GossIP

December 2019

INSIDE

Dear readers,

Right before your Christmas vacation we are out with the last number of GossIP this year, disclosing some interesting cases and news.

The first article explains the decision of the Supreme People's Court on an OEM trademark infringement dispute brought by Honda against Heng Sheng.

Then we analyze how trade secrets are protected by the new Anti-Unfair Competition Law entered in force on November 1st, 2019 and what are the substantial impacts of this new law.

Considering that China has become the world leader importer of food and beverage products, we can see how important is the bilateral agreement between EU and China to protect 100 European Geographical Indication (GI) in China and 100 Chinese GI in Europe. Read about the reciprocal trade benefits in the third article!

The fourth contribution goes deep on the newly revised Patent Examination Guidelines entered in force on November 1st, 2019, aimed at improving the quality and efficiency of patent examination.

We close this December GossIP with a warning about the classification of food product, which is sometimes not easy and often critical.

And speaking about food, enjoy the meals during these holidays!

Many wishes for a very sweet Christmas and a New Year full of joy.

Fabio Giacopello

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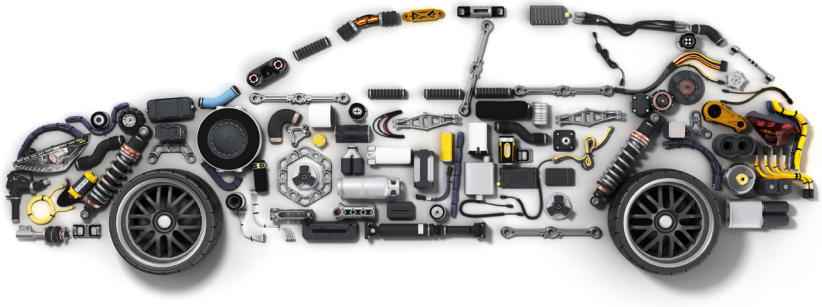
NEWS

Honda Case on OEM



In September of 2019, the Supreme People's Court of the People's Republic of China (the SPC) issued an *"attitude changing"* decision on OEM trademark infringement dispute, brought by Honda Giken Kogyo Kabushiki Kaisha (*"Honda"*) against Chongqing Heng Sheng Xin Tai Trading Co. Ltd and Chongqing Heng Sheng Group Co. Ltd. (*"Heng Sheng"*).

The SPC held that two defendant's activities – manufacturing and exporting 220 motorcycle bearing trademark *"HONDAKIT"* (distinctively displaying *"HONDA"* alone) to Myanmar company – constituted OEM manufacturing and infringed Honda's Chinese trademark right.

After the *"PRETUL"* and *"Dongfeng"* cases, this is another or the latest decision made by the SPC on OEM issue, a different voice from before.

Main Arguments in Honda Case

1. Whether the acts of defendants constitute OEM manufacturing

The SPC upheld the judgement on constituting OEM manufacturing in 2nd instance. Even if the contracts signed as the name of *"Sales Contract"*, the nature of the conditions and details referred to the OEM manufacturing contract.

Undoubtfully, the behavior - authorized by Myanmar company, pasting specific trademark on the package, exporting to Myanmar alone - performed by defendants is indeed OEM manufacturing.

2. Whether the acts of defendants constitute trademark use

The SPC held that even if the infringement products exported to Myanmar, with the development of Chinese economic, not only the related operators involved, but also the overseas Chinese tourists or consumers all had access to the infringement products, thus aroused confusions.

Furthermore, it is possible that the infringement products flowed back to China as well. Therefore, the said OEM manufacturing constitute trademark use.

3. Whether the acts of defendants constitute trademark infringement

In this case, Heng Sheng used trademark *"HONDAKIT"* and related device on infringement motorcycles by distinctively displaying *"HONDA"* alone, coloring *"H"* and wing shape into red, which constituted similar trademarks with Honda's.

