2012 the "*Provisions on Several Issues Concerning the Application of Law for Trial of Civil Dispute Cases of Infringement of Information Networking Transmission Right*" (Provisions).

Under the new Provisions a network user or network service provider's unauthorized provision of the works, performance, audio and video products through information networks will constitute infringement of the information network transmission right of the right holders.

Moreover, if a network service provider instigates network users to, or help them, infringe the information network transmission right of the right holders when providing the network services, such network service provider shall bear joint and several liabilities for the network users' infringement of the information network transmission right of the right holders.

National People's Congress: Privacy more protected on internet

On December 28, 2012 the National People's Congress (NPC) of the People's Republic of China adopted the "Decision Relating to Strengthening the Protection of Information on the Internet" (Decision).

The Decision has been widely reported by media since it requires internet users to register using real names with ISPs or similar web based services.

Addressing recent concerns shown by the Chinese society about more privacy, the Decision provides a broad definition for online "personal information". It encompasses electronic information that can determine the identity of an individual and touches upon such individual private affairs. Beside this highly controversial issue, the Decision also sets forth a series of obligations ISPs must follow in the course of collecting, using and keeping personal information typical of advanced and modern legislations.

Decision provides a broad definition for online "personal information"

In general most of the burden is transferred to Internet Service Providers (ISPs). Indeed ISPs are required to obtain the consent from users for collecting and using their personal data. Rules for collection and use must be disclosed to users. Storage should be safe and confidential and divulcation, alteration, destruction or sale is regarded as illegal.

Moreover, from now on it is prohibited for any organization or individual sending business information (e.g. advertisements) via email or text message without the consent or request of a receiver, or in case the message is expressly rejected by the receiver.

Questions remain about how the Decision will be implemented.

PRC Trademark Office Expands Class 35 Services

As consequence to amendment brought to the 10th edition of the Nice Classification of Goods and Services, on 14 December 2012 China's Trademark Office (CTMO) issued a notice including amendments to the Chinese classification of Goods and Services. According to the new rules Class 35 includes "retail or wholesale services for pharmaceutical, veterinary and sanitary preparations and medical supplies". The amendments became effective on 1 January 2013.

A new legal ground to reject bad-faith applications: art. 10 (i)(8) unhealthy influence

An individual applied for registration the abbreviation of "Chinese Premier League" in Chinese characters in class 33 for wine. Chinese Football Association (CFA) filed opposition with China Trademark Office (CTMO) and later appealed in front of TRAB. Both cases were lost. CFA then brought TRAB in front of Beijing No.1 Intermediate People's Court.

Beijing No.1 Intermediate People's Court finds that the abbreviation filed for registration was recognized as unique correspondence with Chinese Premier League among the public. The registration of the opposed mark over wine products in class 33 would mislead the consumers to assume that the goods bearing the opposed mark are from Chinese Premier League, or the opposed party has authorization relations with Chinese Premier League. Thus, the opposed mark's registration violates the provision of Article 10(i)(8) of P.R.C Trademark Law.

Beijing No.1 Intermediate People's Court applied unhealthy influence clause as stipulated in Article 10(i)(8) of P.R.C Trademark Law to reject bad-faith application, and Beijing Higher People's Court, called to express its judgment by TRAB, upheld such finding.

The "unhealthy influence" under Article 10(i)(8) is intended to secure public interests and order. In other words if the mark's use may damage one specific party's interests, it should not be qualified as unhealthy influence.

Cloud computing and dilution of the trademark

Recently, a new concept in the IT industry was born: Cloud Computing. The most important feature of cloud computing is that software service will work as long as there is an internet connection, rather than installing the software in the computer.

As a new name, it will inevitably attract many businesses into competing to register the word as trademark, hoping to enjoy exclusive ownership through legal means permanently. There are already six companies applying in China for trademark registration of "云计算" in the appropriate Classes, with the first registration filed in July 2008, and the last one in February 2009.

It is worth noting that the above applicants of trademark registration are all Chinese enterprises, however, the concept proponent (Google), Microsoft, Dell and other well-known IT companies



have not filed trademark registration of “云计算” and “cloud computing” in mainland China. China's Trademark Law Article 9 explicitly provides: A trademark for which a registration application is made shall have distinctive features and be easily distinguishable, and shall not conflict with the pre-existing lawful rights of others. Trademark Law Article 11 provides for three kinds of signs shall not be registered as trademarks: (1) Those consisting only of generic names, devices, or model numbers of the goods concerned; (2) Those consisting only of a direct representation of the quality, primary raw materials, functions, intended purposes, weight, quantity, or other characteristics of the goods concerned; (3) Those lacking distinctive features.

The “云计算” and “Cloud Computing”, as a symbolic word, has a distinctive character, the “云” on behalf of “massive”, “numerous”, “cloud computing” term indirectly describes the characteristics of the technology by means of metaphor, from the trademark point of view only there is no violation of the relevant provisions of the Trademark Law of China.

However, because the term is wide the relevant public as a generic name for a technology, it can no longer be owned by some company in form of a trademark, but should be treated as the generic name of the technology in the public domain widely used by the majority of the enterprises.

Even though the “cloud computing” concept is successfully registered as a trademark before the concept is widely used, then after the technology is mature and spread worldwide, the trademark also faces dilution.

In our industry, this phenomenon is often termed “Distinctive feature of the trademark is diluted”.

Typically, dilution of the trademark distinctiveness is due to several reasons: the frequency of using trademark decreased or the trademark has been no longer used; overemphasis of trademarks contacting with a particular commodity, causing that the consumer treated the trademark as generic name of such goods; using the same logo on other commodities. “Cloud computing” trademark belongs to the second of the above. And the trademark does not only tie with the trademark owner's goods, but extends to the entire category of goods.