Such *"trademark use"* would arouse confusions among the related public, thus it constitutes trademark infringement.

In addition to the case analysis, the SPC also provide meaningful judicial guidance on some hitting issues through Honda decision.

Hereby we highlighted and would like to draw your attention.

Trademark Use

Trademark use is a kind of objective acts, usually involving many aspects, such as physical attachment, market circulation, etc.

The judgment on *"trademark use"* shall be based on the comprehensive consideration, not focused on or separated into partial aspects.

The use of a trademark on a manufactured or processed product by means of labeling or others should be determined as *"trademark use"*, as long as it has the possibility of distinguishing the source of the commodity.

Related Public

According to judicial interpretation, the related public refers to the consumers and operators who have the close relations with goods or services of the trademarks.

With the increasing development of Chinese trade and economic, many Chinese consumers traveling and consuming abroad, also have access to the OEM products.

That is to say, the range of related public would not confine in traditional definition, it could enlarge to some extent.

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Trademark Infringement Liability

The judgment of trademark infringement is based on principles of no-fault liability, i.e. causing actual damage is not the essential element of tort liability.

The term *"easy to arouse confusion"* in the Trademark Law refers to the situation that if the related public has access to the goods, it has the possibilities on arousing confusions, **that is to say, it is not required that the related public touch the infringement products in actual or the confused facts is determined to occur.**

In conclusion, as reinforced by the SPC in Honda decision, with the transformation of Chinese economic development, it is impossible to simply definite a certain trade method (OEM) into an exception of trademark infringement.

The Court shall take both the domestic and international situation into consideration, conducting specific analysis on trademark infringement disputes which occurred in specific period, in specific market or through specific transaction form.

Although the SPC's attitude on OEM is irresolute in the past, now we can see the SPC try to get back to the general principle on judging trademark infringement.

If the OEM manufacturing would arouse confusions among the related public on goods source, it shall constitute trademark infringement.

We have to say this is a good signal for the right holders to seek protection on their products from illegal infringement, while it is also a good guidance for the lower courts to follow when judging the similar cases to a large extent.

At the same time, we also hope that the SPC could give more precise judicial interpretation on OEM issue in the future.

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HIGHLIGHT

New stage for Geographical Indications protection in China

On November 6th 2019 the EU and China concluded the negotiations on a bilateral agreement to protect 100 European Geographical Indications (GI) in China and 100 Chinese GI in the EU against imitations and usurpation. This landmark agreement is expected to result in reciprocal trade benefits and demand for high-quality products on both sides.

Delivering on the commitment made at the last EU-China Summit in April 2019, this agreement is, in words of the European Commission *"a concrete example of cooperation between the European Union and the People's Republic of China, reflecting the openness and adherence of both sides to international rules as a basis for trade relations".*

This new agreement is framed within the 5 years plan launched by the European Commission in 2016 to enhance the promotion, growth and investment into China. Equally, it is part of the agreements previously signed pursuing the recognition and adequate protection of Geographical Indications (GI) in the countries of origin.

The publication of the definitive list includes diverse GIs from different European countries such as Italy, Spain, France and United Kingdom, which joins the ulterior GIs already recognized.

For instance, some of the Spanish GIs included in the list and therefore that will be protectable in China as soon as the new agreement is in force are:

Name as registered in the EU	Transcription In Chinese characters	Type of product
Rioja	里奥哈	Wines
Cava	卡瓦	Wines
Cataluña	加泰罗尼亚	Wines
La Mancha	拉曼恰	Wines
Valdepeñas	瓦尔德佩涅斯	Wines
Brandy de Jerez	雪莉白兰地	Spirit
Queso Manchego	蒙切哥乳酪	Cheese
Jerez / Xérès /Sherry	赫雷斯- 雪莉 / 雪莉	Wines
Navarra	纳瓦拉	Wines
Valencia	瓦伦西亚	Wines
Sierra Mágina	马吉那山脉	Oils and fats
Priego de Córdoba	布列高科尔多瓦	Oils and fats

In macroeconomic terms, China is the main importer of agricultural products worldwide. Moreover, according to the World Trade Organization it has also become the world leader importer of food & beverages products with a total estimated value of importations of 480 billion RMB (around 64 bln EUR).

In this context, the European Union Commission expects that new protection of products under the GI will help to extend its recognition and enhance its defense and legal protection against counterfeit products and squatters.

On the other hand, China also holds a rich tradition on GIs which may be at the same time object of specific proceedings for its legal protection.

To this extent, article 16 of Chinese Trademark Law defines Geographical Indications as *"the origin of the goods, the special qualities, credibility or other characteristics of the goods and it is primarily determined by the natural factors or other humanistic factors of the place indicated".*

Regarding the specific proceedings and tools available in China to protect and register the GIs, the different applicable regulations lead to two main procedures to be followed by the interested parties:

Protection by means of Intellectual Property rights.

In this case, GIs will be recognized and protected as collective or certified trademarks before the Chinese Trademark Office. This recognition grants the right to exclusively use the corresponding GI and the faculty to prohibit or act against any other third party illegitimately using such mark.

Protection of the GI by means of the rights granted by the China General Administration for Quality, Supervision, Inspection and Quarantine (AQSIQ).

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In the first case, as mentioned above, the GI may be object of a collective or certified trademark application.

On one hand, the collective trademark can only be applied before the Chinese Trademark Office by the Official Association in charge of managing the GI in the country of origin and must also have such GI registered in the country of origin.

Additionally, we should bear in mind that the GI at stake cannot be applied for those products whose origin is not the indicated region.

On the other hand, the certified trademark is a sign managed by a specific organization who grants the right to use such sign whose aim is to certify some special attributes of the product, such as *the origin, manufacturing method, quality or any other specific and distinctive feature of the good.*

Secondly, as mentioned before, it is possible as well to obtain the recognition, registration and protection of the GIs included in this new agreement by means of the procedure carried out before the AQSIQ.

This entity enacted a set of specific measures whose goal is to protect foreign products under GIs. These regulations include the description of the proceeding for the official registration of the GI in China, as well any actions available for GIs owners to act against any third party infringing their rights and interest.

As a matter of fact, both protection systems described are complementary.

Thus, any interested party may request the protection of a GI by both channels at a time in order to reinforce his strategy to protect and defend the GI in China and so his products.

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BUSINESS

Chinese Anti-Unfair Competition Law

In China, Trade Secrets are protected under Anti-Unfair Competition Law (hereafter referred to as "AUCL"). On November 1, 2019, the third amendment to the AUCL entered in force.
Commenters welcome the last revision that has a potentially substantial impact on enhancing the protection of innovative companies against copiers.

First enacted in 1993, the AUCL had been amended on November 4, 2017, and came into force on January 1, 2018. Despite the great ambition of the 2017 revision, commenters have spit fire on the new law. And indeed, a new amendment has been drafted and promulgated in April 2019.

This Third amendment is likely to have a straightforward and specific impact especially on the burden of proof in trade secret cases in civil processes, lowering the hurdles to successful litigation. Such amendments reckon and formalize into law what was already a recent judicial practice.

Herein the summary of the amendments introduced by the 2019 AUCL.