In summary, “云计算” and “Cloud Computing” as a new IT technology should not and cannot be



a trademark owned by an enterprise exclusively, due to their own characteristics and their technical characteristics in the field. It is reported that the United States Patent and Trademark Office has canceled the approval notice of “cloud computing” trademark application filled by DELL. It is estimated that many Chinese enterprises as registration applicant of “云计算” trademark will get nothing.

(Source: www.gssbw.com)

61.54% e-commerce operators encounter IP disputes

China e-Business Research Center (CECRC) released a report which shows that 61.54% of all the legal disputes encountered by e-commerce operators are associated with intellectual property rights. Such figure is much higher than that of other kinds of legal disputes. The report is available at www.100ec.cn/zt/2010bgdz/

Over 800,000 copyright registrations in 2012

National Copyright Administration (NCA) has received more than 800,000 copyright applications in 2012.

Among these 680,000 are related to original works and 140,000 are related to software. NCA has furthermore disclosed that such copyright were pledged in order to secure loans which value amounts to 2.751 billion RMB.

In 2012 a total of 687,700 original works including those on photography, literature, arts, movie, television, sound and video recording were registered. So the increase year-on-year basis in 2012 is 49.05%. Meanwhile, software reached up to 139,200, growing by 27.33%. Beijing, Guangdong, Shanghai, Zhejiang and Jiangsu ranked the first to fifth in this regard.

14,319 court cases in Beijing in 2012.

Heads of Beijing Higher People's Court and Beijing Municipal People's Procuratorate delivered work reports at the Fourth Plenary Session of the 14th Beijing Municipal People's Congress on January 26. Chief Justice Chi Qiang said IPR cases in Beijing have increased from 5,240 in 2008 to 14,319 in 2012.

GE: China now 3rd most innovative country

General Electric unveiled the “2013 Global Innovation Barometer” a report issued every year to measure the innovation capacity of countries which shows China moving up to the third most innovative country, surpassing Japan.

“Since the global financial crisis, we have worried

that economic volatility will weaken the consensus behind free and open international trade. The report suggests that even among business leaders the siren song of protectionism may at times be difficult to resist" said Karan Bhatia, vice president and senior counsel for global government affairs and policy at GE.

The report indicated Chinese enterprises prefer foreign markets whereas Korea, Brazil, Russia, Australia, UK and Japan tend to draw support from domestic market.

The survey proved that collaboration could be a winning strategy to surpass competitors and generate revenues, particularly in emerging markets. Germany, China, Brazil and Sweden are among the most successful at creating and managing partnership.

From the perspective of governmental policy, 66 percent of the executives interviewed regard China's innovation environment as strongly favorable. Government support is probably the strongest pillar of its capacity for innovation, indeed scoring 17 points above the global average.

Discovering and retaining talents, which has been consistently identified as a critical concern for innovation leaders across the globe, seem not being such a weakness in China. Forty-one percent believe restrictions on access to foreign talent are increasing, but China's innovation policy is more foreign-talent friendly.

The report summarized that China's environment is favorable to innovation. Flexible and diversified business models, strong government support, talent strategy without a certain pattern and openness to international collaboration are four advantages of China's successful innovation.

The report anyway disclosed weakness of the Chinese system in relation to innovation environment. Businesses lack confidence in challenging generally accepted practices and ways of working; the innovation ability and passion of small and medium sized enterprises and individuals is not well released; efficiency of governmental broad support for innovation, protection of confidentiality and intellectual property, and the ability of Chinese universities to prepare the next generation of innovative leaders still need to be improved.

GE's Global Innovation Barometer was commissioned by GE and conducted by research company StrategyOne, through interviewing 3,100 senior business executives across 25 countries.

(Source: Xinhua)

653,000 invention application filed in 2012

According to the latest SIPO statistics released on 8th Jan, SIPO received a total of 653,000 invention applications in 2012. For the same year, the total number of patent applications in China was 2.051 millions. Among the invention applications, almost 82% came from domestic companies and, among this figure, the 80% were service applications.

(Source: www.cipnews.com.cn)



SIPO to protect IPR in specialized markets

The State Intellectual Property Office (SIPO) has recently divulged a Notice on Protecting Intellectual Property Rights in Specialized Markets. In this kind of markets, according to an official from SIPO, the IPR protection can help to repress counterfeit and fake products as well as to encourage the guidance over the IP protection's status of small and middle size enterprises.

The SIPO has established a one year protection program which will address local agencies to investigate the location of specialized markets and the extension of IPR's protection in them. The agencies will then strengthen the coordination with all the IP-related authorities.

In the starting phase, agencies will choose three to four specialized markets where to conduct IP enforcement activities. Then, the progress will be announced to the public. In this project, the industry associations will be involved too to mediate with these markets and to suggest them to solve IP disputes by conciliation.

(Source: IPR in China)

HFG shortlisted at the ALB China Law Awards 2013

We are glad to inform you that HFG Law Firm & IP Practice has been shortlisted for the category “IP Law Firm of the Year” at the *ALB* China Law Awards 2013.

The “Asian Legal Business China Law Awards”, now in its 10th edition, recognize the excellence and outstanding achievements of China’s leading law firms and in-house legal teams as well as the top deals and dealmakers of 2012. The awarding ceremony will be held on 28th March 2013 in Beijing”



HFG Shanghai Office: temporary relocation

Due to renovation, HFG Shanghai office will be temporarily relocated from **March 4th, 2013** to May 1st 2013.

In case you need to visit, call or send a courier please use the temporary contact herein:

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如有不便，敬请谅解。

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