Definition of Trade Secrets

The 2019 AUCL's amendment modifies the previous Law's definition of *"trade secrets"*. Under the 2019 Law, the term *"trade secrets"* refers to *"technical information, business operation information, and other commercial information that is not known to the public, has commercial value, and for which the trade secret owner has adopted corresponding measures to maintain its confidentiality".*

The previous Law was only referring to *"technical information and business operation information"*, while the new Law also includes *"other commercial information".*

Cybertheft of Trade Secrets

The 2019 AUCL's amendment adds new types of trade secret infringements, especially the acquisition of trade secrets through *"cyber invasion".*

Indirect Infringement of Trade Secrets

The AUCL will also prohibit indirect infringement of trade secrets that *"instigates, induces, or helps others to obtain, disclose, use, or allow others to use the trade secrets of the rights holders in breach of confidentiality obligations or in violation of the requirements of the relevant rights holder on keeping confidential trade secrets".*

Persons Subject to the Trade Secret Infringement Provisions

According to art. 9(3) of the 2019 AUCL's amendment not only business operators can be held liable for the misappropriation or theft of trade secrets, but also any natural or legal person.

Relaxing the burden of proof for the plaintiff

Based on the AUCL 1993 the Chinese judicial practice required the right holder to fully prove that he has a protectable trade secret in accordance with the legal requirements of art. 9 AUCL.

It has to be demonstrated that the technological or business information in its possession had economic value, was not known to the public and was kept secret via secrecy measures.

Moreover, the right holder in case of infringement had also to prove that the information leaked to a competitor and how it illegally leaked (the misappropriation).

According to the newly added article above – which formalize a recent judicial practice - the plaintiff shall only prove that the information has the legal requirements to be protected and provide prima facie evidence of a trade secret violation.

Once this duty is accomplished, the burden of proof is passed to the other party, the alleged infringer.

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Punitive Damages

In case of malicious infringement of the trade secrets and in case of serious acts, the newly revised art. 17 AUCL imposes punitive damages.

And indeed, the amount of compensation shall be more than one time but less than five times the amount determined according to the general principles of calculation of the damage compensation.

Statutory Damages

The limit to the statutory damage liquidation is raised to 5 million RMB.

Administrative Penalty

The range of administrative punishment is raid to 100,000-500,000RMB and 500,000-5,000,000RMb for serious

Confiscation of the illegal gains is newly added as a possible consequence of the infringement.

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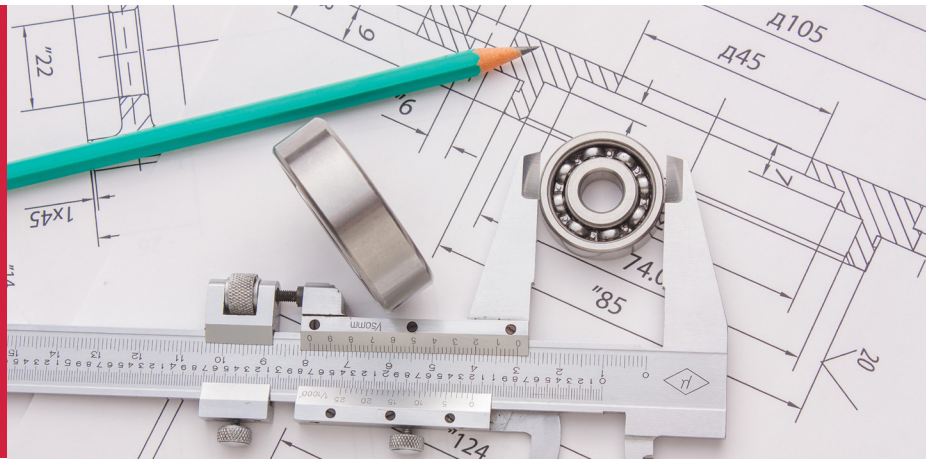
UPDATE

Patent Exam Guidelines



On November 1st 2019, the newly revised Patent Examination Guidelines (2010) has entered in force.

Herein the main points to highlight:

1 Deadlines for filing divisional applications are made clear.

If the mother case is concluded, the only possibility to file a divisional is that you have a divisional that has unity problem, and you can file further divisional only from this divisional (not from other divisional that don't have unity problem).

The purpose of the amendment on divisional applications is to eliminate disputes.

In fact, the previous Patent Examination Guidelines actually contain similar provisions.

However, there is no clear standard for the time limit for divisional applications for divisional, which has led to some disputes, such as whether it is necessary to review the status of the targeted divisional application because a rejected, withdrawn, or deemed to have been withdrawn patent application cannot be filed for divisional applications.

Therefore, the last amendment clarifies that *"the time limit for filing a divisional application again should be based on the divisional application with a unity problem".*

It should be noted that the last amendment only emphasizes the passive divisional application and is currently applicable to the active divisional application, thus if an applicant wants a planned second divisional application, it may be necessary to create a unity problem in advance to obtain a second divisional application.

2 Examiners are now required to show evidence if they raise objections based on common knowledge.

The last amendment to Patent Examination Guidelines specifically strengthens the examiner's burden of proof, which is mainly reflected in the following two aspects:

- It is clarified that the examiner should generally provide evidence to prove that the technical features contributing to the resolution of technical problems in the claims are recognized as common knowledge.
- It clearly stipulates that if the applicant disagrees with the common knowledge issued by the examiner, the examiner shall provide corresponding evidence to prove or explain the reasons;

With respect to the above aspects, aspect I favors the examiner's initiative to provide evidence, while aspect II favors the examiner's passive proof.

In other words, the aspect II requires the applicant to take the initiative to make a request to the examiner.

The system of proof does not depend entirely on the initiative of the examiner, but also requires the applicant to make a request on his own initiative.

3 Interview with examiners before 1st office action made possible.

The purpose of this amendment is to promote the communication between the examiner and the applicant, and to enhance mutual understanding between the two parties, thereby improving the quality and efficiency of patent examination.

The previous Patent Examination Guidelines clearly limits the time for the meeting to be strictly after the issuance of the first office action.

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However, in the practice of the patent examination, there is often a need to meet before issuing the first office action, especially when the technical solution of the application is very complicated, it is necessary to demonstrate or explain the technical solution of the invention through the meeting before the first office action is issued.

Such meetings can help the examiner to accurately understand the technical features of the application and objectively identify the technical solutions.

This amendment stipulates the time limit for holding the meeting.

Furthermore, the amendment also clarifies the principle of the meeting, that is, if the meeting can achieve a useful purpose, such as helping to eliminate the dispute, or promoting mutual understanding between the examiner and the applicant, then the examiner should agree to the meeting request from the applicant.

4 Human embryonic stem cells and preparation method thereof become patentable subject matter.

Due to the limitations of technology, early acquisition of human embryonic stem cells can only lead to greater ethical controversy in the scientific research of human embryonic stem cells by destroying human spontaneous embryos.

However, with the continuous development of science and technology, new technologies are emerging in the field of human embryonic stem cells.

In vitro acquisition technology has become the main access route for human embryonic stem cells, which avoids the ethical controversy of obtaining stem cells from the body.

Specifically, blastocysts within 14 days of fertilization have not undergone tissue differentiation and neurodevelopment, and the acquisition of human embryonic stem cells from blastocysts within 14 days of in vitro development does not violate ethical issues.

Due to human embryonic stem cells have become a global research hotspot and their infinite proliferation and differentiation pluripotency, they have broad application prospects in the field of disease treatment and regenerative medicine.

With the deepening of human embryonic stem cell research and the hope of clinical treatment, and taking into account the interests of the whole society, this amendment will no longer exclude the patent protection of *"separation or acquisition of stem cells from human embryos within 14 days of fertilization without in vivo development"* based on Article 5 of the Patent Law.

5 Deferred examination by 1, 2 or 3 years made possible for invention and design patent applications (not for utility models).

The deferred examination is aimed at invention patents and design patents, which are:

- The request for deferred examination of an invention application shall be request by the applicant at the same time as the request for substantive examination, and it shall take effect on the effective date of the substantive examination.
- The request for deferred examination of a design application shall be request by the applicant at the same time as the filing date of the design application.

The purpose of this amendment is to provide applicants with more choices of examination modes, which can better match the period of patent examination with the market-oriented operation and meet the diversified needs of innovative entities.

Particularly, applicants in some technical fields would like to obtain more consideration by deferred examination in order to fully consider and adjust the layout and protection scope of the patents.

For example, with respect to the products with long development period, the examination period for the design applications may be shorter than the products development period.

In this case, it is likely that the announcement time of the design application to be earlier than the time to market, and further makes the design easy to be copied by others because the design is very intuitive.

In other words, if the design is disclosed when the applicant is not ready for commercial application, it is easy to cause the applicant's commercial interests to be lost.

Therefore, by this deferred examination, the applicant can more flexibly choose the announcement time of the design applications to avoid this situation.

Since the deferred examination of utility model applications has a risk of *"submarine"* patents, this amendment does not introduce a deferred examination for utility model applications.

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WATCH OUT

Product categorization: why it is crucial

Product categorization is indeed the corner stone of the compliance assessment of every food product – whether imported into China or locally produced.

Product categorization basically means identifying – for a specific food product – what regulatory category it fits. In China, this may be not obvious as Chinese system foresees several systems of categories, depending on the specific regulatory perspective we consider.

For example, we have:

Standard of identity: it is the general and absolute legal denomination of a food product. It is usually provided in national standard (GB, and/or GB/T) or industry association standard (QB/T).

Classification for additive use purpose: this is the food category amongst those provided in Appendix E of GB 2760;

Classification for pesticides residue compliance purpose: this is the food category amongst those provided in Appendix A of GB 2763;

Classification for contaminants residue compliance purpose: this is the food category amongst those provided in Appendix A of GB 2762;

Classification for pathogens compliance purpose: this is the food category amongst those provided in GB 29921.

Although those different classifications systems are in general aligned, there are often cases in which the categories do not match each other.

For example, dehydrated egg powder has a standard of identity under GB 2749 of *"dry egg product"* that does not allow any other ingredient than egg; however, for additive use purpose, dehydrated egg powder can be classified under category 10.03.01 which in theory does not exclude other ingredients.

Categorization can be a very hard phase to clear.

Let's consider, for example, a product whose ingredients are egg powder, salt, fibers, flavorings, tomato powder. Each of these ingredients is allowed; however, how can we categorize the product?

"Egg product", under GB 2749, only includes egg as ingredient.

Condiment mix requires at least two condiments as (main) ingredients (of which, in this case, we have only one: salt). Tomato powder – defined under NY 957 – does not include other ingredients. Solid beverage would require solubility of all of these ingredients and – in theory – final use for drink preparation.

As you can see, it is not obvious as a task.Consequence of a correct product categorization is crucial.

Firstof all, it has major labeling impacts.

Just to start, it determines on the product name to be declared on the label – a mandatory item on food labeling.

Moreover, it may impact on the exemption of some labeling items. For example: best before date, which is not required for specific food categories such as alcoholic beverages ≥ 10%, vinegar, salt, sugar in solid form and monosodium glutamate.

Again, it can determine whether the nutritional label is required or not. Think of a sparkling (with CO2 addition) water, which cannot meet the requirements for mineral water. It then needs to be classified as carbonated drink, as such category allows use of additive CO2. At this point, the nutritional label is also required (which would have not, under the classification as mineral water).

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Secondly, it determines what additives are allowed for this food and which are not.

For example, a product belonging to the category *"coarse cereal powder"* (i.e. powdered products made from milled coarse cereal) does not allow use of additives such as carrageen or ascorbic acid; while if the product is classified as *"coarse cereal product"* (i.e. food made from coarse cereal, or coarse cereal powder) or as *"other cereal product"*, it allows those additives, as well as all the other additives listed on Table A.2 of GB 2760.

The difference between coarse cereal powder and coarse cereal product might – indeed – be very small: the process (milling), or even just the addition of other non-cereal ingredient to the powder.

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